PROFOUND MEDICAL CORP.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2019

PRESENTED IN CANADIAN DOLLARS

Profound Medical Corp.

Interim Condensed Consolidated Balance Sheets
(Unaudited)

	September 30, 2019 $	December 31, 2018 $
Assets		
Current assets		
Cash	27,227,299	30,687,183
Trade and other receivables (note 3)	1,474,636	2,686,112
Investment tax credits receivable	240,000	480,000
Inventory (note 4)	3,650,609	3,631,623
Prepaid expenses and deposits	414,613	434,871
Total current assets	33,007,157	37,919,789
Property and equipment (note 5)	784,766	1,207,357
Intangible assets (note 6)	3,417,232	4,013,561
Right-of-use assets (notes 2 and 7)	2,297,088	-
Goodwill	3,409,165	3,409,165
Total assets	42,915,408	46,549,872
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	2,735,984	3,912,350
Deferred revenue	606,218	312,558
Long-term debt (note 9)	4,613,931	1,339,583
Provisions (note 8)	115,776	1,352,017
Other liabilities (notes 9 and 10)	651,170	567,296
Derivative financial instrument (note 9)	223,084	98,203
Lease liabilities (notes 2 and 11)	216,984	-
Income taxes payable	-	297,353
Total current liabilities	9,163,147	7,879,360
Long-term debt (note 9)	7,539,690	10,615,662
Deferred revenue	434,613	379,044
Provisions (note 8)	26,894	49,319
Other liabilities (notes 9 and 10)	233,010	1,000,153
Lease liabilities (notes 2 and 11)	2,218,980	-
Total liabilities	19,616,334	19,923,538
Shareholders' Equity		
Share capital (note 12)	130,395,091	120,932,404
Contributed surplus	18,954,077	16,756,294
Accumulated other comprehensive loss	(136,128)	(28,703)
Deficit	(125,913,966)	(111,033,661)
Total Shareholders' Equity	23,299,074	26,626,334
Total Liabilities and Shareholders' Equity	42,915,408	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 September 30, 2019 $	Three months ended September 30, 2018 $	Nine months ended September 30, 2019 $	Nine months ended September 30, 2018 $
Revenue				
Products	528,578	249,548	2,342,199	792,973
Services	153,646	54,116	389,922	100,369
	682,224	303,664	2,732,121	893,342
Cost of sales (note 14)	395,001	240,686	1,172,423	598,020
Gross profit	287,223	62,978	1,559,698	295,322
Operating Expenses (note 14)				
Research and development – net of investment tax credits of $nil (2018 – $180,000)	3,424,585	2,577,385	9,288,686	7,442,075
General and administrative	2,054,099	1,765,540	5,154,535	5,305,273
Selling and distribution – net of revenue share obligation reversal (note 8)	873,761	896,052	1,499,285	2,956,179
Total operating expenses	6,352,445	5,238,977	15,942,506	15,703,527
Operating Loss	6,065,222	5,175,999	14,382,808	15,408,205
Other income and expense				
Finance costs (note 15)	269,613	81,468	921,518	715,037
Finance income	(104,631)	(155,201)	(357,302)	(312,362)
	164,982	(73,733)	564,216	402,675
Loss before income taxes	6,230,204	5,102,266	14,947,024	15,810,880
Income taxes	39,700	32,700	93,700	93,300
Net loss for the period	6,269,904	5,134,966	15,040,724	15,904,180
Other comprehensive loss				
Item that may be reclassified to profit or loss				
Foreign currency translation adjustment - net of tax of nil	(49,193)	28,176	(107,425)	13,481
Net loss and comprehensive loss for the period	6,220,711	5,163,142	14,933,299	15,917,661
Loss per share (note 16)				
Basic and diluted net loss per share	0.57	0.48	1.39	1.63

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	-	-	-	-	(15,904,180)	(15,904,180)
Cumulative translation adjustment – net of tax of nil	-	-	-	(13,481)	-	(13,481)
Exercise of share options	437,562	306,882	(201,626)	-	-	105,256
Share-based compensation (note 13)	-	-	753,549	-	-	753,549
Issuance of units on bought deal financing (note 12)	34,500,000	22,259,752	9,767,750	-	-	32,027,502
Balance – September 30, 2018	108,054,939	120,932,404	16,423,643	(71,410)	(106,174,852)	31,109,785
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	-	-	-	-	(15,040,724)	(15,040,724)
Cumulative translation adjustment – net of tax of nil	-	-	-	(107,425)	-	(107,425)
Exercise of share options	18,000	10,080	(4,681)	-	-	5,399
Issuance of units from offering (note 12)	10,454,546	9,452,607	1,151,881	-	-	10,604,488
Share-based compensation (note 13)	-	-	1,050,583	-	-	1,050,583
Balance – September 30, 2019	118,527,485	130,395,091	18,954,077	(136,128)	(125,913,966)	(23,299,074)

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)

	Nine months ended September 30, 2019 $	Nine months ended September 30, 2018 $
Operating activities		
Net loss for the period	(15,040,724)	(15,904,180)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation of property and equipment (note 5)	365,604	416,071
Amortization of intangible assets (note 6)	846,329	846,328
Depreciation of right-of-use assets (note 7)	305,389	-
Share-based compensation (note 13)	1,050,583	753,549
Interest and accretion expense (note 15)	1,028,680	770,714
Change in deferred rent	-	26,718
Deferred revenue	349,229	283,499
Change in fair value of derivative financial instrument (note 9)	124,881	(71,270)
Change in fair value of contingent consideration (note 10)	(371,561)	(106,976)
Changes in non-cash working capital balances		
Investment tax credits receivable	240,000	(180,000)
Trade and other receivables	1,211,476	3,109,883
Prepaid expenses and deposits	(189,742)	45,051
Inventory	(18,986)	(1,850,738)
Accounts payable and accrued liabilities	(1,223,625)	(2,328,746)
Provisions	(1,209,347)	172,675
Income taxes payable	(297,353)	93,145
Net cash flow used in operating activities	(12,829,167)	(13,924,277)
Investing activities		
Purchase of intangible assets	(250,000)	-
Total cash used in investing activities	(250,000)	-
Financing activities		
Issuance of common shares	11,500,001	34,500,000
Transaction costs paid	(895,513)	(2,472,498)
Proceeds from bank loan	-	12,500,000
Bank loan costs paid	-	(714,134)
Payment of other liabilities	(16,203)	(165,456)
Payment of long-term debt and interest	(735,717)	(5,719,845)
Proceeds from share options exercised	5,399	105,256
Payment of lease liabilities	(238,684)	-
Total cash from financing activities	9,619,283	38,033,323
Net change in cash during the period	(3,459,884)	24,109,046
Cash – Beginning of period	30,687,183	11,103,223
Cash – End of period	27,227,299	35,212,269

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

1 Description of business

Profound Medical Corp. (Profound) and its subsidiaries (together, the Company) 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 November 7, 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.

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%	(836,665)
Lease liabilities recognized as at January 1, 2019	2,587,727

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.

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:

	September 30, 2019 $	December 31, 2018 $
Trade receivables	898,981	1,791,688
Interest receivable	32,538	55,730
Indirect tax receivables	528,131	565,832
Other receivables	14,986	272,862
Total trade and other receivables	1,474,636	2,686,112

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 September 30, 2019 and December 31, 2018, there were no trade receivables that are past due.

4 Inventory

	September 30, 2019 $	December 31, 2018 $
Finished goods	2,072,163	2,305,746
Raw materials	1,612,454	1,383,572
Inventory provision	(34,008)	(57,695)
Total inventory	3,650,609	3,631,623

During the three and nine months ended September 30, 2019, $377,997 and $1,104,399 (three and nine months ended September 30, 2018, $291,252 and $621,948, respectively) of inventory was recognized in cost of sales. The Company decreased its inventory provision by $5,845 and $23,687 during the three and nine months ended September 30, 2019 (three and nine months ended September 30, 2018 – decrease of $26,551 and $13,998). There were no other inventory writedowns charged to cost of sales during the period ended September 30, 2019.

5 Property and equipment

Property and equipment consist of the following:

	Furniture and fittings $	Research and manufacturing equipment $	Leasehold improvements $	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	96,565	571,242	536,507	3,043	-	1,207,357
Nine months ended September 30, 2019						
Opening net book value	96,565	571,242	536,507	3,043	-	1,207,357
Foreign exchange	-	(56,987)	-	-	-	(56,987)
Depreciation	(28,739)	(281,860)	(51,962)	(3,043)	-	(365,604)
Closing net book value	67,826	232,395	484,545	-	-	784,766
At September 30, 2019						
Cost	235,169	1,386,692	718,742	212,541	176,462	2,729,606
Accumulated depreciation	(167,343)	(1,154,297)	(234,197)	(212,541)	(176,462)	(1,944,840)
Net book value	67,826	232,395	484,545	-	-	784,766

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
Nine months ended September 30, 2019					
Opening net book value	25,000	138,316	3,217,328	632,917	4,013,561
Addition	250,000	-	-	-	250,000
Amortization	(1,875)	(38,589)	(673,394)	(132,471)	(846,329)
Closing net book value	273,125	99,727	2,543,934	500,446	3,417,232
As at September 30, 2019					
Cost	300,000	257,254	4,489,295	883,140	5,929,689
Accumulated amortization	(26,875)	(157,527)	(1,945,361)	(382,694)	(2,512,457)
Net book value	273,125	99,727	2,543,934	500,446	3,417,232

The Company has a licence agreement (the licence) with Sunnybrook Health Sciences Centre (Sunnybrook), pursuant to which Sunnybrook licenses to the Company certain intellectual property. Pursuant to the licence, the Company has exclusively licenced-in rights that enable the Company to use Sunnybrook's technology for MRI-guided trans-urethral ultrasound therapy. Under the licence, the Company is subject to various obligations, including a milestone payment of $250,000, which was paid on August 16, 2019 upon FDA approval. In addition, the Company has a further option to acquire rights to improvements to the relevant technology and intellectual property. If the Company fails to comply with any of its obligations or otherwise breaches this agreement, Sunnybrook may have the right to terminate the licence.

7 Right-of-use assets

	Leased premises $
As at January 1, 2019	
Cost	2,616,773
Accumulated depreciation	-
Net book value	2,616,773
Nine months ended September 30, 2019	
Opening net book value	2,616,773
Foreign exchange	(14,296)
Depreciation	(305,389)
Closing net book value	2,297,088
As at September 30, 2019	
Cost	2,616,773
Accumulated depreciation	(319,685)
Net book value	2,297,088

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

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	-	-	67,620	67,620
Expiry	-	(1,241,657)	(28,214)	(1,269,871)
Foreign exchange	-	-	(7,096)	(7,096)
As at September 30, 2019	-	-	142,670	142,670
Less: Current portion	-	-	115,776	115,776
Long-term portion	-	-	26,894	26,894

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 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.

9 Long-term debt

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

	September 30, 2019 $	December 31, 2018 $
CIBC loan	12,153,621	11,955,245
Less: Current portion	4,613,931	1,339,583
Long-term portion	7,539,690	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 September 30, 2019.

	September 30, 2019 $	December 31, 2018 $
Balance – Beginning of period	11,955,245	-
Proceeds received	-	12,500,000
Transaction costs	-	(930,520)
Interest and accretion expense	934,093	517,409
Repayment	(735,717)	(131,644)
Balance – End of period	12,153,621	11,955,245
Less: Current portion	4,613,931	1,339,583
Long-term portion	7,539,690	10,615,662

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 September 30, 2019 and December 31, 2018 was $223,084 and $98,203, respectively. The variables used to determine the fair values are as follows:

	September 30, 2019	December 31, 2018
Share price	$0.79	$0.55
Volatility	88%	86%
Expected life of warrants	3.9 years	4.6 years
Risk free interest rate	1.41%	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 and nine months ended September 30, 2019 and 2018, the Company recognized $nil of interest and accretion expense on this loan (three and nine months ended September 30, 2018 - $nil and $90,775, respectively).

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 and nine months ended September 30, 2019 and 2018, the Company recognized $nil of interest and accretion expense on these loans (three and nine months ended September 30, 2018 - $nil and $18,078, respectively).

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.

The royalty was initially recorded at fair value and was subsequently carried at amortized cost using the effective interest rate method. The initial fair value of the royalty was determined using future revenue forecasts for the term of the loan and a discount rate of 18%. During the three and nine months ended September 30, 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 recovery of $nil and $3,450, respectively (three and nine months ended September 30, 2018 - accretion recovery of $2,490 and $5,873, respectively). 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	(16,203)	-	-	(16,203)
Change in fair value	-	(371,561)	-	(371,561)
Accretion recovery (note 15)	(3,450)	-	-	(3,450)
As at September 30, 2019	-	884,180	-	884,180
Less: Current portion	-	651,170	-	651,170
Long-term portion	-	233,010	-	233,010

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
- 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

	September 30, 2019 $
As at January 1, 2019	2,587,727
Repayments	(238,684)
Foreign exchange	(11,116)
Interest and accretion expense	98,037
Balance – End of period	2,435,964
Less: Current portion	216,984
Long-term portion	2,218,980

12 Share capital

Common shares

The Company is authorized to issue an unlimited number of common shares.

Issued and outstanding (with no par value)

	September 30, 2019 $	December 31, 2018 $
118,527,485 (December 31, 2018 – 108,054,939) common shares	130,395,091	120,932,404

On September 20, 2019, the Company closed an offering, resulting in the issuance of 10,454,546 units at a price of $1.10 per unit, for gross proceeds of $11,500,001 ($10,604,488, 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 $1.55 per common share until the date that is 24 months from the closing of the offering.

Subsequent to the period end on October 16, 2019, the Company completed a consolidation (Share Consolidation) of its share capital on the basis of ten existing common shares for one new common share. As a result of the Share Consolidation, the 118,527,485 common shares issued and outstanding were consolidated to 11,852,749 common shares outstanding. The Share Consolidation was previously approved by the shareholders at the Annual General Meeting held on June 13, 2019. Any quantities relating to these instruments for 2018 and up to October 16, 2019 or any per unit price such as exercise prices disclosed throughout the interim financial statements have not been retrospectively adjusted for the share consolidation except for the weighted average number of shares outstanding used in the calculation of basic and diluted EPS which have been retroactively adjusted to give effect to the share consolidation as required by IAS 33, *Earnings per share* and consequently the basic and diluted loss per share for the periods presented.

The effect of the share consolidation on the issued and outstanding number of common shares, stock options and warrants outstanding at September 30, 2019 is as follows:

	Balance before share consolidation	Balance after share consolidation
Common shares	118,527,485	11,852,749
Stock options	10,277,429	1,027,743
Warrants	27,798,987	2,779,899

Warrants

As a result of the September 20, 2019 offering, 5,227,273 warrants were issued.

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	22,571,714	1.39	2.92
Granted	5,227,273	1.55	1.98
Balance – September 30, 2019	27,798,987	1.42	2.75

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

	September 20, 2019
Share price on date of issuance	$1.06
Expected volatility	58%
Expected life of warrants	2 years
Risk-free interest rate	1.61%
Dividend yield	-

The fair value of the warrants issued as part of the September 20, 2019 offering was $1,151,881, or $0.22 per warrant, and was recorded in contributed surplus.

13 Share-based payments

Share options

Compensation expense related to share options for the three and nine months ended September 30, 2019 was $594,156 and $1,050,583, respectively (three and nine months ended September 30, 2018 - $276,618 and $753,549, respectively).

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
Granted	4,982,400	0.92
Exercised	(18,000)	0.30
Forfeited/expired	(931,750)	1.08
Balance – September 30, 2019	10,277,429	1.04

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.

	May 15, 2019	**May 16, 2019**
Share price on date of issuance	$0.91	$0.94
Expected volatility	82%	82%
Expected life of share options	6 years	6 years
Risk-free interest rate	1.59%	1.59%
Dividend yield	-	-
Number of share options issued	133,000	4,849,400

The following table summarizes information about the share options outstanding as at September 30, 2019:

Exercise price $	**Number of options outstanding**	**Weighted average remaining contractual life (years)**	**Number of options exercisable**
0.24	212,750	2.95	212,750
0.60	33,000	9.16	-
0.85	315,000	8.15	144,345
0.91	133,000	9.64	-
0.92	4,842,400	9.65	-
0.93	500,000	8.92	135,417
0.97	49,500	7.59	38,500
0.99	28,000	8.51	9,912
1.02	99,000	8.73	55,000
1.10	1,971,724	7.22	1,367,107
1.19	518,000	8.66	172,666
1.35	83,000	6.88	72,585
1.46	934,055	6.91	720,001
1.50	558,000	5.93	554,876
	10,277,429	8.42	3,483,159

14 Nature of expenses

	Three months ended September 30, 2019 $	Three months ended September 30, 2018 $	Nine months ended September 30, 2019 $	Nine months ended September 30, 2018 $
Production and manufacturing costs	261,922	92,667	726,399	330,257
Salaries and benefits	2,373,144	2,270,568	7,385,320	7,366,547
Consulting fees	1,584,146	1,215,651	3,881,911	3,767,734
Research and development expense	1,019,344	315,649	2,116,129	635,904
Sales and marketing expenses	183,651	229,130	(513,304)	915,015
Amortization and depreciation	491,678	414,013	1,517,706	1,262,399
Share-based compensation	594,155	276,618	1,050,582	753,549
Rent	77,836	189,381	293,969	538,122
Other expenses	161,570	475,986	656,217	732,020
	6,747,446	5,479,663	17,114,929	16,301,547

15 Finance costs

	Three months ended September 30, 2019 $	Three months ended September 30, 2018 $	Nine months ended September 30, 2019 $	Nine months ended September 30, 2018 $
Knight loan (note 9)	-	49,158	-	465,903
Change in fair value of contingent consideration	(162,650)	(82,430)	(371,561)	(106,976)
CIBC loan (note 9)	316,534	201,831	934,093	201,831
HTX and FedDev loans (note 9)	-	-	-	108,853
Change in fair value of derivative financial instrument (note 9)	70,661	(71,270)	124,881	(71,270)
Lease liability interest expense (note 11)	30,888	-	98,037	-
Royalty interest accretion recovery (note 9 and 10)	-	(2,490)	(3,450)	(5,873)
Provisions (note 8)	-	1,295	-	3,783
Foreign exchange (gain) loss	14,180	(14,626)	139,518	118,786
	269,613	81,468	921,518	715,037

16 Loss per share

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

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Net loss for the period	$6,269,904	$5,134,966	$15,040,724	$15,904,180
Weighted average number of common shares	10,922,179	10,804,466	10,844,613	9,781,450
Basic and diluted loss per share	$0.57	$0.48	$1.39	$1.63

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. The weighted average number of common shares outstanding for all periods presented in the consolidated statements of loss and comprehensive loss have been adjusted in order to reflect the Share Consolidation that took place on the basis of ten existing common shares for one new common share on October 16, 2019.

Of the 10,277,429 (September 30, 2018 – 6,222,779) share options and 27,798,987 (September 30, 2018 – 22,571,714) warrants not included in the calculation of diluted loss per share for the period ended September 30, 2019, 31,282,146 (September 30, 2018 – 24,742,332) were exercisable. The number of share options and warrants has not been updated to reflect the effects of the Share Consolidation.

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 September 30, 2019 $	Three months ended September 30, 2018 $	Nine months ended September 30, 2019 $	Nine months ended September 30, 2018 $
Salaries and employee benefits	315,258	417,585	1,012,106	1,326,437
Termination benefits	-	-	-	114,750
Directors' fees	29,375	35,600	104,375	75,632
Share-based compensation	426,849	257,153	799,019	658,749
	771,482	710,338	1,915,500	2,175,568

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.

For the three-month period ended September 30, 2019:

	Canada $	Germany $	Finland $	Total $
Revenue				
Product	41,646	486,932	-	528,578
Services	66,954	86,692	-	153,646
	108,600	573,624	-	682,224
Cost of sales	31,400	363,601	-	395,001
Gross profit	77,200	210,023	-	287,223
Operating expenses				
Research and development	2,688,549	-	736,036	3,424,585
General and administrative	1,940,752	-	113,347	2,054,099
Selling and distribution	467,463	388,848	17,450	873,761
Total operating expense	5,096,764	388,848	866,833	6,352,445
Operating loss	5,019,564	178,825	866,833	6,065,222
Net finance costs				164,982
Loss for the period before income taxes				6,230,204

For the nine-month period ended September 30, 2019:

	Canada $	Germany $	Finland $	Total $
Revenue				
Product	1,330,777	1,011,422	-	2,342,199
Services	98,722	291,200	-	389,922
	1,429,499	1,302,622	-	2,732,121
Cost of sales	246,540	925,883	-	1,172,423
Gross profit	1,182,959	376,739	-	1,559,698
Operating expenses				
Research and development	7,132,765	-	2,155,921	9,288,686
General and administrative	4,849,163	-	305,372	5,154,535
Selling and distribution	134,872	1,178,297	186,116	1,499,285
Total operating expense	12,116,800	1,178,297	2,647,409	15,942,506
Operating loss	10,933,841	801,558	2,647,409	14,382,808
Net finance costs				564,216
Loss for the period before income taxes				14,947,024

For the three-month period ended September 30, 2018:

	Canada $	Germany $	Finland $	Total $
Revenue				
Product	-	249,548	-	249,548
Services	12,204	41,912	-	54,116
	12,204	291,460	-	303,664
Cost of sales	-	240,686	-	240,686
Gross profit	12,204	50,774	-	62,978
Operating expenses				
Research and development	1,916,179	-	661,206	2,577,385
General and administrative	1,577,917	-	187,623	1,765,540
Selling and distribution	514,603	356,328	25,121	896,052
Total operating expense	4,008,699	356,328	873,950	5,238,977
Operating loss	3,996,495	305,554	873,950	5,175,999
Net finance costs				(73,733)
Loss for the period before income taxes				5,102,266

For the nine-month period ended September 30, 2018:

	Canada $	Germany $	Finland $	Total $
Revenue				
Product	-	792,973	-	792,973
Services	24,323	76,046	-	100,369
	24,323	869,019	-	893,342
Cost of sales	-	598,020	-	598,020
Gross profit	24,323	270,999	-	295,322
Operating expenses				
Research and development	5,751,490	-	1,690,585	7,442,075
General and administrative	4,937,112	-	368,161	5,305,273
Selling and distribution	1,518,201	1,082,652	355,326	2,956,179
Total operating expense	12,206,803	1,082,652	2,414,072	15,703,527
Operating loss	12,182,480	811,653	2,414,072	15,408,205
Net finance costs				402,675
Loss for the period before income taxes				15,810,880

Other financial information by segment as at September 30, 2019:

	Canada $	Germany $	Finland $	Total $
Total assets	39,592,153	653,231	2,670,024	42,915,408
Goodwill and intangible assets	6,826,397	-	-	6,826,397
Property and equipment	613,788	-	170,978	784,766
Right-of-use assets	2,053,753	-	243,335	2,297,088
Amortization of intangible assets	846,329	-	-	846,329
Depreciation of property and equipment	183,508	267	181,829	365,604
Depreciation of right-of-use asset	220,046	-	85,343	305,389

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