



PROFOUND MEDICAL CORP.

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

MARCH 31, 2019

PRESENTED IN CANADIAN DOLLARS

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

	March 31, 2019 \$	December 31, 2018 \$
Assets		
Current assets		
Cash	27,048,837	30,687,183
Trade and other receivables (note 3)	3,046,677	2,686,112
Investment tax credits receivable	480,000	480,000
Inventory (note 4)	3,414,010	3,631,623
Prepaid expenses and deposits	183,220	434,871
Total current assets	34,172,744	37,919,789
Property and equipment (note 5)	1,048,399	1,207,357
Intangible assets (note 6)	3,731,451	4,013,561
Right-of-use assets (notes 2 and 7)	2,513,092	-
Goodwill	3,409,165	3,409,165
Total assets	44,874,851	46,549,872
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	3,581,671	3,912,350
Deferred revenue	417,669	312,558
Long-term debt (note 9)	1,962,416	1,339,583
Provisions (note 8)	99,890	1,352,017
Other liabilities (notes 9 and 10)	618,491	567,296
Derivative financial instrument (note 9)	155,674	98,203
Lease liabilities (notes 2 and 11)	203,807	-
Income taxes payable	309,926	297,353
Total current liabilities	7,349,544	7,879,360
Long-term debt (note 9)	9,966,848	10,615,662
Deferred revenue	712,239	379,044
Provisions (note 8)	45,744	49,319
Other liabilities (notes 9 and 10)	578,393	1,000,153
Lease liabilities (notes 2 and 11)	2,335,767	-
Total liabilities	20,988,535	19,923,538
Shareholders' Equity		
Share capital (note 12)	120,932,404	120,932,404
Contributed surplus	16,828,932	16,756,294
Accumulated other comprehensive loss	(75,092)	(28,703)
Deficit	(113,799,928)	(111,033,661)
Total Shareholders' Equity	23,886,316	26,626,334
Total Liabilities and Shareholders' Equity	44,874,851	46,549,872

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, 2019 \$	Three months ended March 31, 2018 \$
Revenue		
Products	1,347,781	372,494
Services	128,007	3,841
Total revenue	1,475,788	376,335
Cost of sales (note 14)	533,356	231,075
Gross profit	942,432	145,260
Expenses (note 14)		
Research and development – net of investment tax credits of \$nil (2018 – \$60,000)	2,677,746	2,516,781
General and administrative	1,514,113	1,303,204
Selling and distribution – net of revenue share obligation reversal (note 8)	(529,345)	946,902
Total expenses	3,662,514	4,766,887
Finance costs (note 15)	314,685	319,963
Finance income	(141,881)	(39,804)
Net finance costs	172,804	280,159
Loss before income taxes	2,892,886	4,901,786
Income tax expense	33,800	36,400
Net loss attributable to shareholders for the period	2,926,686	4,938,186
Other comprehensive income		
Item that may be reclassified to profit or loss		
Foreign currency translation adjustment – net of tax	(46,389)	43,248
Net loss and comprehensive loss for the period	2,880,297	4,981,434
Basic and diluted weighted average shares outstanding (note 16)	108,054,939	77,334,044
Basic and diluted loss per common share (note 16)	0.03	0.06

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, 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 (note 13)	-	-	241,058	-	-	241,058
Issuance of units on bought deal financing (note 12)	34,500,000	22,363,006	9,767,750	-	-	32,130,756
Balance – March 31, 2018	107,617,377	120,728,776	16,112,778	(14,681)	(95,208,858)	41,618,015
Balance – January 1, 2019	108,054,939	120,932,404	16,756,294	(28,703)	(111,033,661)	26,626,334
Change in accounting policy for IFRS 16 (note 2)	-	-	-	-	160,419	160,419
Restated balance – January 1, 2019	108,054,939	120,932,404	16,756,294	(28,703)	(110,873,242)	26,786,753
Net loss for the period	-	-	-	-	(2,926,686)	(2,926,686)
Foreign currency translation adjustment – net of tax	-	-	-	(46,389)	-	(46,389)
Share-based compensation (note 13)	-	-	72,638	-	-	72,638
Balance – March 31, 2019	108,054,939	120,932,404	16,828,932	(75,092)	(113,799,928)	23,886,316

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, 2019 \$	Three months ended March 31, 2018 \$
Cash provided by (used in)		
Operating activities		
Net loss for the period	(2,926,686)	(4,938,186)
Depreciation of property and equipment (note 5)	129,325	141,729
Amortization of intangible assets (note 6)	282,110	282,109
Depreciation of right-of-use assets (note 7)	102,224	-
Share-based compensation (note 13)	72,638	241,058
Interest and accretion expense (note 15)	342,012	187,597
Change in deferred rent	-	6,048
Deferred revenue	438,306	9,138
Change in fair value of derivative financial instrument	57,471	-
Change in fair value of contingent consideration	(72,876)	48,647
Net change in non-cash working capital balances		
Investment tax credits receivable	-	(60,000)
Trade and other receivables	(360,565)	3,205,680
Prepaid expenses and deposits	41,650	(206,100)
Inventory	217,613	(391,994)
Accounts payable and accrued liabilities	(347,454)	(2,321,907)
Provisions	(1,206,383)	34,498
Income taxes payable	12,573	40,340
Total cash used in operating activities	(3,218,042)	(3,721,343)
Financing activities		
Issuance of common shares	-	34,500,000
Transaction costs paid	-	(2,194,123)
Payment of other liabilities	(8,545)	(143,897)
Payment of long-term debt and interest	(331,490)	(1,528,897)
Payment of lease liabilities	(80,269)	-
Total cash (used in) provided by financing activities	(420,304)	30,633,083
Increase (decrease) in cash during the period	(3,638,346)	26,911,740
Cash – Beginning of period	30,687,183	11,103,223
Cash – End of period	27,048,837	38,014,963

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, 2019

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 technology company developing treatments to ablate the prostate gland, uterine fibroids and nerves for palliative pain relief for patients with metastatic bone disease.

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

2 Summary of significant accounting policies and basis of preparation

Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS), applicable to the preparation of interim condensed consolidated 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, 2018, which were prepared in accordance with IFRS.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on May 6, 2019.

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 new standard 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 this standard and the new accounting policy is disclosed below.

- IFRS 16, Leases (IFRS 16)

IFRS 16 sets out the principles for the recognition, measurement and disclosure of leases. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all lessees, thereby removing the distinction between operating and finance leases. IFRS 16 requires a lessee to recognize an asset (right-to-use the leased item) and a financial liability to pay rentals on the interim condensed consolidated balance sheets with terms of more than 12 months, unless the underlying asset is of low value. The standard permits either a full retrospective or a modified retrospective approach for the adoption. IFRS 16 was effective for annual periods beginning on or after January 1, 2019.

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The Company has adopted IFRS 16 retrospectively from January 1, 2019, but has not restated comparative information, as permitted under the specific transitional provisions in the standard in accordance with the modified retrospective approach for adoption. The reclassifications and the adjustments arising from the new leasing standard are therefore recognized in the opening interim condensed consolidated balance sheet on January 1, 2019.

Adjustments recognized on adoption of IFRS 16

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases, which had previously been classified as operating leases under the principles of IAS 17, Leases (IAS 17). These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 4%.

	\$
Operating lease commitments as at December 31, 2018	3,313,292
Asset retirement obligation	111,100
Discounted using the Company's average incremental borrowing rate of 4.0%	<u>(836,665)</u>
Lease liabilities recognized as at January 1, 2019	<u>2,587,727</u>

The change in accounting policy affected the following items in the interim condensed consolidated balance sheet on January 1, 2019:

	Increase (decrease)
	\$
Right-of-use assets	2,616,773
Lease liabilities	2,587,727
Prepaid expenses and deposits	(210,000)
Provisions	(49,319)
Other liabilities	(292,054)
Deficit	160,419

Practical expedients applied

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Company has relied on its assessment made applying IAS 17 and IFRIC 4, Determining whether an Arrangement contains a Lease.

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Accounting policy

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. Lease terms range from four to ten years for offices. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

3 Trade and other receivables

The trade and other receivables balance comprises the following:

	March 31, 2019	December 31, 2018
	\$	\$
Trade receivables	2,159,488	1,791,688
Interest receivable	44,592	55,730
Indirect tax receivables	820,928	565,832
Other receivables	21,669	272,862
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Total trade and other receivables	3,046,677	2,686,112

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Amounts past due represent trade receivables past due based on the customer's contractual terms. The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. At March 31, 2019 and December 31, 2018, there were no trade receivables that are past due.

4 Inventory

	March 31, 2019 \$	December 31, 2018 \$
Finished goods	1,886,531	2,305,746
Raw materials	1,570,938	1,383,572
Inventory provision	(43,459)	(57,695)
Total inventory	<u>3,414,010</u>	<u>3,631,623</u>

During the three months ended March 31, 2019, \$472,083 (three months ended March 31, 2018 – \$229,402) of inventory was recognized in cost of sales. The Company decreased its inventory provision by \$14,236 during the three months ended March 31, 2019 (three months ended March 31, 2018 – decrease of \$38,351). There were no other inventory writedowns charged to cost of sales during the period ended March 31, 2019.

5 Property and equipment

Property and equipment consist of the following:

	Furniture and fittings \$	Research and manufac- turing equipment \$	Leasehold improve- ments \$	Computer equipment \$	Computer software \$	Total \$
At January 1, 2019						
Cost	235,169	1,386,692	718,742	212,541	176,462	2,729,606
Accumulated depreciation	(138,604)	(815,450)	(182,235)	(209,498)	(176,462)	(1,522,249)
Net book value	<u>96,565</u>	<u>571,242</u>	<u>536,507</u>	<u>3,043</u>	<u>-</u>	<u>1,207,357</u>
Three months ended March 31, 2019						
Opening net book value	96,565	571,242	536,507	3,043	-	1,207,357
Foreign exchange	-	(29,633)	-	-	-	(29,633)
Depreciation	(9,580)	(100,713)	(17,320)	(1,712)	-	(129,325)
Closing net book value	<u>86,985</u>	<u>440,896</u>	<u>519,187</u>	<u>1,331</u>	<u>-</u>	<u>1,048,399</u>
At March 31, 2019						
Cost	235,169	1,386,692	718,742	212,541	176,462	2,729,606
Accumulated depreciation	(148,184)	(945,796)	(199,555)	(211,210)	(176,462)	(1,681,207)
Net book value	<u>86,985</u>	<u>440,896</u>	<u>519,187</u>	<u>1,331</u>	<u>-</u>	<u>1,048,399</u>

Profound Medical Corp.

Notes to Interim Condensed Consolidated Financial Statements

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6 Intangible assets

Intangible assets consist of the following:

	Exclusive licence agreement \$	Software \$	Proprietary technology \$	Brand \$	Total \$
As at January 1, 2019					
Cost	50,000	257,254	4,489,295	883,140	5,679,689
Accumulated amortization	(25,000)	(118,938)	(1,271,967)	(250,223)	(1,666,128)
Net book value	25,000	138,316	3,217,328	632,917	4,013,561
Three months ended March 31, 2019					
Opening net book value	25,000	138,316	3,217,328	632,917	4,013,561
Amortization	(625)	(12,863)	(224,465)	(44,157)	(282,110)
Closing net book value	24,375	125,453	2,992,863	588,760	3,731,451
As at March 31, 2019					
Cost	50,000	257,254	4,489,295	883,140	5,679,689
Accumulated amortization	(25,625)	(131,801)	(1,496,432)	(294,380)	(1,948,238)
Net book value	24,375	125,453	2,992,863	588,760	3,731,451

7 Right-of-use assets

	Leased premises \$
As at January 1, 2019	
Cost	2,616,773
Accumulated depreciation	-
Net book value	2,616,773
Three months ended March 31, 2019	
Opening net book value	2,616,773
Foreign exchange	(1,457)
Depreciation	(102,224)
Closing net book value	2,513,092
As at March 31, 2019	
Cost	2,616,773
Accumulated depreciation	(103,681)
Net book value	2,513,092

The Company leases office premises in Mississauga, Canada and Vantaa, Finland. These lease agreements are typically entered into for four to ten-year periods.

Profound Medical Corp.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2019

8 Provisions

	Asset retirement obligation \$	Revenue share obligation \$	Warranty provision \$	Total \$
As at January 1, 2019	49,319	1,241,657	110,360	1,401,336
Change in accounting policy for IFRS 16 (note 2)	(49,319)	-	-	(49,319)
Restated balance as at January 1, 2019	-	1,241,657	110,360	1,352,017
Additions	-	-	40,950	40,950
Expiry	-	(1,241,657)	(2,099)	(1,243,756)
Foreign exchange	-	-	(3,577)	(3,577)
As at March 31, 2019	-	-	145,634	145,634
Less: Current portion	-	-	99,890	99,890
Non-current portion	-	-	45,744	45,744

Asset retirement obligation

The asset retirement obligation was related to the Company's leasehold improvements. This amount was transferred as part of the adoption of IFRS 16 (note 2).

Revenue share obligation

During January 2019, the Company replaced the original co-marketing and co-selling agreement with Siemens with a new agreement. Under the new agreement, all prior financial commitments and obligations owed to Siemens are released and replaced with a non-exclusive licence resulting in a one-time fixed licence fee of US\$100,000 and a per annum payment per device interfaced to a Siemens MRI scanner. In exchange for the one-time fixed licence fee and per annum payments, the Company obtained a non-exclusive licence and reasonable support for the term of the agreement.

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 12 to 24 months.

Profound Medical Corp.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2019

9 Long-term debt

A summary of the long-term debt is as follows:

	March 31, 2019 \$	December 31, 2018 \$
CIBC loan	11,929,264	11,955,245
Less: Current portion	1,962,416	1,339,583
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Non-current portion	9,966,848	10,615,662

On July 30, 2018, the Company signed a term loan agreement with CIBC Innovation Banking (CIBC) to provide a secured loan for total initial gross proceeds of \$12,500,000 maturing on July 29, 2022 with an interest rate based on prime plus 2.5%. The Company is required to make interest only payments until October 31, 2019 and monthly repayments on the principal of \$378,788 plus accrued interest commencing on October 31, 2019. All obligations of the Company under the term loan agreement are guaranteed by current and future subsidiaries of the Company and include security of first priority interests in the assets of the Company and its subsidiaries. The Company has the ability to draw an additional \$6,250,000 subject to the achievement of certain financing and product development milestones. The Company has a financial covenant in relation to the CIBC loan where unrestricted cash is required to be greater than operating cash expenditures for a trailing three-month period, reported on a monthly basis. The Company is in compliance with this financial covenant as at March 31, 2019.

	March 31, 2019 \$	December 31, 2018 \$
Balance – Beginning of period	11,955,245	-
Proceeds received	-	12,500,000
Transaction costs	-	(930,520)
Interest and accretion expense	305,509	517,409
Repayment	(331,490)	(131,644)
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Balance – End of period	11,929,264	11,955,245
Less: Current portion	1,962,416	1,339,583
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Non-current portion	9,966,848	10,615,662

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In connection with this term loan agreement on July 31, 2018, the Company also issued 321,714 common share purchase warrants to CIBC, with each warrant entitling the holder to acquire one common share at a price of \$0.97 per common share until the date that is 60 months from the closing of the term loan agreement, with a cashless exercise feature. The cashless exercise feature causes the conversion ratio to be variable and the warrants are therefore classified as a financial liability. Gains and losses on the warrants are recorded within finance costs on the interim condensed consolidated statements of loss and comprehensive loss. A pricing model with observable market based inputs was used to estimate the fair value of the warrants issued. The estimated fair value of the warrants as at March 31, 2019 and December 31, 2018 was \$155,674 and \$98,203, respectively. The variables used to determine the fair values are as follows:

	March 31, 2019	December 31, 2018
Share price	\$0.80	\$0.55
Volatility	86%	86%
Expected life of warrants	4.3 years	4.6 years
Risk free interest rate	1.53%	1.88%
Dividend yield	-	-

The Federal Economic Development Agency (FedDev) loan with total proceeds of \$867,000 was unsecured and non-interest bearing. The final repayment of \$563,550 was made on July 25, 2018.

During the three months ended March 31, 2019 and 2018, the Company recognized \$nil of interest and accretion expense on this loan (three months ended March 31, 2018 – \$12,992).

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

During the three months ended March 31, 2019 and 2018, the Company recognized \$nil of interest and accretion expense on these loans (three months ended March 31, 2018 – \$18,078).

On April 30, 2015, Profound Medical Inc. 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. 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 until May 20, 2019 (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). On July 25, 2018, the full amount of the Knight Loan, including prepayment fees, was repaid for a total payment of \$3,188,023.

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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, 2019, 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 \$2,911 (three months ended March 31, 2018 – \$4,548). This liability is included within other liabilities on the interim condensed consolidated balance sheets.

10 Other liabilities

	Knight royalty payable \$	Contingent consideration \$	Deferred rent \$	Total \$
As at January 1, 2019	19,653	1,255,741	292,055	1,567,449
Change in accounting policy for IFRS 16 (note 2)	-	-	(292,055)	(292,055)
Restated balance as at January 1, 2019	19,653	1,255,741	-	1,275,394
Amounts paid	(8,545)	-	-	(8,545)
Change in fair value (note 15)	-	(72,876)	-	(72,876)
Accretion expense (note 15)	2,911	-	-	2,911
As at March 31, 2019	14,019	1,182,865	-	1,196,884
Less: Current portion	14,019	604,472	-	618,491
Non-current portion	-	578,393	-	578,393

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 until May 20, 2019.

Contingent consideration

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 Royal Philips' (Philips) Sonalleve MR-HIFU business (Sonalleve). The agreement includes certain contingent consideration payments payable monthly in euro tied to future revenue levels of the Sonalleve 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

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- 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.

The contingent consideration 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 levels being reached; and a discount rate of 15%.

Deferred rent

The deferred rent obligation was related to the Company's straight-line rent accrual for its current premises. This amount was transferred as part of the adoption of IFRS 16 (note 2).

11 Lease liabilities

	March 31, 2019
	\$
Balance – Beginning of period	2,587,727
Repayments	(80,269)
Foreign exchange	(1,477)
Interest and accretion expense	33,593
	<hr/>
Balance – End of period	2,539,574
Less: Current portion	203,807
	<hr/>
Non-current portion	2,335,767
	<hr/>

12 Share capital

Common shares

Authorized

Unlimited common shares

Issued and outstanding (with no par value)

	March 31, 2019	December 31, 2018
	\$	\$
108,054,939 (December 31, 2018 – 108,054,939) common shares	120,932,404	120,932,404
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Profound Medical Corp.

Notes to Interim Condensed Consolidated Financial Statements

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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 (\$32,027,502, 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, 2019 and March 31, 2019	22,571,714	1.39	3.42

The Company estimated the fair value of the warrants issued using the Black-Scholes option pricing model with the following assumptions:

	March 20, 2018
Share price on date of issuance	\$1.06
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.

Profound Medical Corp.

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13 Share-based payments

Share options

Compensation expense related to share options for the three months ended March 31, 2019 was \$72,638 (three months ended March 31, 2018 – \$241,058).

A summary of the share option changes during the period presented and the total number of share options outstanding as at those dates are set forth below:

	Number of options	Weighted average exercise price \$
Balance – January 1, 2019	6,244,779	1.13
Forfeited/expired	(835,000)	1.06
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Balance – March 31, 2019	5,409,779	1.14

The following table summarizes information about the share options outstanding as at March 31, 2019:

Exercise price \$	Number of options outstanding	Weighted average remaining contractual life (years)	Number of options exercisable
0.24	213,000	3.44	213,000
0.30	18,000	0.16	18,000
0.60	33,000	9.65	-
0.85	315,000	8.63	104,988
0.93	500,000	9.41	-
0.97	66,000	8.07	44,000
0.99	28,000	9.00	7,000
1.02	115,500	9.22	-
1.10	1,971,724	7.72	1,120,642
1.19	518,000	9.15	-
1.35	132,500	7.40	104,836
1.46	934,055	7.40	603,244
1.50	565,000	6.42	495,372
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	5,409,779	7.73	2,711,082

Profound Medical Corp.

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(Unaudited)

March 31, 2019

14 Nature of expenses

	Three months ended March 31, 2019 \$	Three months ended March 31, 2018 \$
Production and manufacturing costs	396,306	192,053
Salaries and benefits	2,538,207	2,438,378
Consulting fees	919,347	1,265,344
Research and development expenses	482,964	53,792
Sales and marketing expenses	(1,065,294)	258,163
Amortization and depreciation	509,678	423,838
Share-based compensation	72,638	241,058
Rent	90,159	155,666
Other expenses (income)	251,865	(30,330)
	<hr/>	<hr/>
	4,195,870	4,997,962

15 Finance costs

	Three months ended March 31, 2019 \$	Three months ended March 31, 2018 \$
HTX and FedDev loans (note 9)	-	31,070
Knight Loan (note 9)	-	151,979
CIBC loan (note 9)	305,509	-
Royalty interest accretion (notes 9 and 10)	2,911	4,548
Change in fair value of contingent consideration (note 10)	(72,876)	48,647
Change in fair value of derivative financial instrument (note 9)	57,471	-
Lease liability interest expense (note 11)	33,593	-
Provisions (note 8)	-	1,227
Foreign exchange loss (gain)	(11,923)	82,492
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Total finance costs	314,685	319,963

Profound Medical Corp.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2019

16 Loss per share

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

	Three months ended March 31, 2019 \$	Three months ended March 31, 2018 \$
Net loss for the period	2,926,686	4,938,186
Basic and diluted weighted average number of shares outstanding	108,054,939	77,334,044
Basic and diluted loss per share	0.03	0.06

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 warrants.

Of the 5,409,779 (March 31, 2018 – 5,212,591) share options and 22,571,714 (March 31, 2018 – 22,250,000) warrants not included in the calculation of diluted loss per share for the period ended March 31, 2019, 25,282,796 (March 31, 2018 – 24,527,452) were exercisable.

17 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, 2019 \$	Three months ended March 31, 2018 \$
Salaries and employee benefits	349,590	203,726
Termination benefits	-	114,750
Directors' fees	37,500	19,947
Share-based compensation	56,634	172,804
Total related party transactions	443,724	511,227

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

18 Segment reporting

The Company's operations are categorized into one industry segment, which is medical technology focused on magnetic resonance guided ablation procedures for the treatment of prostate disease, uterine fibroids and palliative pain treatment for patients with metastatic bone disease. The Company is managed geographically in Canada, Germany and Finland.

Profound Medical Corp.

Notes to Interim Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2019

For the three-month period ended March 31, 2019:

	Canada \$	Germany \$	Finland \$	Total \$
Revenue				
Product	937,309	410,472	-	1,347,781
Services	12,178	115,829	-	128,007
	949,487	526,301	-	1,475,788
Cost of sales	155,442	377,914	-	533,356
Gross profit	794,045	148,387	-	942,432
Expenses				
Research and development	1,895,219	-	782,527	2,677,746
General and administrative	1,400,997	-	113,116	1,514,113
Selling and distribution	(991,934)	376,588	86,001	(529,345)
	2,304,282	376,588	981,644	3,662,514
Segment loss	1,510,237	228,201	981,644	2,720,082
Net finance costs				172,804
Loss for the period before income taxes				2,892,886

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
Gross profit	-	145,260	-	145,260
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
Loss for the period before income taxes				4,901,786

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Other financial information by segment as at March 31, 2019:

	Canada \$	Germany \$	Finland \$	Total \$
Total assets	39,427,570	1,267,494	4,176,787	44,874,851
Goodwill and intangible assets	7,140,616	-	-	7,140,616
Property and equipment	729,825	-	318,574	1,048,399
Right-of-use assets	2,200,450	-	312,642	2,513,092
Amortization of intangible assets	282,110	-	-	282,110
Depreciation of property and equipment	67,471	327	61,527	129,325
Depreciation of right-of-use asset	73,349	-	28,875	102,224

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

	Canada \$	Germany \$	Finland \$	Total \$
Total assets	42,437,691	1,093,184	3,018,997	46,549,872
Goodwill and intangible assets	7,422,726	-	-	7,422,726
Property and equipment	797,296	266	409,795	1,207,357
Amortization of intangible assets	1,128,437	-	-	1,128,437
Depreciation of property and equipment	296,093	3,100	246,808	546,001