Management's Discussion and Analysis of Financial Condition and Results of Operations of Profound Medical Corp. for the Three Months Ended March 31, 2017

The following Management's Discussion and Analysis ("**MD&A**") prepared as of May 9, 2017 should be read in conjunction with the March 31, 2017 unaudited interim condensed consolidated financial statements and related notes of Profound Medical Corp. ("**Profound**" or the "**Company**"). The unaudited interim condensed consolidated financial statements of Profound 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 including International Accounting Standard 34, Interim Financial Reporting. Unless stated otherwise, all references to "$" are to Canadian dollars. In this discussion, unless the context requires otherwise, references to "we" or "our" are references to Profound.

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 ongoing clinical trials, expectations regarding regulatory approvals, expectations regarding the safety and efficacy of our product, expectations regarding the use of our product and revenue, expenses and operations, plans for and timing of expansion of our 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 our product markets, competitive position and our 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 we operate.

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, including those factors discussed in the section entitled "Risk Factors" in the Company's Annual Information Form prepared as of March 28, 2017 for the year ended December 31, 2016 available on SEDAR at www.sedar.com., such as:

- successful completion of clinical trial phases with respect to Profound's device;
- obtaining regulatory approvals in relevant jurisdictions to market Profound's device;
- risks related to the regulation of Profound, including the healthcare markets;
- lack of funding may limit the ability to commercialize and market Profound's product;
- fluctuating input prices, international trade and political uncertainty;
- healthcare regulatory regime may affect financial viability;
- reimbursement models in relevant jurisdictions may not be advantageous;
- competition may limit the growth of Profound;
- if Profound breaches any of the agreements under which it licenses rights from third parties, Profound could lose license rights that are key to its business;
- loss of key personnel may significantly harm Profound's business; and
- past performance is not indicative of future performance.

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.

BUSINESS OVERVIEW

Profound is a Canadian medical device company commercializing a unique, Magnetic Resonance (MR) guided ablation procedure for prostate care. Profound's novel technology, the TULSA-PRO® system, combines real-time MR imaging with transurethral, robotically-driven therapeutic ultrasound and closed-loop thermal feedback control. It provides a highly precise treatment tailored to patient-specific anatomy and pathology. This method of prostate ablation offers short treatment times and low morbidity, allowing for fast patient recovery.

Profound Medical Corp. common shares are listed on the TSX Venture Exchange (TSXV:PRN) and OTCQX Market (PRFMF).

Business Update

Profound's core technology is based on specific research conducted at Sunnybrook Health Sciences Centre ("**Sunnybrook**"), pursuant to licensing arrangements between Sunnybrook and Profound. In 2010, Profound in collaboration with Sunnybrook, developed working prototypes and completed institutionally sponsored clinical research trials. In 2011, Profound finalized the system design under formal design controls. In 2012, preclinical studies were completed, which lead to the finalization of the development of our clinical stage device and the successful outsourcing of manufacturing of certain components of the TULSA-PRO® system. In April 2013, Profound announced initiation of the Health Canada approved 30 patient TULSA (Transurethral Ultrasound Ablation) safety and feasibility study. Subsequently, additional clinical sites were added 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, Profound completed enrollment and treatment of 30 patients in the TULSA multi-jurisdictional safety and feasibility study. On October 15, 2015, Profound presented 12-month follow-up data at the European Symposium on Focused Ultrasound Therapy held in London, England. The results of this study were also published in the September 2016 issue of European Urology. In the Phase I study, the TULSA-PRO® system demonstrated accurate and precise ablation of targeted prostate tissue, while providing a well-tolerated favorable safety profile with minor impact on urinary, erectile and bowel function at 12 months. On April 11, 2016, Profound announced that it has affixed the CE mark to the TULSA-PRO® system, enabling Profound to market the TULSA-PRO® system in the European Union and in other CE mark jurisdictions. Profound is currently conducting a pilot commercial launch of TULSA-PRO® in key European and other CE mark jurisdictions. Profound also expects to pursue regulatory market clearance in Canada in 2017.

Profound has received an Investigational Device Exemption ("IDE") from the FDA on May 19, 2016, a prerequisite to launching the TACT (TULSA-PRO® Ablation Clinical Trial) Pivotal Trial (as more fully described in the Annual Information Form, dated March 28, 2017 (the "**AIF**")). The TACT Pivotal Trial is a prospective, single-arm pivotal clinical study of 110 patients aimed at further evaluating the safety and efficacy of the TULSA-PRO® system to ablate prostate tissue in patients with localized, organ-confined prostate cancer. The TACT Pivotal Trial is being conducted in 10-14 clinical sites located in the United States, Canada and Europe. The first patient in the TACT Pivotal Trial was treated on September 22, 2016 and a total of 16 patients were treated as of March 31, 2017. Refer to the AIF for a full description of the regulatory approval process under the heading "Government Regulation". If successful, the TACT Pivotal Trial is expected to support Profound's application to the FDA for approval to market the TULSA-PRO® system in the United States. Based on a new predicate device cleared by the FDA in October 2015, Profound intends to pursue a 510(k) 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.

Profound common shares became eligible for trading on OTCQX Market under the symbol PRFMF on March 13, 2017. The first patient-paid procedure with TULSA-PRO was successfully conducted on March 27, 2017 at the ALTA Klinik in Germany.

Q1-2017 HIGHLIGHTS

- Profound announces first quarter revenues totaling $591,517
- Profound announced that its common shares are eligible for trading on the OTCQX®
- Profound and Royal Philips announce first TULSA-PRO® system, sale in Finland to Turku University Hospital

RESULTS OF OPERATIONS

	Three months ended March 31		Change	
	2017	2016		
	$	$	$	%
Revenue	**591,517**	**-**	591,517	100%
Cost of sales	**311,225**	**-**	311,225	100%
Gross profit	**280,292**	**-**	280,292	-100%
Expenses				
Research and development	**1,883,129**	2,507,599	(624,470)	-25%
General and administrative	**1,118,014**	934,784	183,230	20%
Selling and distribution	**1,150,499**	160,439	990,060	617%
Total operating expenses	**4,151,642**	3,602,822	548,820	15%
Finance costs	**289,700**	283,961	5,739	2%
Finance income	**(48,565)**	(50,564)	1,999	-4%
Net finance costs	**241,135**	**233,397**	7,738	3%
Loss before income taxes	**4,112,485**	3,836,219	276,266	7%
Income tax expense	**2,297**	-	2,297	100%
Net loss for the period	**4,114,782**	3,836,219	278,563	7%
Item that may be reclassified to profit or				
Foreign currency translation adjustment	**2,640**	2,887	(247)	-9%
Net loss and comprehensive loss for the period	**4,117,422**	3,839,106	278,316	7%
Basic and diluted net loss per common share	**0.07**	0.10	(0.03)	-30%

Revenue

For the quarter ended March 31, 2017, the Company recorded revenues for the first time totaling $591,517, with $552,918 from sale of products and $38,599 from installation and training services, related to the commercial launch of the TULSA-PRO ® system in Europe. The Company sold TULSA-PRO ® systems and treatment kits through its partnership agreements with Siemens and Phillips.

Results for the quarter ended March 31, 2016 do not reflect any sale activities and are accordingly not comparable.

Cost of sales

For the quarter ended March 31, 2017, the Company recorded cost of sales of $311,225, related to the commercial launch of the TULSA-PRO ® system in Europe. These costs include cost of finished goods, inventory provisions, royalties, warranty, freight and direct overhead expenses.

Results for the quarter ended March 31, 2016 do not reflect any sale activities and are accordingly not comparable.

Operating Expenses

Research and development

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

For the three months ended March 31, 2017, R&D expenses were lower by $624,470 compared to the three months ended March 31, 2016. Overall, the decrease in R&D spending reflects the advanced stages of development of the Company's product and the ramp-up of commercial operations. Material expenses and contractor expenses were lower by $963,074 and $52,936, respectively. These costs were lower compared to the quarter ended March 31, 2016, due to lower development initiatives associated with our TACT Pivotal Trial. Offsetting this amount was an increase in clinical trial costs of $391,097, resulting from ongoing activities related to the initiation of clinical sites visits, enrollment initiatives and patient treatment.

General and administrative expenses

Our general and administrative expenses are comprised of management costs, including salaries and benefits, various management and administrative support functions and other operating and occupancy costs.

General and administrative expenses for the three months ended March 31, 2017 were higher by $183,230 compared to the quarter ended March 31, 2016. Salaries and benefit expenses increased by $212,294, primarily related to a separation payment payable to a former executive officer. In addition, rent expense increased by $42,140 due to relocation to a larger facility in July 2016. These costs were offset by lower share-based compensation of $122,332 related to the forfeiture of certain share options. In addition, office and other expenses were higher compared to the quarter ended March 31, 2016 by $33,131. These costs were reduced primarily due to the realignment of sales activities, which are classified under sales and distribution expenses.

Selling and distribution expenses

Our selling and distribution expenses are comprised of business development costs related to the development and commercialization of our TULSA-PRO® system, including salaries and benefits, management and support functions and other operating and occupancy costs.

Selling and distribution expenses for the three months ended March 31, 2017 were higher by $990,060 compared to the three months ended March 31, 2016. The increase is largely attributable to recognizing commissions payable on commercial sales of $61,840 and a

provision of $417,834 related to the estimated shortfall of revenue share payments compared to the minimum amounts contractually required. In addition, salaries and benefits increased by $221,042 compared to the quarter ended March 31, 2016, resulting from additional direct sales force personnel. Professional and consulting fees, marketing and travel expenses increased by $100,136, $90,070 and $67,620, respectively. These increases relate directly to marketing-related efforts.

Finance costs

Finance costs are primarily comprised of interest and accretion expense relates to the following (i) the Federal Economic Development Agency loan accreting to the principal amount repayable, (ii) the Health Technology Exchange (HTX) loan accreting to the principal amount repayable and its related interest expense, (iii) the Knight Loan accreting to the principal amount repayable and its related interest expense; and (iv) the 0.5% royalty liability to Knight accreting to the estimated amount payable.

Interest and accretion expense for the three months ended March 31, 2017 was higher by $5,739 compared to the quarter ended March 31, 2016. During the quarter, the Company revised the fair value of the royalty, using future revenue forecasts for the term of the loan and a discount rate of 18%, and recognized an interest accretion recovery of $2,991.

Income tax expense

During the three months ended March 31, 2017, the Company recorded an income tax expense of $2,297, primarily related to taxes in certain foreign jurisdictions.

Net loss

Net loss for the three months ended March 31, 2017 was $4,114,782 or $0.07 per share, compared to a net loss of $3,836,219 for the quarter ended March 31, 2016. The increase in net loss was primarily attributed to an increase in selling and distribution expenses of $990,060 and an increase in administrative expenses of $183,230. These increases were offset by lower research and development expenses of $624,470.

SUMMARY OF QUARTERLY FINANCIAL RESULTS

	2017	2016				2015		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	$	$	$	$	$	$	$	$
Revenue	**591,517**	-	-	-	-	-	-	-
Cost of sales	**311,225**	-	-	-	-	-	-	-
Gross Profit	**280,292**	-	-	-	-	-	-	-
Operating expenses	**4,151,642**	4,828,085	3,779,633	3,429,874	3,602,822	2,549,179	2,757,498	4,498,509
Net finance costs	**241,135**	(44,142)	276,852	206,194	233,397	220,717	199,681	4,999,199
Loss before income taxes	**4,112,485**	4,783,943	4,056,485	3,636,068	3,836,219	2,769,896	2,957,179	9,497,708
Income tax expense (recovery)	**2,297**	4,674	4,723	4,657	-	-	-	(798,991)
Net loss for the period	**4,114,782**	4,788,617	4,061,208	3,640,725	3,836,219	2,769,896	2,957,179	8,698,717
Loss per share								
Basic	**0.07**	0.10	0.10	0.09	0.10	0.07	0.08	0.67
Diluted	**0.07**	0.10	0.10	0.09	0.10	0.07	0.08	0.67

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2017, the Company has cash of $16,892,035 compared to $20,833,061 at December 31, 2016.

The Federal Economic Development Agency

On April 4, 2012, the Company entered into an $867,000 unsecured, non-interest bearing loan with The Federal Economic Development Agency (FedDev). Repayments of $14,450 commenced on April 1, 2015, followed by 48 monthly instalments of $7,225 from May 1, 2015 to April 1, 2019, and 11 monthly instalments of $45,977 from May 1, 2019 to March 1, 2020. As at March 31, 2017, the principal balance outstanding on this loan is $686,375 (December 31, 2016 - $708,050).

The Health Technology Exchange

The Health Technology Exchange (HTX) loans are unsecured, bearing interest at 4.50% per annum, with remaining annual repayments of $500,000 on April 30, 2017 and the balance of the obligations including accrued interest payable on March 31, 2018. As at March 31, 2017, the principal balance outstanding on this loan was $1,300,000 (December 31, 2016 - $1,300,000). Subsequent to period end the $500,000 was paid.

Knight Loan

On April 30, 2015, the Company entered into a $4,000,000, secured loan, bearing interest at 15.0% per annum with Knight Therapeutics Inc. (Knight Loan). Repayments commence on June 30, 2017 with a payment of $1,427,258 followed by seven quarterly instalments of $285,714 plus accrued interest from September 30, 2017 to March 31, 2019, and a final instalment of $2,052,603 on June 3, 2019.

In addition to the Knight Loan, the Company granted to Knight a 0.5% royalty on net sales of Profound for the duration of the Knight Loan. The royalty was initially recorded at fair value and subsequently carried at amortized cost using the effective interest rate method. The initial fair value of the royalty was determined using future revenue forecasts for the term of the Knight Loan and a discount rate of 18%. During the quarter, the Company revised the fair value of the royalty, using future revenue forecasts for the term of the loan and a discount rate of 18%, and recognized an interest accretion recovery of $2,991 (March 31, 2016 – accretion expense of $17,886). The current portion of this liability as at March 31, 2017 is $25,000 (December 31, 2016 - $39,357) and non-current portion is $120,410 (December 31, 2015 - $109,044).

Cash Flow

The Company manages liquidity risk by monitoring actual and projected cash flows and matching the maturity profile of financial assets and liabilities. The cash flow forecast is performed regularly to ensure that the Company has sufficient cash to meet operational needs while maintaining sufficient liquidity. Forecasting takes into consideration the Company's debt financing commitments.

The Company will need additional capital beyond the next 12 months to fund R&D activities and 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. There can be no assurance that the Company will be able to obtain the capital sufficient to meet any or all of the Company needs. 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 market approval applications at all or in time to competitively market our product.

	March 31, 2017	**March 31 2016**
	$	**$**
Cash used in operating activities	**(3,867,723)**	(3,223,250)
Cash used in investing activities	**(62,353)**	(93,931)
Cash used in financing activities	**(10,950)**	(221,675)
Net decrease in cash and cash equivalents	**(3,941,026)**	(3,538,856)

Net cash used in operating activities for the quarter ended March 31, 2017 was $3,867,723 versus $3,223,250 for the quarter ended March 31, 2016. The principal uses of the first quarter operating cash flows were related to additional costs associated to the commercialization of the TULSA-PRO system and sales and marketing initiatives.

Net cash flows used in investing activities for the quarter ended March 31, 2017 was $62,353 versus $ 93,931 for the quarter ended March 31, 2016. This was primarily related to purchase of research equipment in support of further optimization of the TULSA-PRO® system.

Net cash flows used in financing activities for the quarter ended March 31, 2017 were $10,950 versus $ 221,675 for the quarter ended March 31, 2016. These costs were primarily related to the repayment of the FedDev and HTX loans which was partially offset by proceeds from share option exercises.

COMMITMENTS

The Company has commitments under operating leases for the rental of office space. On March 28, 2016 the Company signed a lease for new office space and took possession of this office space effective July 1, 2016. Included in prepaid expenses and deposits is an

amount of $420,000 related to prepaid rent for this lease that is drawn down at $10,000 per month effective October 1, 2016. The future minimum obligation under these leases are as follows:

	$
No later than 1 year	398,824
Later than 1 year and no later than 5 years	2,099,937
Later than 5 years	2,603,105
	5,101,866

In 2016, the company signed an agreement that includes revenue sharing with a minimum amount payable of US$3,500,000 over the next five years.

In the event the Company repays the Knight Loan before the end of the term, it would be subject to a prepayment fee. The prepayment fee is the greater of the total unpaid annual interest that would have been payable during the year in which the prepayment is made and (a) $400,000 – If repaid between May 22, 2016 and May 21, 2017; or (b) $200,000 – If repaid between May 22, 2017 to maturity.

All directors and officers of the Company are indemnified by the Company for various items including, but not limited to, all costs to settle lawsuits or actions due to their association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential future lawsuits or actions. The term of the indemnification is not explicitly defined, but is limited to events for the period during which the indemnified party served as a director or officer of the Company. The maximum amount of any potential future payment cannot be reasonably estimated but could have a material adverse effect on the Company.

The Company has also indemnified the underwriters in relation to the bought deal financing completed in 2016 and their respective affiliates and directors, officers, employees, shareholders, partners, advisers and agents and each other person, if any, controlling any of the underwriters or their affiliates against certain liabilities.

RELATED PARTY TRANSACTIONS

Key management includes the Company's directors and senior management team. The remuneration of directors and the senior management team were as follows:

	Three months ended March 31	
	2017	2016
	$	**$**
Salaries and employee benefits	**327,489**	244,497
Termination benefits	**138,125**	-
Directors fees	**22,250**	41,375
Share-based compensation	**73,151**	192,587
Total	**561,015**	478,459

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

OUTSTANDING SHARES

As at May 9, 2017, the date of this MD&A, the Company had the following securities outstanding:

	Number
Common shares	55,344,139
Share purchase options	4,967,517
Compensation options	576,235

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

RECENT ACCOUNTING PRONOUNCEMENTS

IFRS 9, Financial Instruments (IFRS 9)

The final version of IFRS 9, Financial Instruments, was issued by the International Accounting Standards Board (IASB) in July 2014 and will replace International Accounting Standard (IAS) 39, Financial Instruments: Recognition and Measurement. IFRS 9 introduces a model for classification and measurement, a single, forward-looking expected loss impairment model and a substantially reformed approach to hedge accounting. The new single, principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however, is available for early adoption. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Company is yet to assess the full impact of IFRS 9.

IFRS 15, Revenue from Contracts with Customers (IFRS 15)

This standard replaces IAS 11, Construction Contracts, IAS 18, Revenue, and International Financial Reporting Interpretations Committee 13, Customer Loyalty Programmes. This standard outlines a single comprehensive model for entities to account for revenue arising from contracts with customers. The latest date of mandatory implementation of IFRS 15 is January 1, 2018. The Company has not yet evaluated the impact on the consolidated financial statements.

IFRS 16, Leases (IFRS 16)

On January 13, 2016, the IASB published a new standard, IFRS 16, Leases. The new standard will eliminate the distinction between operating and finance leases and will bring most leases on the consolidated balance sheets for lessees. This standard is effective for annual reporting periods beginning on or after January 1, 2019. The company intends to adopt IFRS 16 in its financial statements for the annual period beginning January 1, 2019, and will recognize all of its liabilities for all leases on the consolidated balance sheet.