

Profound Medical Corp.

Interim Condensed Consolidated
Financial Statements
(Unaudited)
March 31, 2018

Profound Medical Corp.
Interim Condensed Consolidated Balance Sheets
(Unaudited)

	March 31, 2018 \$	December 31, 2017 \$
Assets		
Current assets		
Cash	38,014,963	11,103,223
Trade and other receivables (note 4)	1,045,978	4,251,658
Investment tax credits receivable	300,000	240,000
Inventory (note 5)	1,823,151	1,431,157
Prepaid expenses and deposits	782,128	576,028
	41,966,220	17,602,066
Property and equipment (notes 3 and 6)	1,623,948	1,726,150
Intangible assets (notes 3 and 7)	4,859,889	5,141,998
Goodwill (note 3)	3,409,165	3,409,165
	51,859,222	27,879,379
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	2,931,197	5,081,704
Deferred revenue	250,454	241,316
Long-term debt (note 9)	3,364,049	4,701,214
Provisions (note 8)	79,534	93,222
Other liabilities (notes 9 and 10)	528,900	534,958
Taxes payable	113,119	72,779
	7,267,253	10,725,193
Long-term debt (note 9)	435,192	443,875
Provisions (note 8)	1,036,425	988,239
Other liabilities (notes 9 and 10)	1,502,337	1,580,933
	10,241,207	13,738,240
Shareholders' Equity		
Share capital (note 11)	120,728,776	98,365,770
Contributed surplus	16,112,778	6,103,970
Accumulated other comprehensive loss	(14,681)	(57,929)
Deficit	(95,208,858)	(90,270,672)
	41,618,015	14,141,139
	51,859,222	27,879,379
Commitments and contingencies (note 17)		

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 March 31, 2018 \$	Three months ended March 31, 2017 \$
Revenue		
Products	372,494	552,918
Services	3,841	38,599
	<u>376,335</u>	<u>591,517</u>
Cost of sales	<u>231,075</u>	<u>311,225</u>
Gross profit	<u>145,260</u>	<u>280,292</u>
Expenses		
Research and development (note 13)	2,516,781	1,883,129
General and administrative (note 13)	1,303,204	1,118,014
Selling and distribution (note 13)	946,902	1,150,499
Total operating expenses	<u>4,766,887</u>	<u>4,151,642</u>
Finance costs (note 14)	319,963	289,700
Finance income	<u>(39,804)</u>	<u>(48,565)</u>
Net finance costs	<u>280,159</u>	<u>241,135</u>
Loss before income taxes	4,901,786	4,112,485
Income tax expense	<u>36,400</u>	<u>2,297</u>
Net loss attributable to shareholders for the period	4,938,186	4,114,782
Other comprehensive loss (income)		
Item that may be reclassified to profit or loss		
Foreign currency translation adjustment - net of tax	<u>(43,248)</u>	<u>2,640</u>
Net loss and comprehensive loss attributable to shareholders for the period	<u>4,894,938</u>	<u>4,117,422</u>
Basic and diluted weighted average common shares outstanding (note 15)	77,334,044	55,314,825
Basic and diluted net loss per common share (note 15)	0.06	0.07

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, 2017	55,305,577	83,272,678	3,000,563	11,316	(71,448,330)	14,836,227
Net loss for the period	-	-	-	-	(4,114,782)	(4,114,782)
Foreign currency translation adjustment - net of tax	-	-	-	(2,640)	-	(2,640)
Exercise of share options	38,562	32,599	(21,874)	-	-	10,725
Share-based compensation (notes 12 and 13)	-	-	100,564	-	-	100,564
Balance - March 31, 2017	<u>55,344,139</u>	<u>83,305,277</u>	<u>3,079,253</u>	<u>8,676</u>	<u>(73,563,112)</u>	<u>10,830,094</u>
Balance - January 1, 2018	73,117,377	98,365,770	6,103,970	(57,929)	(90,270,672)	14,141,139
Net loss for the period	-	-	-	-	(4,938,186)	(4,938,186)
Foreign currency translation adjustment - net of tax	-	-	-	43,248	-	43,248
Share-based compensation (notes 12 and 13)	-	-	241,058	-	-	241,058
Issuance of units on bought deal financing (note 11)	34,500,000	22,363,006	9,767,750	-	-	32,130,756
Balance - March 31, 2018	<u>107,617,377</u>	<u>120,728,776</u>	<u>16,112,778</u>	<u>(14,681)</u>	<u>(95,208,858)</u>	<u>41,618,015</u>

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)

	Three months ended March 31, 2018 \$	Three months ended March 31, 2017 \$
Cash provided by (used in)		
Operating activities		
Net loss for the period	(4,938,186)	(4,114,782)
Depreciation of property and equipment	141,729	54,001
Amortization of intangible assets	282,109	12,351
Share-based compensation	241,058	100,564
Interest and accretion expense	187,597	296,124
Change in deferred rent	6,048	-
Change in fair value of contingent consideration	48,647	-
Net change in non-cash working capital balances		
Investment tax credits receivable	(60,000)	(66,000)
Trade and other receivables	3,205,680	(462,254)
Prepaid expenses and deposits	(206,100)	(40,814)
Inventory	(391,994)	(447,857)
Accounts payable and accrued liabilities	(2,321,907)	577,451
Provisions	34,498	435,632
Customer deposits	-	(259,293)
Deferred revenue	9,138	47,154
Taxes payable	40,340	-
	<u>(3,721,343)</u>	<u>(3,867,723)</u>
Investing activities		
Purchase of intangible assets	-	(33,825)
Purchase of property and equipment	-	(28,528)
	<u>-</u>	<u>(62,353)</u>
Financing activities		
Issuance of common shares	34,500,000	-
Transaction costs paid	(2,194,123)	-
Payment of other liabilities	(143,897)	-
Payment of long-term debt and interest	(1,528,897)	(21,675)
Proceeds from share options exercised	-	10,725
	<u>30,633,083</u>	<u>(10,950)</u>
Increase (decrease) in cash during the period	26,911,740	(3,941,026)
Cash - Beginning of period	11,103,223	20,833,061
Cash - End of period	<u>38,014,963</u>	<u>16,892,035</u>
Supplemental information		
Transaction costs included in accounts payable and accrued liabilities	175,121	-

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

Profound Medical Corp.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2018

1 Description of business

Profound Medical Corp. (Profound) and its subsidiaries (together, the company) were incorporated under the Ontario Business Corporations Act on July 16, 2014. The company is a medical device company developing a treatment to ablate the prostate gland, a treatment for uterine fibroids and palliative pain treatment for patients with metastatic bone disease.

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 are presented in Canadian dollars and should be read in conjunction with the company's annual financial statements for the year ended December 31, 2017, which were prepared in accordance with IFRS.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on May 10, 2018.

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

The accounting policies adopted are consistent with those of the previous financial year except as noted below.

A number of new or amended standards became applicable for the current reporting period and the company had to change its accounting policies as a result. The impact of the adoption of these standards and the new accounting policies are disclosed below.

- IFRS 9, Financial Instruments

IFRS 9, Financial Instruments (IFRS 9), replaces the provisions of IAS 39, Financial Instruments: Recognition and Measurement (IAS 39), that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 from January 1, 2018 resulted in changes in the company's accounting policies but it did not result in any adjustments.

Profound Medical Corp.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2018

The company has one type of financial asset that is subject to IFRS 9's new expected credit loss model being trade and other receivables. The company was required to revise its impairment methodology under IFRS 9 for trade and other receivables and this resulted in no adjustments at January 1, 2018. The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables. To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due. On that basis, the loss allowance as at January 1, 2018 and March 31, 2018 is nominal as the company only transacts with hospitals and private clinics and has not incurred any credit losses since revenue began.

Trade and other receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, failure to make contractual payments for a period of greater than 120 days past due.

There was no impact on the company's financial liabilities as a result of the adoption of IFRS 9 and no material change to the company's accounting policies for financial liabilities. All historical changes to the company's debt agreements were accounted for as extinguishments under IAS 39 which is consistent with the required treatment under IFRS 9.

Accounting policy applied from January 1, 2018 - financial assets

From January 1, 2018, the company classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through OCI, or through profit or loss); and
- Those to be measured at amortized cost.

The classification depends on the company's business model for managing the financial assets and the contractual terms of the cash flows. The company does not currently have any assets measured subsequently at fair value.

At initial recognition, the company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

The company assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortized cost. For trade and other receivables, the company applies the simplified approach permitted by IFRS 9, which requires lifetime expected credit losses to be recognized at the time of initial recognition of the receivables.

Profound Medical Corp.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2018

- IFRS 15, Revenue from Contracts with Customers

IFRS 15, Revenue from Contracts with Customers (IFRS 15), amends revenue recognition requirements and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The adoption of IFRS 15 from January 1, 2018 resulted in changes in the company's revenue recognition accounting policy but it did not result in any adjustments. In accordance with the transitional provisions in IFRS 15, the company has adopted the new rules on a full retrospective basis.

The company sells separately priced extended warranty service contracts that extend maintenance coverage beyond the base warranty for its medical devices. The separately priced service contracts typically range from 12 to 24 months. As at January 1, 2018, the company had \$241,316 of deferred revenue related to unfulfilled performance obligations associated with these extended warranty service contracts. The company expects to recognize the revenue associated with the unfulfilled performance obligations over the following annual periods:

	March 31, 2018	January 1, 2018
	\$	\$
2018	135,604	132,364
2019	102,158	96,910
2020	12,692	12,042
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	250,454	241,316
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Accounting policy

Revenue is recognized when a contractual promise to a customer (performance obligation) has been fulfilled by transferring control over the promised goods or services, generally at the point in time of shipment to or receipt of the products by the customer or when the services are performed. When contracts contain customer acceptance provisions, revenue is recognized upon the satisfaction of the specific acceptance criteria.

The amount of revenue to be recognized is based on the consideration the company expects to receive in exchange for its goods and services. If a customer contract contains more than one performance obligation, such as installation and ongoing servicing, the consideration is allocated based on the standalone selling price of each performance obligation. As the installation of the company's medical device is simple and could be performed by another party, it is accounted for as a separate performance obligation. If a contract includes the installation of the medical device, revenue for the medical device is recognized at a point in time when the hardware is delivered, the legal title has passed and, where applicable, the customer has accepted the medical device. Medical devices may be sold together with other products and services under a single contract. Revenues are recognized on satisfaction of each of the performance obligations in the contract.

Profound Medical Corp.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2018

Service revenue related to installation and training is recognized over the period in which the services are performed. 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 customer contract.

Under the terms of certain of the company's partnership agreements, the company retains a percentage of all amounts earned with the remaining percentage due to the partner. Accordingly, associated revenue is recognized net of the consideration due to the partner.

Accounting standards issued but not yet adopted

- IFRS 16, Leases (IFRS 16)

On January 13, 2016, the International Accounting Standards Board (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, except for its low value leases, on the consolidated balance sheet upon adoption.

- International Financial Reporting Interpretations Committee (IFRIC 23), Uncertainty over Income Tax Treatments (IFRIC 23)

In June 2017, the IASB issued IFRIC 23, Uncertainty over Income Tax Treatments, with a mandatory effective date of January 1, 2019. The interpretations provide guidance on how to value uncertain income tax positions based on the probability of whether the relevant tax authorities will accept the company's tax treatments. A company is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. IFRIC 23 is to be applied by recognizing the cumulative effect of initially applying these guidelines in opening retained earnings without adjusting comparative information. The extent of the impact of the adoption of IFRIC 23 has not yet been determined.

3 Business combination

On July 31, 2017, the company entered into an Asset and Share Purchase Agreement (the agreement) to acquire all of the issued and outstanding shares and certain assets of the Royal Philips' (Philips) Sonallevé MR-HIFU business (Sonallevé). Under the terms of the agreement, Philips transferred its Sonallevé assets to the company for an upfront consideration of 7,400,000 common shares of the company. The agreement includes certain contingent consideration payments payable monthly in Euros tied to future revenue levels of the Sonallevé business summarized as follows:

- 5% of revenue between the date of acquisition and December 31, 2017;
- 6% of revenue during the year ending December 31, 2018;
- 7% of revenue during the years ending December 31, 2019 and 2020; and

Profound Medical Corp.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2018

- if total revenues are in excess of a defined amount from the date of acquisition to December 31, 2020, then the company will be required to pay 7% of revenue from the date of acquisition to December 31, 2019.

As part of the agreement, the company committed to repay all amounts outstanding under the Knight Loan (note 9) on or before December 31, 2018.

The non-exclusive strategic sales relationship with Philips was expanded to include distribution of Sonalleve. Under the terms of the agreement, Philips will also provide other services, including, but not limited to, manufacturing and installation of Sonalleve for a certain period of time at market rates.

The contingent consideration (note 10) is classified as a Level 3 financial liability within the fair value hierarchy, given its fair value is estimated using the discounted value of estimated future payments. The key assumptions in valuing the contingent consideration include estimated projected net sales, the likelihood of certain revenue levels being reached and a discount rate of 15%. During the three-month period ended March 31, 2018, the change in fair value of the contingent consideration was a loss of \$48,647.

4 Trade and other receivables

The trade and other receivables balance comprises the following:

	March 31, 2018 \$	December 31, 2017 \$
Trade receivables	527,248	3,971,768
Indirect tax receivables	518,730	279,890
	<u>1,045,978</u>	<u>4,251,658</u>

Trade receivables include the gross revenue amount billed to customers and certain amounts that are included in deferred revenue. Included in accounts payable and accrued liabilities is an amount of \$nil (December 31, 2017 - \$2,534,259) payable to the same counterparty as the corresponding trade receivable balance of \$nil (December 31, 2017 - \$3,505,423) as there is no legal right of offset with respect to the receivable and payable balances.

5 Inventory

	March 31, 2018 \$	December 31, 2017 \$
Raw materials	730,160	715,193
Finished goods	1,138,265	799,589
Inventory provision	(45,274)	(83,625)
	<u>1,823,151</u>	<u>1,431,157</u>

Profound Medical Corp.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2018

During the three months ended March 31, 2018, \$229,402 (three months ended March 31, 2017 - \$212,810) of inventory was recognized in cost of sales. The company decreased its inventory provision by \$38,351 during the three months ended March 31, 2018 (three months ended March 31, 2017 - increase of \$69,699). There were no other inventory writedowns charged to cost of sales during the period ended March 31, 2018.

6 Property and equipment

Property and equipment consist of the following:

	Furniture and fittings \$	Research and manufacturing equipment \$	Leasehold improvements \$	Computer equipment \$	Computer software \$	Total \$
As at January 1, 2018						
Cost	235,169	1,386,692	718,742	212,541	176,462	2,729,606
Accumulated depreciation	(100,286)	(439,104)	(112,953)	(174,651)	(176,462)	(1,003,456)
Net book value	134,883	947,588	605,789	37,890	-	1,726,150
Three months ended March 31, 2018						
Opening net book value	134,883	947,588	605,789	37,890	-	1,726,150
Foreign exchange	-	39,527	-	-	-	39,527
Depreciation	(9,580)	(101,126)	(17,320)	(13,703)	-	(141,729)
Closing net book value	125,303	885,989	588,469	24,187	-	1,623,948
As at March 31, 2018						
Cost	235,169	1,426,219	718,742	212,541	176,462	2,769,133
Accumulated depreciation	(109,866)	(540,230)	(130,273)	(188,354)	(176,462)	(1,145,185)
Net book value	125,303	885,989	588,469	24,187	-	1,623,948

For the three months ended March 31, 2018, depreciation expense of \$1,444 (three months ended March 31, 2017 - \$1,549) is included in cost of sales.

Profound Medical Corp.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2018

7 Intangible assets

Intangible assets consist of the following:

	Exclusive licence agreement \$	Software \$	Proprietary technology \$	Brand \$	Total \$
As at January 1, 2018					
Cost	50,000	257,254	4,489,295	883,140	5,679,689
Accumulated amortization	(22,500)	(67,488)	(374,108)	(73,595)	(537,691)
Net book value	27,500	189,766	4,115,187	809,545	5,141,998
Three months ended March 31, 2018					
Opening net book value	27,500	189,766	4,115,187	809,545	5,141,998
Amortization	(625)	(12,862)	(224,465)	(44,157)	(282,109)
Closing net book value	26,875	176,904	3,890,722	765,388	4,859,889
As at March 31, 2018					
Cost	50,000	257,254	4,489,295	883,140	5,679,689
Accumulated amortization	(23,125)	(80,350)	(598,573)	(117,752)	(819,800)
Net book value	26,875	176,904	3,890,722	765,388	4,859,889

For the three months ended March 31, 2018, amortization expense of \$2,296 (three months ended March 31, 2017 - \$4,174) is included in cost of sales.

8 Provisions

	Asset retirement obligation \$	Revenue share obligation \$	Warranty provision \$	Total \$
As at January 1, 2018	44,204	921,906	115,351	1,081,461
Additions	-	28,589	1,667	30,256
Expiry	-	-	(21,196)	(21,196)
Accretion expense	1,227	-	-	1,227
Foreign exchange	-	18,370	5,841	24,211
As at March 31, 2018	45,431	968,865	101,663	1,115,959
Less: Current portion	-	-	79,534	79,534
Non-current portion	45,431	968,865	22,129	1,036,425

Asset retirement obligation

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

Profound Medical Corp.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2018

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 \$15,460. The change in the amount has been included in selling and distribution expenses in the interim condensed consolidated statements 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.

9 Long-term debt

A summary of long-term debt is as follows:

	March 31, 2018 \$	December 31, 2017 \$
FedDev and HTX loans	521,892	1,607,195
Knight Loan	3,277,349	3,537,894
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Balance - End of period	3,799,241	5,145,089
Less: Current portion	3,364,049	4,701,214
	<hr/>	<hr/>
Non-current portion	435,192	443,875

The Federal Economic Development Agency (FedDev) loan is unsecured and 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 March 31, 2018, the principal balance outstanding on this loan is \$599,675 (December 31, 2017 - \$621,350).

During the three months ended March 31, 2018, the company recognized \$12,992 of interest and accretion expense on this loan (three months ended March 31, 2017 - \$13,805).

The Health Technology Exchange (HTX) loans with total proceeds of \$1,500,000 are unsecured, bearing interest at 4.50% per annum, with the final repayment made on March 31, 2018 of \$1,094,698 including accrued interest.

During the three months ended March 31, 2018, the company recognized \$18,078 of interest and accretion expense on these loans (three months ended March 31, 2017 - \$36,149).

Profound Medical Corp.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2018

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

	March 31, 2018 \$	December 31, 2017 \$
Balance - Beginning of period	1,607,195	2,027,893
Repayment	(1,116,373)	(586,700)
Interest and accretion expense	31,070	166,002
	<hr/>	<hr/>
Balance - End of period	521,892	1,607,195
Less: Current portion	86,700	1,163,320
	<hr/>	<hr/>
Non-current portion	435,192	443,875

On April 30, 2015, Profound Medical Inc. (PMI) signed an agreement with Knight Therapeutics Inc. (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 products 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).

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.

As part of the agreement (note 3), the company is required to repay all amounts outstanding under the loan agreement with Knight on or before December 31, 2018.

Profound Medical Corp.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2018

A reconciliation of the Knight Loan balance is as follows:

	March 31, 2018 \$	December 31, 2017 \$
Balance - Beginning of period	3,537,894	4,609,983
Repayment	(412,524)	(2,290,350)
Interest and accretion expense	151,979	1,218,261
	<hr/>	<hr/>
Balance - End of period	3,277,349	3,537,894
Less: Current portion	3,277,349	3,537,894
	<hr/>	<hr/>
Non-current portion	-	-

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 months ended March 31, 2018, 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 expense of \$4,548 (three months ended March 31, 2017 - accretion recovery of \$2,991). This liability is included within other liabilities on the interim condensed consolidated balance sheets.

10 Other liabilities

	Knight royalty payable \$ (note 9)	Contingent consideration \$ (note 3)	Deferred rent \$	Total \$
As at January 1, 2018	96,894	1,734,050	284,947	2,115,891
Additions	-	-	6,048	6,048
Amounts paid	(9,452)	(134,445)	-	(143,897)
Change in fair value	-	48,647	-	48,647
Accretion expense	4,548	-	-	4,548
	<hr/>	<hr/>	<hr/>	<hr/>
As at March 31, 2018	91,990	1,648,252	290,995	2,031,237
Less: Current portion	80,461	448,439	-	528,900
	<hr/>	<hr/>	<hr/>	<hr/>
Non-current portion	11,529	1,199,813	290,995	1,502,337

Knight royalty payable

As part of the Knight Loan, Knight was granted a royalty of 0.5% on net sales resulting from global sales of the company's products for the duration of the Knight Loan.

Profound Medical Corp.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2018

Deferred rent

The deferred rent obligation is related to the company's straight-line rent accrual for its current premises.

11 Share capital

Common shares

Authorized

Unlimited common shares

Issued and outstanding (with no par value)

	March 31, 2018 \$	December 31, 2017 \$
107,617,377 (December 31, 2017 - 73,117,377) common shares	120,728,776	98,365,770

On March 20, 2018, the company closed a bought deal financing, resulting in the issuance of 34,500,000 units at a price of \$1.00 per unit, for gross proceeds of \$34,500,000 (\$32,130,756, net of cash transaction costs). Each unit consisted of one common share of the company and one-half of one warrant, with each whole warrant entitling the holder to acquire one common share at a price of \$1.40 per common share until the date that is 60 months from the closing of the bought deal financing.

Warrants

As a result of the March 20, 2018 bought deal financing, 17,250,000 warrants were issued.

A summary of warrants outstanding is shown below:

	Number of warrants	Weighted average exercise price \$	Weighted average remaining contractual life (years)
Balance - January 1, 2018	5,000,000	1.40	2.47
Granted	17,250,000	1.40	4.97
Balance - March 31, 2018	22,250,000	1.40	4.42

Profound Medical Corp.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2018

The company estimated the fair value of the warrants granted during the period using the Black-Scholes option pricing model with the following assumptions:

	March 20, 2018
Share price on date of issuance	\$1.06
Expected volatility	71%
Expected life of warrants	5 years
Risk-free interest rate	2.00%
Dividend yield	-

Due to the absence of company-specific volatility rates for the expected life of the warrants, the company chose comparable companies in the medical device industry. The fair value of the warrants issued as part of the March 20, 2018 bought deal financing was \$9,767,750, or \$0.57 per warrant, and was recorded in contributed surplus.

12 Share-based compensation

Compensation expense related to share options for the three months ended March 31, 2018 was \$241,058 (three months ended March 31, 2017 - \$100,564). For the three months ended March 31, 2018, compensation expense of \$4,283 (three months ended March 31, 2017 - \$1,161) is included in cost of sales.

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

	\$	Weighted average exercise price \$
Balance - January 1, 2018	5,318,279	1.09
Granted	33,000	0.99
Forfeited	(138,688)	1.26
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Balance - March 31, 2018	5,212,591	1.08

Profound Medical Corp.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2018

The following table summarizes information about the share options outstanding as at March 31, 2018:

Exercise price \$	Number of options outstanding	Weighted average remaining contractual life (years)	Number of options exercisable
0.24	646,562	3.52	646,562
0.30	21,000	1.06	21,000
0.85	654,000	9.63	-
0.97	66,000	9.07	-
0.99	33,000	9.99	-
1.10	1,971,724	8.71	627,710
1.35	132,500	8.40	81,336
1.46	964,055	8.39	383,480
1.50	723,750	7.43	517,364
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	5,212,591	7.53	2,277,452

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

	March 28, 2018
Expected volatility	96%
Expected life of share options	6 years
Risk-free interest rate	2.14%
Dividend yield	-

Profound Medical Corp.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2018

13 Nature of expenses

	Three months ended March 31, 2018			
	R&D \$	G&A \$	Selling and distribution \$	Total \$
Salaries and benefits	1,554,374	345,806	429,079	2,329,259
Consulting fees	234,113	358,265	227,816	820,194
Office and other	92,914	169,107	31,422	293,443
Amortization of intangible assets	271,125	8,688	-	279,813
Clinical trial costs	267,946	-	-	267,946
Share-based compensation	(5,651)	210,860	31,566	236,775
Travel	75,068	37,808	82,869	195,745
Depreciation of property and equipment	2,506	137,779	-	140,285
Rent	84,386	34,891	-	119,277
Marketing	-	-	115,561	115,561
Revenue share obligation	-	-	28,589	28,589
Investment tax credits	(60,000)	-	-	(60,000)
Total	2,516,781	1,303,204	946,902	4,766,887

	Three months ended March 31, 2017			
	R&D \$	G&A \$	Selling and distribution \$	Total \$
Salaries and benefits	842,756	515,023	246,686	1,604,465
Consulting fees	170,603	302,197	171,857	644,657
Clinical trial costs	639,029	-	-	639,029
Revenue share obligation	-	-	417,834	417,834
Office and other	99,534	88,814	51,744	240,092
Travel	76,325	36,564	98,515	211,404
Share-based compensation	33,284	55,180	10,939	99,403
Rent	30,040	61,785	-	91,825
Marketing	-	-	91,084	91,084
Commission expense	-	-	61,840	61,840
Materials	55,380	-	-	55,380
Depreciation of property and equipment	1,553	50,899	-	52,452
Amortization of intangible assets	625	7,552	-	8,177
Investment tax credits	(66,000)	-	-	(66,000)
Total	1,883,129	1,118,014	1,150,499	4,151,642

Profound Medical Corp.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2018

14 Finance costs

	Three months ended March 31, 2018 \$	Three months ended March 31, 2017 \$
Knight Loan (note 9)	151,979	249,161
Change in fair value of contingent consideration (note 3)	48,647	-
HTX and FedDev loans (note 9)	31,070	49,954
Royalty interest accretion (recovery) (note 9)	4,548	(2,991)
Provisions (note 8)	1,227	1,100
Foreign exchange loss (gain)	82,492	(7,524)
	<u>319,963</u>	<u>289,700</u>

15 Loss per common share

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

	Three months ended March 31, 2018 \$	Three months ended March 31, 2017 \$
Net loss for the period	4,938,186	4,114,782
Basic and diluted weighted average number of common shares outstanding	77,334,044	55,314,825
Basic and diluted loss per common share	0.06	0.07

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

Of the 5,212,591 share options and 22,250,000 warrants not included in the calculation of diluted loss per common share for the period ended March 31, 2018, 24,527,452 were exercisable (March 31, 2017 – 1,927,460).

Profound Medical Corp.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2018

16 Related party transactions

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

	Three months ended March 31, 2018 \$	Three months ended March 31, 2017 \$
Salaries and employee benefits	203,726	327,489
Termination benefits	114,750	138,125
Directors' fees	19,947	22,250
Share-based compensation	172,804	73,151
	<hr/>	<hr/>
	511,227	561,015

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

17 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 at March 31, 2018 is an amount of \$300,000 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	456,954
Later than 1 year and no later than 5 years	2,221,450
Later than 5 years	2,024,638
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	4,703,042

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 8).

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.

Profound Medical Corp.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2018

The company has also indemnified the underwriters in relation to certain offerings 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.

18 Segment information

The company's operations are categorized into one industry segment, being medical devices focused on magnetic resonance guided ablation procedures. The company had historically been managed in Canada until the acquisition of Sonalleve, and as a result the company is now managed geographically in Canada, Germany and Finland.

For the three-month period ended March 31, 2018:

	Canada \$	Germany \$	Finland \$	Total \$
Revenue				
Product	-	372,494	-	372,494
Services	-	3,841	-	3,841
	-	376,335	-	376,335
Cost of sales	-	231,075	-	231,075
	-	145,260	-	145,260
Gross profit				
Expenses				
Research and development	1,825,725	-	691,056	2,516,781
General and administrative	1,122,666	-	180,538	1,303,204
Selling and distribution	403,600	393,284	150,018	946,902
	3,351,991	393,284	1,021,612	4,766,887
Segment loss	3,351,991	248,024	1,021,612	4,621,627
Net finance costs				280,159
Net loss for the period before income taxes				4,901,786

Other financial information by segment as at March 31, 2018:

	Canada \$	Germany \$	Finland \$	Total \$
Total assets	49,922,372	856,860	1,079,990	51,859,222
Goodwill and intangible assets	8,269,054	-	-	8,269,054
Property and equipment	1,014,524	2,441	606,983	1,623,948
Amortization of intangible assets	282,109	-	-	282,109
Depreciation of property and equipment	78,865	924	61,940	141,729

Profound Medical Corp.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2018

Other financial information by segment as at December 31, 2017:

	Canada \$	Germany \$	Finland \$	Total \$
Total assets	25,546,183	1,227,216	1,105,980	27,879,379
Goodwill and intangible assets	8,551,163	-	-	8,551,163
Property and equipment	1,093,389	3,366	629,395	1,726,150