Profound Medical Corp.

Interim Condensed Consolidated
Financial Statements
(Unaudited)
June 30, 2017

Profound Medical Corp.

Interim Condensed Consolidated Balance Sheets

(Unaudited)

	June 30, 2017 $	December 31, 2016 $
Assets		
Current assets		
Cash	10,666,467	20,833,061
Trade and other receivables (note 4)	1,847,394	266,336
Investment tax credits receivable	397,000	264,000
Inventory (note 5)	930,886	416,823
Prepaid expenses and deposits	744,126	696,909
	14,585,873	22,477,129
Property and equipment	1,114,952	953,029
Intangible assets	244,241	262,685
	15,945,066	23,692,843
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	3,217,684	1,771,427
Customer deposits	-	259,293
Deferred revenue	67,789	-
Long-term debt (note 7)	2,791,020	2,877,050
Provisions (note 6)	43,109	-
Other liability (note 7)	33,721	39,357
	6,153,323	4,947,127
Long-term debt (note 7)	2,475,962	3,760,826
Provisions (note 6)	654,277	39,619
Other liability (note 7)	37,422	109,044
	9,320,984	8,856,616
Shareholders' Equity		
Share capital	83,352,149	83,272,678
Contributed surplus	3,500,418	3,000,563
Accumulated other comprehensive income (loss)	(6,880)	11,316
Deficit	(80,221,605)	(71,448,330)
	6,624,082	14,836,227
	15,945,066	23,692,843

Liquidity, management actions and subsequent event (note 3)

Commitments and contingencies (note 15)

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Profound Medical Corp.

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss
(Unaudited)

	Three months ended June 30, 2017 $	Three months ended June 30, 2016 $	Six months ended June 30, 2017 $	Six months ended June 30, 2016 $
Revenue				
Products	919,845	-	1,472,763	-
Services	37,294	-	75,893	-
	957,139	-	1,548,656	-
Cost of sales	471,359	-	782,584	-
Gross profit	485,780	-	766,072	-
Expenses				
Research and development (note 9)	2,417,972	2,216,096	4,301,101	4,723,695
General and administrative (note 10)	1,728,585	914,495	2,846,599	1,849,279
Selling and distribution (note 11)	897,153	299,283	2,047,652	459,722
Total operating expenses	5,043,710	3,429,874	9,195,352	7,032,696
Finance costs (note 12)	130,436	254,145	420,136	538,106
Finance income	(32,229)	(47,951)	(80,794)	(98,515)
Net finance costs	98,207	206,194	339,342	439,591
Loss before income taxes	4,656,137	3,636,068	8,768,622	7,472,287
Income tax expense	2,356	4,657	4,653	4,657
Net loss for the period	4,658,493	3,640,725	8,773,275	7,476,944
Item that may be reclassified to profit or loss				
Foreign currency translation adjustment	15,556	2,267	18,196	5,154
Net loss and comprehensive loss for the period	4,674,049	3,642,992	8,791,471	7,482,098
Basic and diluted weighted average shares outstanding (note 13)	55,372,307	39,473,327	55,329,563	39,473,327
Basic and diluted net loss per common share (note 13)	0.08	0.09	0.16	0.19

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Profound Medical Corp.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)

	Number of shares	Share capital $	Contributed surplus $	Accumulated other comprehensive income (loss) $	Deficit $	Total $
Balance - January 1, 2016	39,473,327	67,082,821	2,002,190	-	(55,121,561)	13,963,450
Net loss for the period	-	-	-	-	(7,476,944)	(7,476,944)
Foreign currency translation adjustment	-	-	-	(5,154)	-	(5,154)
Share-based payments	-	-	366,585	-	-	366,585
Balance - June 30, 2016	39,473,327	67,082,821	2,368,775	(5,154)	(62,598,505)	6,847,937
Balance - January 1, 2017	55,305,577	83,272,678	3,000,563	11,316	(71,448,330)	14,836,227
Net loss for the period	-	-	-	-	(8,773,275)	(8,773,275)
Foreign currency translation adjustment	-	-	-	(18,196)	-	(18,196)
Exercise of share options	111,800	79,471	(51,170)	-	-	28,301
Share-based payments	-	-	551,025	-	-	551,025
Balance - June 30, 2017	55,417,377	83,352,149	3,500,418	(6,880)	(80,221,605)	6,624,082

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Profound Medical Corp.

Interim Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six months ended June 30, 2017 $	Six months ended June 30, 2016 $
Cash provided by (used in)		
Operating activities		
Net loss for the period	(8,773,275)	(7,476,944)
Depreciation of property and equipment	117,790	63,904
Amortization of intangible assets	25,839	1,250
Share-based compensation	551,025	366,585
Interest and accretion expense	525,412	538,038
Net change in non-cash working capital balances		
Prepaid expenses and deposits	(47,217)	(694,661)
Accounts payable and accrued liabilities	1,454,745	301,773
Provisions	657,767	90,907
Inventory	(514,063)	-
Investment tax credits receivable	(133,000)	(123,100)
Trade and other receivables	(1,581,058)	(21,490)
Deferred revenue	67,789	-
Customer deposits	(259,293)	-
	(7,907,539)	(6,953,738)
Investing activities		
Purchase of intangible assets	(34,079)	(77,176)
Purchase of property and equipment	(279,713)	(276,114)
	(313,792)	(353,290)
Financing activities		
Payment of long-term debt	(1,970,608)	(243,350)
Payment of other liability	(2,956)	-
Proceeds from share options exercised	28,301	-
	(1,945,263)	(243,350)
Decrease in cash during the period	(10,166,594)	(7,550,378)
Cash - Beginning of period	20,833,061	10,522,520
Cash - End of period	10,666,467	2,972,142
Supplemental information		
Intangible asset recoverable included in accounts payable and accrued liabilities	(26,684)	-
Property and equipment additions included in accounts payable and accrued liabilities	-	14,615

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

1 Description of business

Profound Medical Corp. (Profound) and its subsidiaries (together, the company) was incorporated under the Ontario Business Corporations Act on July 16, 2014. The company is a biotechnology company developing a treatment to ablate the prostate gland in prostate cancer patients.

The company's registered address is 2400 Skymark Avenue, Unit 6, Mississauga, Ontario, L4W 5K5.

2 Basis of preparation and summary of significant accounting policies

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), applicable to the preparation of interim financial statements, including International Accounting Standard (IAS) 34, Interim Financial Reporting. These interim condensed consolidated financial statements should be read in conjunction with the company's annual financial statements for the year ended December 31, 2016, which were prepared in accordance with IFRS.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on August 23, 2017.

The interim condensed consolidated financial statements were prepared on a going concern basis under the historical cost convention.

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations, only classifications of certain operating expenses. Specifically, expenses have been allocated to general and administrative expense, and selling and marketing expense, whereas these were previously all recognized in general and administrative expense. This allocation was to align the expenses with the related functional departments.

The accounting policies adopted are consistent with those of the previous financial year except as noted below. Amendments to IFRS effective for the financial year ending December 31, 2017 did not have a material impact on the company.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duties. The specific recognition criteria described below must also be met before revenue is recognized.

- Product sales

  - Product sales to customers

    Revenue from the sale of medical devices and consumables is recognized when the significant risks and rewards of ownership of the products have passed or transferred to the customer, collection of the related receivable is probable, the sales price is fixed or determinable and customer acceptance has occurred.

  - Product sales under partnership agreements

    Revenue is recognized on the sale of medical devices or consumable products as per the terms of the respective contracts, which is generally at the time that the company has transferred the risks of ownership to its partners, who maintain the business relationship with the end customer.

Multiple element arrangements

The company may enter into arrangements in which it commits to providing products and services to its customers at different points in time. Revenue recognition for these arrangements is determined based on evaluation of the individual elements of the arrangements. If the element delivered has stand-alone value to the customer and the fair value associated with the undelivered element can be measured reliably, the amount recognized as revenue for each element is the fair value of the element in relation to the fair value of the arrangement as a whole. Otherwise, the arrangement is treated as one unit of account and revenue is deferred and recognized over the remaining term of the arrangements, commencing when all elements are delivered.

Service revenue

Service revenue related to installation and training is recognized once the services are performed and customer acceptance is received. Service revenue related to extended warranty service, is deferred and recognized on a straight-line basis over the extended warranty period covered by the respective agreement.

Cost of sales

Cost of sales includes the cost of finished goods, inventory provisions, royalties, warranty expense, freight and direct overhead expenses necessary to acquire the finished goods.

Accounting standards issued but not yet adopted

- IFRS 9, Financial Instruments (IFRS 9)

  The final version of IFRS 9, Financial Instruments, was issued by IASB in July 2014 and will replace 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. The company is in the process of evaluating the impact of this standard.

- 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 is in the process of evaluating the impact of this standard. The company has determined that it will apply this standard on a fully retrospective basis.

- 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 sheet 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 consolidated financial statements for the annual period beginning January 1, 2019, and will recognize assets and liabilities for all leases on the consolidated balance sheet.

3 Liquidity, management actions and subsequent event

The company manages liquidity risk by monitoring actual and projected cash flows. A 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 to fund research and development activities and any significant expansion of operations. Potential sources of capital could include equity and/or debt financings, the collection of revenues resulting from commercialization activities and/or new strategic partnerships. On August 24, 2017, the company announced it had finalized a term sheet in relation to a bought deal prospectus offering, for the issuance of 10,000,000 units whereby each unit consists of one common share and one half of one warrant for estimated gross proceeds of $10,000,000.

There can be no assurance that the company will be able to obtain sufficient capital to meet any or all of the company's needs. The availability of equity or debt financing will be affected by, among other things, the results of the company's research and development, the ability to obtain regulatory approvals, the market acceptance of its products, the state of the capital markets generally, strategic alliance agreements and other relevant commercial considerations. In addition, if the company raises additional funds by issuing equity securities, its existing security holders will likely experience dilution, and any incurrence of additional debt would result in increased debt service obligations and could require the company to agree to operating and financial covenants that would restrict its operations. Any failure on the company's part to raise additional funds on terms favorable to it, or at all, may require it to significantly change or curtail its 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 the company not taking advantage of business opportunities, the termination or delay of clinical trials for its products, the curtailment of its product development programs, the sale or assignment of rights to its technologies and/or products and the inability to file market approval applications at all or in time to competitively market its products.

4 Trade and other receivables

The trade and other receivables balance comprises the following:

	June 30, 2017 $	December 31, 2016 $
Trade receivables	1,266,151	-
Indirect tax receivables	581,243	266,336
	1,847,394	266,336

5 Inventory

	June 30, 2017 $	December 31, 2016 $
Raw materials	683,421	307,643
Finished goods	455,519	237,408
Inventory provision	(208,054)	(128,228)
	930,886	416,823

During the three and six months ended June 30, 2017, $212,810 and $351,147 (June 30, 2016 - $nil) of inventory was recognized in cost of sales, respectively. The increase in the inventory provision for the three and six months ended June 30, 2017 of $10,127 and $79,826, respectively, was recognized in cost of sales.

6 Provisions

	Asset retirement obligation $	Revenue share obligation $	Warranty provision $	Total $
Balance - Beginning of period	39,619	-	-	39,619
Additions	-	612,428	43,109	655,537
Accretion expense	2,230	-	-	2,230
Balance - End of period	41,849	612,428	43,109	697,386
Less: Current portion	-	-	(43,109)	(43,109)
Non-current portion	41,849	612,428	-	654,277

Asset retirement obligation

The asset retirement obligation is related to the company’s leasehold improvements.

Revenue share obligation

The company has certain minimum amounts payable under a revenue sharing agreement. The provision was determined using future revenue forecasts related to the revenue share agreement and a discount rate of 11%. This provision represents the company’s estimated shortfall of revenue share payments over the term of this agreement. If the revenue forecast were to decrease or increase by 10% then the revenue share obligation would increase or decrease by $43,332. The amount has been included in selling and distribution expenses in the interim condensed consolidated statement of loss and comprehensive loss.

Warranty provision

The warranty provision is related to the company’s estimate of future warranty obligations on product sales which generally have a term of one year.

7 Long-term debt

A summary of long-term debt is as follows:

	June 30, 2017 $	December 31, 2016 $
FedDev and HTX loans	1,572,769	2,027,893
Knight Loan	3,694,213	4,609,983
Balance - End of period	5,266,982	6,637,876
Less: Current portion	(2,791,020)	(2,877,050)
Non-current portion	2,475,962	3,760,826

The Federal Economic Development Agency (FedDev) loan is unsecured, non-interest bearing, with total proceeds of $867,000. 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 June 30, 2017, the principal balance outstanding on this loan is $664,700 (December 31, 2016 - $708,050).

During the three and six months ended June 30, 2017, the company recognized $13,607 and $27,412 of interest and accretion expense on this loan, respectively (three and six months ended June 30, 2016 - $14,362 and $28,901, respectively).

The Health Technology Exchange (HTX) loans with total proceeds of $1,500,000 are unsecured, bearing interest at 4.50% per annum, with the remaining repayment on March 31, 2018 of $800,000 plus accrued interest. As at June 30, 2017, the principal balance outstanding on this loan was $800,000 (December 31, 2016 - $1,300,000).

During the three and six months ended June 30, 2017, the company recognized $24,665 and $60,814 of interest and accretion expense on these loans, respectively (three and six months ended June 30, 2016 - $(1,077) and $37,338, respectively).

A reconciliation of the FedDev and HTX loans is as follows:

	Six months ended June 30, 2017 $	Year ended December 31, 2016 $
Balance - Beginning of period	2,027,893	2,150,471
Repayment	(543,350)	(286,700)
Interest and accretion expense	88,226	164,122
Balance - End of period	1,572,769	2,027,893
Less: Current portion	(1,112,155)	(586,700)
Non-current portion	460,614	1,441,193

On April 30, 2015, Profound Medical Inc. (PMI) signed an agreement with Knight to provide a secured loan of $4,000,000 (the Knight Loan) for an initial period of four years with an interest rate of 15% per annum, with payments of interest and principal deferred until June 30, 2017. The company has the option to extend the loan for up to four successive additional 12-month periods subject to certain conditions. Repayments commenced 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. As part of the agreement, Knight was also granted a royalty of 0.5% on net sales resulting from global sales of the company's product for the duration of the Knight Loan (the royalty). In addition, the company also entered into a distribution, licence and supply agreement with Knight pursuant to which Knight will act as the exclusive distributor of the company's product in Canada for an initial ten-year term, renewable for successive ten-year terms by either party. In connection with these arrangements, the company issued to Knight 4% of the common shares of the company (1,717,450 common shares).

A reconciliation of the Knight Loan balance is as follows:

	Six months ended June 30, 2017 $	Year ended December 31, 2016 $
Balance - Beginning of period	4,609,983	3,696,903
Repayment	(1,427,258)	-
Interest and accretion expense	511,488	913,080
Balance - End of period	3,694,213	4,609,983
Less: Current portion	(1,678,865)	(2,290,350)
Non-current portion	2,015,348	2,319,633

The royalty was initially recorded at fair value and was 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 loan and a discount rate of 18%. During the three and six months ended June 30, 2017, 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 $71,311 and $74,302, respectively (three and six months ended June 30, 2016 - accretion expense of $18,690 and $36,576, respectively). The current portion of this liability as at June 30, 2017 is $33,721 (December 31, 2016 - $39,357) and the non-current portion is $37,422 (December 31, 2016 - $109,044).

8 Share-based payments

Compensation expense related to share options for the three and six months ended June 30, 2017 was $450,461 and $551,025, respectively (three and six months ended June 30, 2016 - $157,471 and $366,585, respectively).

A summary of the share option changes during the period and the total number of share options outstanding is set forth below:

	$	Weighted average exercise price $
Balance - January 1, 2017	4,689,839	1.13
Granted	1,483,583	1.09
Exercised	(111,800)	0.25
Forfeited/expired	(1,101,343)	1.42
Balance - June 30, 2017	4,960,279	1.07

The following table summarizes information about the share options outstanding as at June 30, 2017:

Exercise price $	Number of options outstanding	Weighted average remaining contractual life (years)	Number of options exercisable
0.24	970,000	4.31	935,625
0.30	21,000	1.82	21,000
0.97	66,000	9.82	-
1.10	1,971,724	9.46	-
1.35	132,500	9.16	-
1.46	964,055	9.14	8,125
1.50	835,000	8.18	380,737
	4,960,279	8.14	1,345,487

The company estimated the fair value of the share options granted during the period using the Black-Scholes option pricing model with the following weighted average assumptions. Due to the absence of company specific volatility rates, the company chose comparable companies in the medical device industry.

	January 26, 2017	April 25, 2017
Volatility	99%	97%
Expected life of share options	6 years	6 years
Risk-free interest rate	1.35%	1.37%
Dividend yield	-	-

During the three months ended June 30, 2017, all of the 576,235 compensation options expired.

9 Research and development expenses

	Three months ended June 30, 2017 $	Three months ended June 30, 2016 $	Six months ended June 30, 2017 $	Six months ended June 30, 2016 $
Salaries and benefits	853,246	895,440	1,696,002	1,730,222
Clinical trial costs	702,726	175,180	1,341,755	423,112
Consulting fees	489,366	257,498	659,969	418,134
Materials	199,342	630,427	254,722	1,648,881
Other	85,315	99,155	184,849	166,723
Travel	92,125	40,977	168,450	138,937
Share-based compensation	29,609	30,243	62,893	61,845
Rent	31,064	119,650	61,104	169,754
Depreciation of property and equipment	1,554	-	3,107	-
Amortization of intangible assets	625	625	1,250	1,250
Contractors	-	35,001	-	87,937
Investment tax credits	(67,000)	(68,100)	(133,000)	(123,100)
	2,417,972	2,216,096	4,301,101	4,723,695

10 General and administrative expenses

	Three months ended June 30, 2017 $	Three months ended June 30, 2016 $	Six months ended June 30, 2017 $	Six months ended June 30, 2016 $
Professional and consulting fees	785,418	264,423	1,087,615	564,581
Salaries and benefits	271,531	265,090	786,554	567,819
Share-based compensation	409,653	123,877	464,833	301,389
Office and other	105,806	138,131	194,620	193,814
Rent	63,911	44,073	125,696	63,718
Depreciation of property and equipment	59,710	38,588	110,609	63,904
Travel	23,868	40,313	60,432	94,054
Amortization of intangible assets	8,688	-	16,240	-
	1,728,585	914,495	2,846,599	1,849,279

11 Selling and distribution expenses

	Three months ended June 30, 2017 $	Three months ended June 30, 2016 $	Six months ended June 30, 2017 $	Six months ended June 30, 2016 $
Revenue share obligation (note 6)	194,594	-	612,428	-
Salaries and benefits	264,687	169,599	511,373	195,243
Professional and consulting fees	177,270	68,765	349,127	140,486
Marketing	108,714	6,794	199,798	7,808
Travel	82,676	23,848	181,191	54,743
Office and other	57,590	26,927	109,334	58,092
Commission expense	1,423	-	63,263	-
Share-based compensation	10,199	3,350	21,138	3,350
	897,153	299,283	2,047,652	459,722

12 Finance costs

	Three months ended June 30, 2017 $	Three months ended June 30, 2016 $	Six months ended June 30, 2017 $	Six months ended June 30, 2016 $
HTX and FedDev loans (note 7)	38,272	13,285	88,226	66,239
Knight loan (note 7)	262,327	222,102	511,488	435,223
Royalty interest accretion (recovery) (note 7)	(71,311)	18,690	(74,302)	36,576
Provisions (note 6)	1,130	-	2,230	-
Foreign exchange (gain) loss	(99,982)	68	(107,506)	68
	130,436	254,145	420,136	538,106

13 Loss per share

The following table shows the calculation of basic and diluted loss per share:

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Net loss for the period	$4,658,493	$3,640,725	$8,773,275	$7,476,944
Denominator for basic and diluted loss per share	55,372,307	39,473,327	55,329,563	39,473,327
Basic and diluted loss per share	$0.08	$0.09	$0.16	$0.19

For the periods noted above, the computation of diluted loss per share is equal to the basic loss per share due to the anti-dilutive effect of the share options and compensation options.

Of the 4,960,279 share options not included in the calculation of diluted loss per share for the period ended June 30, 2017, 1,345,487 were exercisable (June 30, 2016 - 2,016,938).

14 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 June 30, 2017 $	Three months ended June 30, 2016 $	Six months ended June 30, 2017 $	Six months ended June 30, 2016 $
Salaries and employee benefits	219,928	240,323	547,417	484,820
Termination benefits	-	-	138,125	-
Directors' fees	19,739	41,375	41,989	82,750
Share-based compensation	423,403	141,622	496,554	334,209
	663,070	423,320	1,224,085	901,779

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

15 Commitments and contingencies

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 $390,000 related to prepaid rent for this lease that is drawn down at $10,000 per month effective October 1, 2016. The future minimum obligations are as follows:

	$
No later than 1 year	402,331
Later than 1 year and no later than 5 years	2,143,095
Later than 5 years	2,458,489
	5,003,915

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 (note 6).

16 Acquisition

On June 30, 2017, the company entered into a definitive agreement (the Agreement) to acquire Royal Philips' (Philips) Sonalleve MR-HIFU business. Under the terms of the Agreement, Philips will transfer its Sonalleve MR-HIFU assets to Profound for an upfront consideration of 7,400,000 common shares of Profound. The Agreement also includes certain earn-out payments tied to future revenue levels which will result in paying additional cash consideration in the range of 5-7% of Sonalleve MR-HIFU net sales through to the end of 2020. The company is required to fully repay all amounts outstanding under the loan agreement with Knight Therapeutics Inc. (Knight) on or before 12 months from the closing date. On July 31, 2017, the company satisfied all closing conditions and closed the acquisition.

On closing of the acquisition, the non-exclusive strategic sales relationship with Philips was expanded to include distribution of Sonalleve MR-HIFU. Under the terms of the Agreement, Philips will also provide other services, including, but not limited to, manufacturing and installation of Sonalleve MR-HIFU.