Management's Discussion and Analysis of Financial Condition and Results of Operations of Profound Medical Corp. for the Three and Six Months Ended June 30, 2017

The following Management's Discussion and Analysis ("**MD&A**") prepared as of August 24, 2017 should be read in conjunction with the June 30, 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 market;
- 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 led 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 30 patient TULSA (Transurethral Ultrasound Ablation) study in Canada and subsequently, additional clinical sites were added to include Germany and the United States. In March 2014, Profound completed enrollment and treatment of 30 patients ("Phase 1") 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 this 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. All 110 patients will have consented to complete 12 month follow-up visits. As of August 24, 2017, 50 patients have been treated under the TACT Pivotal Trial, of which 5 patients had 6 months, 16 patients had 3 months and 30 patients had 1 month of follow-up visits. In Phase I, 30 patients were treated, of which 80% had low-risk prostate cancer and 20% had intermediate-risk prostate cancer. The TACT Pivotal Trial is actively enrolling, and in comparison with Phase I, the first 30 enrolled patient population had 50% low-risk and 50% had intermediate-risk prostate cancer.

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.

Acquisition

On July 31, 2017, Profound finalized and closed a definitive agreement (the "Agreement") to expand the existing collaboration and acquire Royal Philips' (NYSE:PHG) (AEX:PHIA) ("Philips") Sonalleve MR-HIFU business (the "Transaction"), establishing Profound as a market leader in Magnetic Resonance Ultrasound ("MR-Ultrasound") ablation therapy.

Sonalleve MR-HIFU is an innovative therapeutic platform that combines real-time MR imaging and thermometry with thermal ultrasound to enable precise and incision-free ablation of diseased tissue. Sonalleve MR-HIFU is CE marked and has historically been marketed by Philips primarily for non-invasive ablation of uterine fibroids. MR-HIFU, as a technology, has also been shown to have clinical application in other medical conditions, including non-invasive ablation of abdominal cancers, hyperthermia for cancer therapy and palliative pain treatment of bone metastases.

Under 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 at a price of $1.10 per common share. The Agreement also includes certain earn-out provisions tied to future revenue levels, which Profound currently expects will result in it paying additional consideration to Philips in a range of 5%-to-7% of Sonalleve MR-HIFU product sales, in cash, through to the end of 2020.

As part of the Transaction, Philips and Profound will also expand their non-exclusive strategic sales relationship to include distribution of Sonalleve MR-HIFU. Philips already distributes Profound's TULSA-PRO® system. For a limited time following the transition of the business to Profound, Philips will also provide other services, including, but not limited to, manufacturing and installation.

The Transaction further expands Profound's core competency in MR-Ultrasound ablation therapy. Profound will become the only company to provide a therapeutics platform that provides the precision of real-time MR imaging combined with the safety and ablation power of directional (inside-out) and focused (outside-in) ultrasound technology for the incision-free ablation of diseased tissue.

Q2-2017 HIGHLIGHTS

- Profound announces second quarter revenues totaling $957,139
- Profound announces Transaction with Royal Philips to acquire Sonalleve MR-HIFU business
- Profound obtains Depository and Trust Clearing Corporation (DTC) eligibility for its common shares listed on the OTCQX

RESULTS OF OPERATIONS

	Three months ended June 30				Six months ended June 30			
	2017	2016	Change		2017	2016	Change	
	$	$	$	%	$	$	$	%
Revenue	**957,139**	**-**	957,139	-	**1,548,656**	**-**	1,548,656	-
Cost of sales	**471,359**	**-**	471,359	-	**782,584**	**-**	782,584	-
Gross profit	**485,780**	**-**	485,780	-	**766,072**	**-**	766,072	-
Expenses								
Research and development	**2,417,972**	2,216,096	201,876	9%	**4,301,101**	4,723,695	(422,594)	-9%
General and administrative	**1,728,585**	914,495	814,090	89%	**2,846,599**	1,849,279	997,320	54%
Selling and distribution	**897,153**	299,283	597,870	200%	**2,047,652**	459,722	1,587,930	345%
Total operating expenses	**5,043,710**	3,429,874	1,613,836	47%	**9,195,352**	7,032,696	2,162,656	31%
Finance costs	**130,436**	254,145	(123,709)	-49%	**420,136**	538,106	(117,970)	-22%
Finance income	**(32,229)**	(47,951)	15,722	-33%	**(80,794)**	(98,515)	17,721	-18%
Net finance costs	**98,207**	206,194	(107,987)	-52%	**339,342**	439,591	(100,249)	-23%
Loss before income taxes	**4,656,137**	3,636,068	1,020,069	28%	**8,768,622**	7,472,287	1,296,335	17%
Income tax expense	**2,356**	4,657	(2,301)	-49%	**4,653**	4,657	(4)	0%
Net loss for the period	**4,658,493**	3,640,725	1,017,768	28%	**8,773,275**	7,476,944	1,296,331	17%
Item that may be reclassified to profit or loss								
Foreign currency translation adjustment	**15,556**	2,267	13,289	586%	**18,196**	5,154	13,042	253%
Net loss and comprehensive loss for the period	**4,674,049**	3,642,992	1,031,057	28%	**8,791,471**	7,482,098	1,309,373	18%
Basic and diluted net loss per common share	**0.08**	0.09	(0.01)	-11%	**0.16**	0.19	(0.03)	16%

Revenue

For the three months ended June 30, 2017, the Company recorded revenues totaling $957,139, with $919,845 from sale of products and $37,294 from installation and training services, related to the pilot commercial launch of the TULSA-PRO ® system in Europe.

For the six months ended June 30, 2017, the Company recorded revenues totaling $1,548,656, with $1,472,763 from sale of products and $75,893 from installation and training services, related to the pilot commercial launch of the TULSA-PRO ® system in Europe. The Company sold TULSA-PRO ® systems and treatment kits through its partnership agreements with Siemens Healthcare and Phillips.

Results for the three and six months ended June 30, 2016 do not reflect any sale activities and are accordingly not comparable.

Cost of sales

For the three months ended June 30, 2017, the Company recorded cost of sales of $471,359, related to the pilot 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.

For the six months ended June 30, 2017, the Company recorded cost of sales of $782,584, related to the pilot 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 three and six months ended June 30, 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 June 30, 2017, R&D expenses were higher by $201,876 compared to the three months ended June 30, 2016. Overall, the increase in R&D spending was attributed to the clinical trail ramp-up. Clinical trial costs, consulting fees and travel increased by $527,546, $231,868 and $51,148, respectively, resulting from ongoing activities related to the initiation of clinical sites visits, enrollment initiatives and patient treatment. Offsetting this amount was a decrease in materials and rent expenses by $431,085 and $88,586, respectively. These costs were lower compared to the three months ended June 30, 2016, due to lower development and research initiatives associated with our TACT Pivotal Trial.

For the six months ended June 30, 2017, R&D expenses were lower by $422,594 compared to the six months ended June 30, 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 were lower by $1,394,159. These costs were lower compared to the six months ended June 30, 2016, due to lower development and research initiatives associated with our TACT Pivotal Trial. Offsetting this amount was an increase in clinical trial costs, consulting fees and travel by $918,643, $241,835 and $29,513, respectively, 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 June 30, 2017 were higher by $814,090 compared to the three months ended June 30, 2016. Professional and consulting fees increased by $520,995 primarily due to legal fees associated with the Transaction. Share-based compensation increased by $285,776 due to new options issued to board members and the new executive officer's options vesting for a full quarter.

General and administrative expenses for the six months ended June 30, 2017 were higher by $997,320 compared to the six months ended June 30, 2016. Salaries and benefit expenses increased by $218,735, primarily related to a separation payment to a former executive officer. In addition, professional and consulting fees increased by $523,034 primarily due to legal fees associated with the

Transaction. Share-based compensation and rent increased by $163,444 and $61,978, respectively due to new options issued to board members and the new executive officer while rent was due to relocation to a larger facility in July 2016.

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 June 30, 2017 were higher by $597,870 compared to the three months ended June 30, 2016. The increase is largely attributable to an additional provision of $194,594 related to the estimated shortfall of revenue share payments compared to the minimum amounts contractually required. In addition, salaries and benefits increased by $95,088 compared to the three months ended June 30, 2016, resulting from additional direct sales force personnel. Professional and consulting fees, marketing and travel expenses increased by $108,505, $101,920 and $58,828, respectively. These increases relate directly to marketing-related efforts.

Selling and distribution expenses for the six months ended June 30, 2017 were higher by $1,587,930 compared to the six months ended June 30, 2016. The increase is largely attributable to recognizing commissions payable on commercial sales of $63,263 and a provision of $612,428 related to the estimated shortfall of revenue share payments compared to the minimum amounts contractually required. In addition, salaries and benefits increased by $316,130 compared to the six months ended June 30, 2016, resulting from additional direct sales force personnel. Professional and consulting fees, marketing and travel expenses increased by $208,641, $191,990 and $126,448, 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.

Financing costs for the three months ended June 30, 2017 were lower by $123,709 compared to the three months ended June 30, 2016. During the three months ended June 30, 2017, the Company revised the fair value of the royalty payable, 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. The remaining decrease relates to reduced interest expense as a result of repayments of long-term debt.

Finance costs for the six months ended June 30, 2017 were lower by $117,970 compared to the six months ended June 30, 2016. During the six months ended June 30, 2017, the Company revised the fair value of the royalty payable, using future revenue forecasts for the term of the loan and a discount rate of 18%, and recognized an interest accretion recovery of $74,302. The remaining decrease relates to reduced interest expense as a result of repayments of long-term debt.

Net loss

Net loss for the three months ended June 30, 2017 was $4,658,493 or $0.08 per share, compared to a net loss of $3,640,725 for the three months ended June 30, 2016. The increase in net loss was primarily attributed to an increase in selling and distribution expenses of $597,870 and an increase in administrative expenses of $814,090. These increases were offset by gross profits of $485,780.

Net loss for the six months ended June 30, 2017 was $8,773,275 or $0.16 per share, compared to a net loss of $7,476,944 for the six months ended June 30, 2016. The increase in net loss was primarily attributed to an increase in selling and distribution expenses of $1,587,930 and an increase in administrative expenses of $997,320. These increases were offset by gross profits of $766,072 and by lower research and development expenses of $422,594.

SUMMARY OF QUARTERLY FINANCIAL RESULTS

	2017		2016				2015	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	$	$	$	$	$	$	$	$
Revenue	957,139	591,517	-	-	-	-	-	
Cost of Sales	471,359	311,225	-	-	-	-	-	-
Gross profit	485,780	280,292	-	-	-	-	-	-
Operating expenses	5,043,710	4,151,642	4,828,085	3,779,633	3,429,874	3,602,822	2,549,179	2,757,498
Net finance costs	98,207	241,135	(44,142)	276,852	206,194	233,397	220,717	199,681
Loss before income taxes	4,656,137	4,112,485	4,783,943	4,056,485	3,636,068	3,836,219	2,769,896	2,957,179
Income tax expense	2,356	2,297	4,674	4,723	4,657	-	-	-
Net loss for the period	4,658,493	4,114,782	4,788,617	4,061,208	3,640,725	3,836,219	2,769,896	2,957,179
Loss per share								
Basic	0.08	0.07	0.10	0.10	0.09	0.10	0.07	0.08
Diluted	0.08	0.07	0.10	0.10	0.09	0.10	0.07	0.08

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2017, the Company had cash of $10,666,467 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 June 30, 2017, the principal balance outstanding on this loan is $664,700 (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 repayment due 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).

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 commenced on June 30, 2017 with a payment of $1,427,258 and will be followed by seven quarterly instalments of $285,714 plus accrued interest from September 30, 2017 to June 30, 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 three and six month 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 non-current portion is $37,422 (December 31, 2016 - $109,044).

Cash Flow

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 product, 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 incurring of indebtedness 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.

	Six months ended	
	June 30, 2017	**June 30, 2016**
	$	**$**
Cash used in operating activities	(7,907,539)	(6,953,738)
Cash used in investing activities	(313,792)	(353,290)
Cash used in financing activities	(1,945,263)	(243,350)
Net decrease in cash and cash equivalents	(10,166,594)	(7,550,378)

Net cash used in operating activities for the six months ended June 30, 2017 was $7,907,539 versus $6,953,738 for the six months ended June 30, 2016. The principal uses of the periods 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 six months ended June 30, 2017 was $313,792 versus $353,290 for the six months ended June 30, 2016. This was primarily related to fewer purchases of research equipment in support of the TULSA-PRO® system and more focus on in-house manufacturing.

Net cash flows used in financing activities for the six months ended June 30, 2017 were $1,945,263 versus $243,350 for the six months ended June 30, 2016. These cash flows related to repayments on the Knight, FedDev and HTX loans.

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 $390,000 related to prepaid rent for this lease that is drawn down at $10,000 per month starting effective October 1, 2016. The future minimum obligation 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.

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 $200,000.

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		Six months ended	
	June 30, 2017	**June 30, 2016**	**June 30, 2017**	**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
Total	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.

OUTSTANDING SHARES

As at August 24, 2017, the date of this MD&A, the Company had the following securities outstanding:

	Number
Common shares	63,117,377
Share purchase options	4,660,279

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

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements other than those disclosed in this MD&A.

RECENT ACCOUNTING PRONOUNCEMENTS

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 the 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. 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.

Additional information relating to the Company is available on SEDAR at www.sedar.com, including the Annual Information Form.