

Management Discussion and Analysis of Financial Condition and Results of Operations of Profound Medical Corp. for the Three and Six Months Ended June 30, 2015

The following Management Discussion and Analysis (“MD&A”) prepared as of August 25, 2015 should be read in conjunction with the June 30, 2015 unaudited condensed interim consolidated financial statements and related notes of Profound Medical Corp. (“Profound”) and its subsidiary (together, the “Company”). The unaudited interim financial statements of Profound Medical Corp. and related notes were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”) applicable to the preparation of interim financial statements and are presented in Canadian dollars unless otherwise noted. Unless stated otherwise, all references to “\$” are to Canadian dollars.

FORWARD-LOOKING STATEMENTS

This MD&A contains “forward-looking statements” which include all statements other than statements of historical fact contained in this MD&A, such as statements that relate to the Company’s current expectations and views of future events. Often, but not always, forward-looking statements can be identified by the use of words such as “may”, “will”, “expect”, “anticipate”, “predict”, “aim”, “estimate”, “intend”, “plan”, “seek”, “believe”, “potential”, “continue”, “is/are likely to”, “is/are projected to” or the negative of these terms, or other similar expressions intended to identify forward-looking statements. These forward-looking statements include, among other things, statements relating to expectations regarding future clinical trials, expectations regarding regulatory approvals, expectations regarding the safety and efficacy of its product, expectations regarding the use of its product and its revenue, expenses and operations, plans for and timing of expansion of its product and service offerings, future growth plans, ability to attract and develop and maintain relationships with suppliers, physicians/clinicians, etc., ability to attract and retain personnel, expectations regarding growth in its product markets, competitive position and its expectations regarding competition, ability to raise debt and equity capital to fund future product development, and anticipated trends and challenges in Profound’s business and the markets in which it operates.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Profound to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

Forward-looking statements contained herein are made as of the date of this MD&A and Profound disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise, unless required by applicable law. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements due to the inherent uncertainty in them.

OVERVIEW

Profound Medical Corp. was incorporated under the Ontario Business Corporations Act on July 16, 2014 as Mira IV Acquisition Corp. (“Mira IV”) and was classified as a Capital Pool Company as defined pursuant to Policy 2.4 of the TSX Venture Exchange (the Exchange).

On June 4, 2015, the Company closed its qualifying transaction (“Transaction”) with Profound Medical Inc. (“PMI”), a biotechnology company that has developed a unique and minimally invasive treatment to ablate the prostate gland in prostate cancer patients. The Company’s registered address is 3080 Yonge Street, Suite 4040, Toronto, Ontario, M4N 3N1.

Prior to the completion of the Transaction on April 30, 2015, PMI completed a brokered private placement of subscription receipts for gross proceeds of \$24,008,828, representing 16,005,885 subscription receipts at a price of \$1.50 per subscription receipt. Each subscription receipt issued in the private placement was exchangeable for one common share in the capital of PMI upon the satisfaction of certain conditions related to the Transaction. In conjunction with the private placement, a total of 576,235 compensation options were granted to the agents which are exercisable into one common share at a price of \$1.50 for a period of two years.

In connection with the Transaction, the Company changed its name to Profound Medical Corp. from Mira IV Acquisition Corp. and consolidated its common shares prior to completion of the Transaction on the basis of the one post-consolidation common share for every 13.6363 pre-consolidation common share. Following these changes, PMI amalgamated with Mira IV Subco Inc., a wholly-owned subsidiary of the Company formed solely for the purposes of facilitating the Transaction. Pursuant to the amalgamation, the shareholders of PMI received one common share of the Company for each common share of PMI. As a result of the Transaction, PMI has become a wholly-owned subsidiary of the Company.

The identifiable assets and liabilities of Profound are recognized at fair value as at the acquisition date, with the excess of the fair value of net assets over the fair value of equity interest issued charged to the interim consolidated statement of loss as listing expense.

The Transaction constitutes a reverse acquisition by PMI of Profound, a non-operating public enterprise. Profound, being an accounting acquiree, did not meet the definition of a business under IFRS 3 - Business Combinations and therefore the Transaction did not qualify as a business combination. PMI is deemed to have issued equity to the holders of the equity interests of Profound. Consequently, the Transaction is accounted for as a continuation of the financial statements of PMI, together with a deemed issuance on June 4, 2015 of shares and options by the resulting company for the net assets and the listing status of Profound accounted for in accordance with IFRS 2, Share Based Payments. The identifiable assets and liabilities of Profound are recognized at fair value as at the acquisition date, with the excess of the fair value of net assets over the fair value of equity interest issued charged to the interim consolidated statement of loss and comprehensive loss as listing expense.

Following completion of the Transaction, a total of 39,442,337 common shares are issued and outstanding.

On June 8, 2015 the shares of Profound commenced trading on the TSX Venture Exchange under the ticker symbol PRN.

BUSINESS UPDATE AND STRATEGY

PMI was incorporated under the Ontario Business Corporations Act on June 13, 2008 and is developing and commercializing a unique, minimally invasive treatment for prostate cancer, the TULSA-PRO system. PMI's novel technology combines magnetic resonance imaging guidance and ultrasound energy to deliver thermal ablative therapy to the prostate gland delivered through the urethra. This method of prostate cancer treatment affords highly accurate and precise treatment within the prostate gland in a short time span.

PMI was founded, initially, on certain research conducted at Sunnybrook Health Sciences Centre ("Sunnybrook"), pursuant to licensing arrangements between Sunnybrook and Profound. In 2010, in collaboration with Sunnybrook, PMI developed working prototypes and completed institutionally sponsored clinical research trials. In 2011, PMI finalized the system design under formal design controls. In 2012, preclinical studies were completed leading to the finalization of development of our clinical stage device and successful outsourcing of the manufacturing. In April 2013, PMI announced initiation of the Health Canada approved 30 patient multi-center TULSA (Transurethral Ultrasound Ablation) safety and feasibility study of its device. Clinical sites were subsequently expanded to include Germany and the United States, with approvals from the Federal Institute for Drugs and Medical Devices in Germany in July 2013 and the United States Food and Drug Administration ("FDA") in September 2013. In March 2014, PMI completed enrollment and treatment of 30 patients in the TULSA multi-jurisdictional safety and feasibility study. Profound expects to receive and publish 12 month follow-up data for the patients in the second half of 2015. On successful conclusion of the safety and feasibility study, Profound will pursue regulatory market clearances in both Canada and Europe in 2016.

Profound expects to apply for an Investigational Device Exemption ("IDE") by the fourth quarter of 2015, a prerequisite to launching the clinical trial ("Pivotal Trial") intended to provide evidence and reasonable assurance of safety and efficacy for device marketing approval. Profound intends to pursue a *de novo* submission of the TULSA-PRO system with the FDA as a Class II device and has engaged in pre-submission consultations with FDA officials in this regard. Based on non-binding discussions with the FDA, Profound believes that there are no predicate devices and that the Company can demonstrate appropriate clinical data through the Pivotal Trial (which is currently designed

to involve approximately 110 patients). Assuming that Profound is able to obtain the above-noted IDE, the Pivotal Trial is expected to commence in early 2016.

CORPORATE HIGHLIGHTS

- On June 4, 2015, Profound announced the completion of its Transaction with PMI. The Company's common shares commenced trading on June 8, 2015 on the TSX Venture Exchange (the "Exchange") under the ticker symbol "PRN". The Company and PMI satisfied the escrow release conditions of the previously announced private placement (the "Private Placement") for gross proceeds of \$24,008,828. The escrowed funds, net of expenses, were released to the Company. The Company is well capitalized as a result of this transaction. Further information regarding the Company and the Transaction are set out in the Company's filing statement dated May 22, 2015 which has been filed on SEDAR (www.sedar.com).
- On July 21, 2015, Royal Philips (NYSE:PHG) (AEX:PHIA) and Profound announced that they signed a joint development agreement to support Profound's proprietary TULSA technology designed to treat patients with prostate cancer on Philips' Ingenia and Achieva 3T MRI systems.

RESULTS OF OPERATIONS

The following is selected unaudited financial information for the three and six months ended June 30, 2015 and June 30, 2014.

	Three months ended				Six months ended			
	June 30,	June 30,	Change		June 30,	June 30,	Change	
	2015	2014	\$	%	2015	2014	\$	%
Expenses								
Research and development	1,105,381	480,842	624,539	130%	1,940,582	973,952	966,630	99%
General and administrative	3,393,128	338,380	3,054,748	903%	3,975,638	660,101	3,315,537	502%
Total operating expenses	4,498,509	819,222	3,679,287	449%	5,916,220	1,634,053	4,282,167	262%
Government grants	-	(74,573)	74,573	-100%	-	(74,573)	74,573	-100%
Finance costs - net								
Preferred share dividend expense	194,256	277,396	(83,140)	-30%	481,354	535,320	(53,966)	-10%
Interest and accretion expense	4,764,823	238,859	4,525,964	1895%	5,082,292	471,417	4,610,875	978%
Interest income	(5,618)	(3,734)	(1,884)	50%	(13,389)	(5,402)	(7,987)	148%
Listing expense	2,058,234	-	2,058,234	100%	2,058,234	-	2,058,234	100%
Loss on recognition of convertible notes	-	-	-	0%	2,094,565	-	2,094,565	100%
Gain on conversion of convertible notes	(1,759,885)	-	(1,759,885)	-100%	(1,759,885)	-	(1,759,885)	-100%
Fair value gain on convertible notes	35,393	-	35,393	-100%	(334,680)	-	(334,680)	-100%
Gain extinguishment of long-term debt	(63,568)	-	(63,568)	-100%	(63,568)	-	(63,568)	-100%
Change in fair value of derivatives	(224,436)	2,607,042	(2,831,478)	-109%	(2,086,406)	1,574,363	(3,660,769)	-233%
Total finance costs	4,999,199	3,119,563	1,879,636	60%	5,458,517	2,575,698	2,882,819	112%
Loss before income taxes	9,497,708	3,864,212	5,633,496	146%	11,374,737	4,135,178	7,239,559	175%
Part VI.1 tax (recovery) expense	(798,991)	67,234	(866,225)	-1288%	(726,071)	132,594	(858,665)	-648%
Net loss and comprehensive loss for the period	8,698,717	3,931,446	4,767,271	121%	10,648,666	4,267,772	6,380,894	150%
Basic and diluted net loss per common share	0.67	1.81	(1.14)	-63%	1.41	1.97	(0.56)	-28%

Research and Development

Our research and development (“R&D”) expenses are comprised of costs incurred in performing R&D activities, including salaries and benefits, clinical trial and related clinical manufacturing costs, contract research costs, patent procurement costs, materials and supplies, and occupancy costs. Our R&D activities occur in clinical R&D. Clinical R&D refers to internal and external activities associated with clinical studies of TULSA-PRO in humans and advancing the clinical product towards a goal of obtaining regulatory approval to manufacture and market this product in various jurisdictions.

Expenditures for R&D for the three months ended June 30, 2015 were higher by \$624,539 compared to the three months ended June 30, 2014. The increase was primarily due to the preparation of clinical data from the 30 patient TULSA safety and feasibility trial, which will be evaluated and submitted for regulatory clearances by the applicable regulatory authority in Canada and Europe for a Medical Device License and CE Mark, respectively. Profound is certified to the ISO13485:2003 standard including the Canadian Medical Devices Conformity Assessment System and CE Full Quality Assurance certification. These certifications are required as part of the Medical Device License

and CE Mark applications. The increase was also due to preparations for an IDE submission and a Pivotal Trial in approximately 15 clinical sites, designed to support a *de novo* submission in the United States to provide a pathway for Class II classification for the TULSA-PRO system. As a result material costs increased by \$655,722. The number of employees involved in R&D also increased during this period to support these activities resulting in salaries and benefits increasing by \$102,715. These increases were offset by \$78,563 of increase in investment tax credits. In the three months ended June 30, 2014, enrollment in our 30 patient multi-jurisdictional TULSA safety and feasibility trial was completed.

Expenditures for R&D for the six months ended June 30, 2015 were higher by \$966,630 compared to the six months ended June 30, 2014. The increase was primarily due to the preparation of clinical data from the 30 patient TULSA safety and feasibility trial, which will be evaluated and submitted for regulatory clearances by the applicable regulatory authority in Canada and Europe for a Medical Device License and CE Mark, respectively. The increase was also due to preparations for an IDE submission and a Pivotal Trial in approximately 15 clinical sites, designed to support a *de novo* submission in the United States to provide a pathway for Class II classification for the TULSA-PRO system. As a result material costs increased by \$1,116,201. The number of employees involved in R&D also increased during this period to support these activities resulting in salaries and benefits increasing by \$278,587. These increases were offset by \$278,432 of increase in investment tax credits. In the six months ended June 30, 2014, enrollment in our 30 patient multi-jurisdictional TULSA safety and feasibility trial was completed.

We expect that our R&D expenditures throughout 2015 will be higher as compared to the same periods in 2014, due to the ongoing submission preparation for a Medical Device License and CE Mark, the development of a commercial system, and preparation for an IDE submission and initiation of the Pivotal Trial.

General and Administrative

Our general and administrative (“G&A”) expenses are comprised of management and business development costs related to the development and commercialization of our TULSA-PRO system, including salaries, benefits, our various management and administrative support functions and other operating and occupancy costs.

G&A expenses for the three months ended June 30, 2015 were higher by \$3,054,748 compared to the three months ended June 30, 2014, primarily due to the marketing expense of \$2,303,034 related to the excess of proceeds received on the \$4,000,000 secured loan from Knight Therapeutics Inc. (“Knight Loan”), which represents additional value provided to the Company as a result of the Knight relationship. The remaining increase was also due to higher salaries and benefits of \$375,040 and share-based compensation of \$196,559. The number of employees in G&A were higher due to the hiring of a Chief Financial Officer and other employees, the granting of compensation options to the agents, and a salary increase and bonuses related to the closing of the private placement and the Transaction, as discussed above in the Overview. Professional and consulting fees in legal and accounting services also increased \$146,958 as the Company prepared for the private placement and the Transaction.

General and administrative expenses for the six months ended June 30, 2015 were higher by \$3,315,537 compared to the six months ended June 30, 2014 primarily due to marketing expense of \$2,303,034 related to the excess of proceeds received on the \$4,000,000 secured loan from Knight Therapeutics Inc. (“Knight Loan”), which represents additional value provided to the Company as a result of the Knight relationship. The remaining increase was also due to higher salaries and benefits of \$499,351, and share-based compensation of \$200,884. The number of employees in G&A were higher due to the hiring of a Chief Financial Officer and other employees, and the granting of compensation options to GMP Securities L.P., Cormark Securities Inc., Bloom Burton & Co. and Mackie Research Capital Corp., and a salary increase and bonuses related to the closing of the private placement and the Transaction, as discussed above in the Overview. Professional and consulting fees in legal and accounting services also increased \$211,298 as the Company prepared for the private placement and the Transaction.

Preferred share dividend expense

The holders of Series A preferred shares are entitled to receive, if, as and when declared by the board of directors, cumulative dividends at an annual rate of 8%, compounded annually commencing on their date of issuance.

Preferred share dividend expense for the three months ended June 30, 2015 was lower by \$83,140 compared to the three months ended June 30, 2014. The decrease was primarily due to the conversion to common shares on June 4, 2015 pursuant to the terms of the Transaction.

Preferred share dividend expense for the six months ended June 30, 2015 was lower by \$53,966 compared to the six months ended June 30, 2014. The decrease was primarily due to the conversion to common shares on June 4, 2015 pursuant to the terms of the Transaction.

Interest and accretion expense

Interest and accretion expense relates to the preference shares accreting to the redemption price of the preferred shares over their expected life using the effective interest rate method including accelerated accretion due to the conversion of the preferred shares prior to the originally scheduled maturity date, the Federal Economic Development Agency loan accreting to the principal amount repayable using the effective interest rate method, the Health Technology Exchange loan accreting to the principal amount repayable using the effective interest rate method and its related interest expense, the Knight Loan accreting to the principal amount repayable using the effective interest rate method and its related interest expense, the secured convertible notes (“Notes”) interest expense, the bank loan interest expense, and the 0.5% royalty to Knight accreting using the effective interest rate method.

Interest and accretion expense for the three months ended June 30, 2015 was higher by \$4,525,964 compared to the three months ended June 30, 2014. The increase is primarily due to the accelerated accretion due to conversion of the preferred shares, the larger number of preferred shares outstanding, larger balances outstanding on the long-term debt, the Notes which were issued on January 27, 2015, and the Knight Loan which was entered into on April 30, 2015.

Interest and accretion expense for the six months ended June 30, 2014 was higher by \$4,610,875 compared to the six months ended June 30, 2014. The increase is primarily due to the accelerated accretion due to conversion of the preferred shares, the larger number of preferred shares outstanding, larger balances outstanding on the long-term debt, a bank loan that was outstanding during the period, the Notes which were issued on January 27, 2015, and the Knight Loan which was entered into on April 30, 2015.

Loss on recognition of convertible notes

These options were measured at fair value at each reporting date, until converted on June 4, 2015.

The Company closed a financing of Notes in the principal amount of \$1,500,000, with an original maturity date of January 27, 2016. The Notes accrued interest at a rate of 12% per annum. All or any part of the Notes may be converted at any time after February 20, 2015 at a conversion price per preferred share equal to the Series A2 preferred share conversion price at the option of the holder. In the event that a financing occurs, all of the Notes would automatically convert into the class or series of preferred shares, common shares or units acquired by the new investors at a price per share or unit equal to 75% of the price paid. On April 20, 2015, the Notes were amended to eliminate the discount such that the Notes automatically convert at a price per common share or unit equal to 100% of the price paid by the new investors.

The Notes represented a financial liability that included embedded derivatives related to the conversion feature that required separation. The Company had elected an accounting policy choice to measure the Notes at fair value without separating the embedded derivatives. On initial recognition the fair value of the Notes was \$3,594,565 and the difference between the fair value and the initial value of \$1,500,000, or \$2,094,565 was recognized in the interim consolidated statement of loss and comprehensive loss for the six months ended June 30, 2015.

Fair value (loss) gain on convertible notes

The Notes are re-measured at fair value at each period with any changes recognized in the interim statements of loss and comprehensive loss. For the three months ended June 30, 2015 a fair value loss of \$35,393 was recognized due to an increase in the credit spread. For the six months ended June 30, 2015 a fair value gain on the Notes of \$334,860 was recognized due to an increase in the credit spread to June 4, 2015.

Gain on conversion of convertible notes

The principal and accrued interest on the Notes were converted on June 4, 2015 into common shares at \$1.50 per common share. On June 4, 2015 the fair value of the Notes was \$3,259,885 and the difference between the fair value at June 4, 2015 and the principal value of \$1,500,000, or \$1,759,885 has been recognized in the interim consolidated statements of loss and comprehensive loss for the six months ended June 30, 2015.

Change in fair value of derivatives

The preferred shares represent a financial liability that includes multiple embedded derivatives that require separation. The embedded derivatives are then measured at fair value at each reporting period with any changes recognized in the consolidated statements of loss and comprehensive loss.

The change in fair value of derivatives in the three months ended June 30, 2015 was a gain of \$224,436 compared to a loss of \$2,607,042 for the three months ended June 30, 2014, a decrease of \$2,831,478. The reduction is due to a credit spread increase in the fair value of the derivatives during the three months ended June 30, 2015.

The change in fair value of derivatives in the six months ended June 30, 2015 was a gain of \$2,086,406 compared to a loss of \$1,574,363 for the six months ended June 30, 2014, a decrease of \$3,660,769. The reduction is due to a credit spread increase in the fair value of the derivatives during the six months ended June 30, 2015.

Part VI.1 tax (income) expense

In the event that the holders of Series A1 and A2 preferred shares are paid, or are deemed to have been paid, any dividends on such shares, the Company may become liable for the payment of taxes under Part VI.1 of the Income Tax Act (Canada). Pursuant to the Transaction, these preferred shares were converted into common shares, resulting in the reversal of all the accrued Part VI.1 taxes payable. Part VI.1 tax recovery for the three and six months ended June 30, 2015 was \$798,991 and \$726,071, respectively. Part VI.1 tax expense for the three and six months ended June 30, 2014 was \$67,234 and \$132,594, respectively.

Net loss

The Company recorded a net loss for the three months ended June 30, 2015 of \$8,698,717 or \$0.67 per common share, compared with a net loss of \$3,931,446 or \$1.81 per common share for the three months ended June 30, 2014. For the three months ended June 30, 2015, the net loss was attributed to the finance costs related to the listing expense of the Transaction of \$2,058,234, the interest and accretion expense of \$4,764,823 largely related to acceleration of the accretion of the preferred shares at the time of their conversion to common shares, partially offset by the gain on conversion of the Notes of \$1,759,885, the ongoing R&D expenses of \$1,105,381, and the G&A expenses of \$3,393,128. G&A expense includes marketing expense of \$2,303,034 related to the Knight loan. For the three months ended June 30, 2014, the net loss was attributed to the ongoing finance costs related to the preferred shares and long-term debt, but principally the gain in fair value of derivatives of \$2,607,042, the ongoing R&D expenses of \$480,842 and G&A expenses of \$338,380.

The Company recorded a net loss for the six months ended June 30, 2015 of \$10,648,666 or \$1.41 per common share, compared with a net loss of \$4,267,772 or \$1.97 per common share for the six months ended June 30, 2014. For the six months ended June 30, 2015, the net loss was attributed to the finance costs related to the listing expense of the Transaction of \$2,058,234, the loss on recognition of the Notes of \$2,094,565, the interest and accretion expense of \$5,082,292 largely related to acceleration of the accretion of the preferred shares at the time of their conversion to common shares, partially offset by the loss in fair value of derivatives of \$2,086,406, partially offset by the gain on conversion of the Notes of \$1,759,885, the ongoing R&D expenses of \$1,940,582, and the G&A expenses of \$3,975,638. G&A expense includes marketing expense of \$2,303,034 related to the Knight loan. For the six months ended June 30, 2014, the net loss was attributed to the ongoing finance costs related to the preferred shares and long-term debt, but principally the gain in fair value of derivatives of \$1,574,363, the ongoing R&D expenses of \$973,952 and G&A expenses of \$660,101.

SUMMARY OF QUARTERLY RESULTS

Quarter Ended	Basic and diluted net	
	Net loss	loss per common share
	\$	\$
June 30, 2015	8,698,717	0.67
March 31, 2015	1,949,949	0.90
December 31, 2014	2,408,512	1.11
September 30, 2014	1,528,125	0.71
June 30, 2014	3,931,446	1.81
March 31, 2014	336,326	0.16
December 31, 2013	3,430,225	1.59
September 30, 2013	4,246,302	1.96

It is important to note that historical patterns of revenue and expenditures cannot be taken as an indication of future revenue and expenditures. Net loss has been variable and has been impacted primarily by the availability of funding, the level of our R&D spending, listing costs related to the Transaction, and conversion of the Notes and preferred shares to common shares.

The net loss in the second quarter of 2015 of \$8,698,717 was attributed to the finance costs related to the listing expense of the Transaction of \$2,058,234, the interest and accretion expense of \$4,764,823 largely related to acceleration of the accretion of the preferred shares at the time of their conversion to common shares, partially offset by the gain on conversion of the Notes of \$1,759,885, the ongoing R&D expenses of \$1,105,381, and the G&A expenses of \$3,393,128. G&A expense includes marketing expense of \$2,303,034 related to the Knight loan. The identifiable assets and liabilities of Profound were recognized at fair value as at the acquisition date, with the excess of the fair value of net assets over the fair value of equity interest issued charged to the interim consolidated statement of loss and comprehensive loss as listing expense. The net loss in the first quarter of 2015 of \$1,949,949 was attributed to the ongoing R&D expenses of \$835,201, and the finance costs related to the loss on initial recognition of the Notes \$2,094,565, partially offset by the change in fair value of derivatives of \$1,861,970. The net loss in the fourth quarter of 2014 of \$2,408,512 was attributed to the general and administrative expenses of \$1,018,906, the ongoing R&D expenses of \$879,062, and the finance costs related to the preferred shares and long-term debt of \$521,329. The Company incurred additional general and administrative expenses in the fourth quarter of 2014 related to the adoption of IFRS in the preparation of audited financial statements, increased legal costs related to the Transaction discussed above, and an increase in the number of employees. The net loss in the third quarter of 2014 of \$1,528,125 was attributed to the finance costs related to the preferred shares and long-term debt of \$668,730, the ongoing R&D expenses of \$453,669, and the general and administrative expenses of \$353,067. The net loss in the fourth quarter of 2013 of \$3,430,225 was attributed to the finance costs related to the preferred shares and long-term debt of \$2,780,196, the ongoing R&D expenses of \$286,075 and the general and administrative expenses of \$326,574. The net loss in the third quarter of 2013 of \$4,246,302 was attributed to the ongoing finance costs related to the preferred shares and long-term debt of \$3,044,631, the ongoing R&D expenses of \$813,986 and general and administrative expenses of \$330,986. The net loss in the third quarter of 2014 of \$1,528,125 was attributed to the finance costs related to the preferred shares and long-term debt of \$668,730, the ongoing R&D expenses of \$453,669, and the general and administrative expenses of \$353,067. The net loss in the fourth quarter of 2013 of \$3,430,225 was attributed to the finance costs related to the preferred shares and long-term debt of \$2,780,196, the change in fair value of derivatives in the amount of \$2,351,402, the ongoing R&D expenses of \$286,075, and the general and administrative expenses of \$227,908. The net loss in the third quarter of 2013 of \$4,246,302 was attributed to the ongoing finance costs related to the preferred shares and long-term debt of \$3,044,631, the change in fair value of derivatives in the amount of \$2,618,050, the ongoing R&D expenses of \$813,986 and general and administrative expenses of \$330,986.

LIQUIDITY AND CAPITAL RESOURCES

	Six months ended		Change	
	June 30, 2015	June 30, 2014		
	\$	\$	\$	%
Cash flows used in operating activities	(2,931,014)	(1,790,388)	(1,140,626)	64%
Cash flows provided by (used in) investing activities	1,053,562	(13,762)	1,067,324	-7756%
Cash flows provided by financing activities	27,430,184	1,497,846	25,932,338	1731%
Increase (decrease) in cash	25,552,732	(306,304)	25,859,036	-8442%
Cash - beginning of period	406,495	605,896	(199,401)	-33%
Cash - end of period	25,959,227	299,592		

The Company had cash of \$25,959,227 as at June 30, 2015 compared to \$299,592 as at June 30, 2014. The increase in cash during the six months ended June 30, 2015 is mainly a result of the cash flows provided by financing and investing activities and which are partially offset by cash flows used in operating activities.

For the six months ended June 30, 2015, net cash flows used in operating activities increased to \$2,931,014 as compared to net cash flows used in operating activities for the six months ended June 30, 2014 of \$1,790,388. The June 30, 2015 increase was primarily due to the preparation of clinical data from the 30 patient TULSA safety and feasibility trial, which will be evaluated and submitted for regulatory clearances by the applicable regulatory authority in Canada and Europe for a Medical Device License and CE Mark, respectively. The increase was also due to preparations for an IDE submission and a Pivotal Trial in up to 11 clinical sites, designed to support a de novo submission in the United States to provide a pathway for Class II classification for the TULSA-PRO system. The number of employees also increased. There were also costs associated with the closing of the private placement and the Transaction, as discussed above. For the six months ended June 30, 2015 and June 30, 2014, R&D expense was \$1,940,582 and \$973,952, respectively.

As an R&D company, Profound may claim investment tax credits (“ITCs”) from various levels of government related to the Canadian Federal Scientific Research & Experimental Development (“SR&ED”) program. Subject to certain criteria, the Company could be entitled to a federal refundable ITC of up to 35% on eligible SR&ED expenses in any fiscal year. Eligible SR&ED expenses include salaries for employees involved in SR&ED, cost of materials, third party contract services and overhead expenditures. Based on management’s best estimate, realization of SR&ED amounts is subject to review and approval by the tax authorities; however, management is reasonably assured that, based on past experience, the Company will receive a substantial amount of the amount claimed. The Company expects to receive \$480,837 from the tax authorities related to the six months ended June 30, 2015. As of April 29, 2015, the date of the amalgamation agreement which formed a component of the Transaction, the Company should no longer be eligible for the enhanced refundable ITCs.

For the six months ended June 30, 2015, net cash flows provided by investing activities of \$1,053,562 related mainly to the cash acquired from the Transaction, partially offset by the purchase of research equipment in support of further optimization of the TULSA-PRO system. For the six months ended June 30, 2014, net cash flows used in investing activities of \$13,762 related mainly to the purchase of research equipment in support of further optimization of the TULSA-PRO system.

Net cash flows provided by financing activities for the six months ended June 30, 2015 of \$27,430,184 relate principally to the issuance of common shares in connection with the private placement for gross proceeds of \$24,008,828, the \$4,000,000 proceeds from the Knight Loan, the \$1,500,000 proceeds from the Notes, partially offset by the \$700,000 repayment of the bank loan and \$1,341,667 of transaction costs. Net cash flows provided by financing for the six months ended June 30, 2014 of \$1,497,846 relate principally to the January 22, 2014 issuance of 2,187,500 Series A2 preferred shares for cash consideration of \$1,750,000 in accordance with a subscription agreement entered into on May 25, 2011. We also repaid a bank loan of \$500,000, obtained long-term debt from the Health Technology

Exchange receiving proceeds of \$175,000 and received long-term debt in the amount of \$86,700 from the Federal Economic Development Agency.

Working capital (defined as current assets minus current liabilities) of \$24,732,087 as at June 30, 2015 was an increase of \$60,210,943 from December 31, 2014 working capital deficiency of \$35,478,856. This was mainly as a result of the December 31, 2014 conversion of preferred shares of \$9,707,445 and derivatives of \$25,719,860 from current liabilities to share capital, and the cash flows provided by financing activities discussed above.

We expect to satisfy our operating cash requirements beyond the next twelve months from cash on hand, through managing operating expense levels, from proceeds of equity and/or debt financings and/or new strategic partnership agreements to fund some or all costs of development.

We will need additional capital to fund any R&D activities and to fund any significant expansion of our operations. Potential sources of capital could include equity and/or debt financings, development agreements or marketing license agreements, the collection of revenues resulting from future commercialization activities and/or new strategic partnership agreements to fund some or all costs of development, although there can be no assurance that we will be able to obtain any such capital on terms or in amounts sufficient to meet our needs or at all. The availability of equity or debt financing will be affected by, among other things, the results of our R&D, our ability to obtain regulatory approvals, the market acceptance of our product, the state of the capital markets generally, strategic alliance agreements and other relevant commercial considerations. In addition, if we raise additional funds by issuing equity securities, our existing security holders will likely experience dilution, and any incurring of indebtedness would result in increased debt service obligations and could require us to agree to operating and financial covenants that would restrict our operations. Any failure on our part to raise additional funds on terms favorable to us or at all may require us to significantly change or curtail our current or planned operations in order to conserve cash until such time, if ever, that sufficient proceeds from operations are generated, and could result in our not taking advantage of business opportunities, in the termination or delay of clinical trials for our product, in curtailment of our product development programs designed to identify new products, in the sale or assignment of rights to our technologies, product and/or our inability to file CE Mark and/or Pre-market Approval applications at all or in time to competitively market our product.

OUTSTANDING SHARE INFORMATION

The number of common shares outstanding as of June 30, 2015 was 39,442,337, an increase of 37,275,571 from December 31, 2014 (2,200,009 issued to former Mira IV shareholders, 16,005,885 issued in connection with the private placement, 16,309,894 issued upon conversion of preferred shares, 1,042,333 issued upon conversion of the Notes, and 1,717,450 issued in connection with the Knight Loan). The number of share options outstanding as of June 30, 2015 was 2,844,343, an increase of 1,612,031 from December 31, 2014 (1,465,364 options granted, 146,667 amalgamated as part of the Transaction). The number of compensation options outstanding as of June 30, 2015 was 649,568 (576,235 options granted, 73,333 amalgamated as part of the Transaction). There were no preferred shares outstanding as of June 30, 2015, compared to 2,500,000 Series A1 preferred shares and 10,812,500 Series A2 preferred shares outstanding as of December 31, 2014. Pursuant to the terms of the Transaction, the holders of preferred shares were converted into common shares on June 4, 2015.

As of the date of this MD&A, there are 39,473,327 common shares outstanding, an increase of 30,990 from June 30, 2015 (30,990 share options exercised), 2,813,353 share options outstanding, a decrease of 30,990 options from June 30, 2015 (30,990 share options exercised), and 649,568 compensation options outstanding.

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

ADDITIONAL RISK FACTORS

Our common shares have shown volatility in their price and trading volumes due to a number of factors, some of which are outside of our control, and which may be accentuated due to the relatively low average trading volume in our common shares.

Our common shares are publicly traded on the Exchange. The trading price and volume of our common shares has been, and may continue to be, subject to large fluctuations and, therefore, the value of any of our common shares may also fluctuate significantly, which may result in losses to investors. The trading price of our common shares may increase or decrease in response to a number of events and factors, including but not limited to, actual or anticipated fluctuations in our results of operations, changes in estimates of our future results of operations by us or securities analysts, announcement of technological innovations or new products or services or other developments by us or our competitors, future legislative or regulatory changes affecting the medical device industry or healthcare systems, General market, economic and political conditions and other events and factors. Stockholders have, in the past, initiated securities class action litigation against companies following periods of volatility in the market price of their securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and damages and divert management's attention and resources, which could adversely affect our business. Any adverse determination in litigation against us could also subject us to significant liabilities.

RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2015 the Company did not enter any material transactions with related parties.

Details of the transactions between the Company, key management and other related parties are disclosed below. Key management includes the Company's directors and senior management. The remuneration of directors and the senior management team for the periods ended June 30, 2015 and June 30, 2014 were as follows:

	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
	\$	\$	\$	\$
Salaries and employee benefits	232,399	143,454	458,401	298,472
Directors' fees	11,311	5,537	22,662	11,115
Share-based compensation	215,239	7,234	253,369	28,792
	458,949	156,225	734,432	338,379

Executive employment agreements allow for additional payments in the event of a liquidity event, or if the executive is terminated without cause.