Profound Medical Corp.

Interim Condensed Consolidated
Financial Statements
(Unaudited)
June 30, 2018

Profound Medical Corp.

Interim Condensed Consolidated Balance Sheets

(Unaudited)

	June 30, 2018 $	December 31, 2017 $
Assets		
Current assets		
Cash	31,995,919	11,103,223
Trade and other receivables (note 4)	1,024,569	4,251,658
Investment tax credits receivable	360,000	240,000
Inventory (note 5)	2,575,878	1,431,157
Prepaid expenses and deposits	669,688	576,028
	36,626,054	17,602,066
Property and equipment (note 6)	1,456,921	1,726,150
Intangible assets (note 7)	4,577,779	5,141,998
Goodwill	3,409,165	3,409,165
	46,069,919	27,879,379
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	2,761,152	5,081,704
Deferred revenue	269,836	241,316
Long-term debt (note 9)	3,716,865	4,701,214
Provisions (note 8)	1,163,903	93,222
Other liabilities (notes 9 and 10)	614,566	534,958
Income taxes payable	134,868	72,779
	8,661,190	10,725,193
Long-term debt (note 9)	-	443,875
Provisions (note 8)	68,821	988,239
Other liabilities (notes 9 and 10)	1,329,677	1,580,933
	10,059,688	13,738,240
Shareholders' Equity		
Share capital (note 11)	120,938,106	98,365,770
Contributed surplus	16,155,245	6,103,970
Accumulated other comprehensive loss	(43,234)	(57,929)
Deficit	(101,039,886)	(90,270,672)
	36,010,231	14,141,139
	46,069,919	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 June 30, 2018 $	Three months ended June 30, 2017 $	Six months ended June 30, 2018 $	Six months ended June 30, 2017 $
Revenue				
Products	170,931	919,845	543,425	1,472,763
Services	42,412	37,294	46,253	75,893
	213,343	957,139	589,678	1,548,656
Cost of sales (note 13)	126,259	471,359	357,334	782,584
Gross profit	87,084	485,780	232,344	766,072
Expenses (note 13)				
Research and development	2,347,909	2,417,972	4,864,690	4,301,101
General and administrative	2,236,529	1,728,585	3,539,733	2,846,599
Selling and distribution	1,113,225	897,153	2,060,127	2,047,652
Total operating expenses	5,697,663	5,043,710	10,464,550	9,195,352
Finance costs (note 14)	313,606	130,436	633,569	420,136
Finance income	(117,357)	(32,229)	(157,161)	(80,794)
Net finance costs	196,249	98,207	476,408	339,342
Loss before income taxes	5,806,828	4,656,137	10,708,614	8,768,622
Income tax expense	24,200	2,356	60,600	4,653
Net loss attributable to shareholders for the period	5,831,028	4,658,493	10,769,214	8,773,275
Other comprehensive loss				
Item that may be reclassified to profit or loss				
Foreign currency translation adjustment - net of tax	57,943	15,556	14,695	18,196
Net loss and comprehensive loss for the period	5,888,971	4,674,049	10,783,909	8,791,471
Basic and diluted weighted average shares outstanding (note 15)	107,727,319	55,372,307	92,614,640	55,329,563
Basic and diluted net loss per common share (note 15)	0.05	0.08	0.12	0.16

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	-	-	-	-	(8,773,275)	(8,773,275)
Foreign currency translation adjustment - net of tax	-	-	-	(18,196)	-	(18,196)
Exercise of share options	111,800	79,471	(51,170)	-	-	28,301
Share-based compensation (note 12)	-	-	551,025	-	-	551,025
Balance - June 30, 2017	55,417,377	83,352,149	3,500,418	(6,880)	(80,221,605)	6,624,082
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	-	-	-	-	(10,769,214)	(10,769,214)
Foreign currency translation adjustment - net of tax	-	-	-	14,695	-	14,695
Exercise of share options	426,562	295,781	(193,406)	-	-	102,375
Share-based compensation (note 12)	-	-	476,931	-	-	476,931
Issuance of units on bought deal financing (note 11)	34,500,000	22,276,555	9,767,750	-	-	32,044,305
Balance - June 30, 2018	108,043,939	120,938,106	16,155,245	(43,234)	(101,039,886)	36,010,231

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

Profound Medical Corp.

Interim Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Six months ended June 30, 2018 $	Six months ended June 30, 2017 $
Cash provided by (used in)		
Operating activities		
Net loss for the period	(10,769,214)	(8,773,275)
Depreciation of property and equipment	284,167	117,790
Amortization of intangible assets	564,219	25,839
Share-based compensation	476,931	551,025
Interest and accretion expense	522,215	525,412
Change in deferred rent	20,670	-
Change in fair value of contingent consideration	(24,546)	-
Net change in non-cash working capital balances		
Prepaid expenses and deposits	(93,660)	(47,217)
Accounts payable and accrued liabilities	(2,320,795)	1,454,745
Provisions	151,263	657,767
Inventory	(1,144,721)	(514,063)
Investment tax credits receivable	(120,000)	(133,000)
Trade and other receivables	3,227,089	(1,581,058)
Deferred revenue	28,520	67,789
Customer deposits	-	(259,293)
Income taxes payable	62,089	-
	(9,135,773)	(7,907,539)
Investing activities		
Purchase of intangible assets	-	(34,079)
Purchase of property and equipment	-	(279,713)
	-	(313,792)
Financing activities		
Issuance of common shares	34,500,000	-
Transaction costs paid	(2,455,695)	-
Payment of long-term debt and interest	(1,953,822)	(1,970,608)
Payment of other liabilities	(164,389)	(2,956)
Proceeds from share options exercised	102,375	28,301
	30,028,469	(1,945,263)
Increase (decrease) in cash during the period	20,892,696	(10,166,594)
Cash - Beginning of period	11,103,223	20,833,061
Cash - End of period	31,995,919	10,666,467
Supplemental information		
Intangible asset recoverable included in accounts payable and accrued liabilities	-	(26,684)

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 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 as issued by the IASB.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on August 14, 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)

  IFRS 9 replaces the provisions of IAS 39, Financial Instruments: Recognition and Measurement (IAS 39), which 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 did not result in any adjustments.

  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 June 30, 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 polices 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.

- IFRS 15, Revenue from Contracts with Customers (IFRS 15)

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.

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.

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 IASB published a new standard, IFRS 16. The new standard will eliminate the distinction between operating and finance leases and will bring most leases onto 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), Uncertainty over Income Tax Treatments (IFRIC 23)

  In June 2017, the IASB issued IFRIC 23, 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) Sonalleve MR-HIFU business (Sonalleve). Under the terms of the agreement, Philips transferred its Sonalleve 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 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.

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 and six-month periods ended June 30, 2018, the change in fair value of the contingent consideration was a gain of $73,193 and $24,546, respectively.

4 Trade and other receivables

The trade and other receivables balance comprises the following:

	June 30, 2018 $	December 31, 2017 $
Trade receivables	215,010	3,971,768
Indirect tax receivables	549,286	279,890
Other receivables	260,273	-
	1,024,569	4,251,658

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

	June 30, 2018 $	December 31, 2017 $
Raw materials	669,936	715,193
Finished goods	1,949,018	799,589
Inventory provision	(43,076)	(83,625)
	2,575,878	1,431,157

During the three and six months ended June 30, 2018, $61,198 and $330,696, respectively (three and six months ended June 30, 2017 - $212,810 and $351,147, respectively), of inventory was recognized in cost of sales. The company decreased its inventory provision by $2,198 and $40,549 during the three and six months ended June 30, 2018, respectively (three and six months ended June 30, 2017 - increase of $10,127 and $79,826, respectively). There were no other inventory writedowns charged to cost of sales during the period ended June 30, 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
Six months ended June 30, 2018						
Opening net book value	134,883	947,588	605,789	37,890	-	1,726,150
Foreign exchange	-	14,938	-	-	-	14,938
Depreciation	(19,159)	(202,951)	(34,641)	(27,416)	-	(284,167)
Closing net book value	115,724	759,575	571,148	10,474	-	1,456,921
As at June 30, 2018						
Cost	235,169	1,386,692	718,742	212,541	176,462	2,729,606
Accumulated depreciation	(119,445)	(627,117)	(147,594)	(202,067)	(176,462)	(1,272,685)
Net book value	115,724	759,575	571,148	10,474	-	1,456,921

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
Six months ended June 30, 2018					
Opening net book value	27,500	189,766	4,115,187	809,545	5,141,998
Amortization	(1,250)	(25,725)	(448,930)	(88,314)	(564,219)
Closing net book value	26,250	164,041	3,666,257	721,231	4,577,779

	Exclusive licence agreement $	Software $	Proprietary technology $	Brand $	Total $
As at June 30, 2018					
Cost	50,000	257,254	4,489,295	883,140	5,679,689
Accumulated amortization	(23,750)	(93,213)	(823,038)	(161,909)	(1,101,910)
Net book value	26,250	164,041	3,666,257	721,231	4,577,779

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	-	146,917	6,445	153,362
Expiry	-	-	(45,481)	(45,481)
Foreign exchange	-	38,915	1,979	40,894
Accretion expense	2,488	-	-	2,488
As at June 30, 2018	46,692	1,107,738	78,294	1,232,724
Less: Current portion	-	1,107,738	56,165	1,163,903
Non-current portion	46,692	-	22,129	68,821

Asset retirement obligation

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

Revenue share obligation

The company has certain minimum amounts payable under a revenue sharing agreement. The provision was determined using future revenue forecasts related to the revenue share agreement and a discount rate of 11%. This provision represents the company's estimated shortfall of revenue share payments over the term of this agreement. If the revenue forecast were to decrease or increase by 10% then the revenue share obligation would increase or decrease by $8,113. 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:

	June 30, 2018 $	December 31, 2017 $
FedDev and HTX loans	578,000	1,607,195
Knight Loan	3,138,865	3,537,894
Balance - End of period	3,716,865	5,145,089
Less: Current portion	3,716,865	4,701,214
Non-current portion	-	443,875

The Federal Economic Development Agency (FedDev) loan is unsecured and non-interest bearing, with total proceeds of $867,000. As at June 30, 2018, the principal balance outstanding on this loan is $578,000 (December 31, 2017 - $621,350). Subsequent to the period-end, the full amount was repaid.

During the three and six months ended June 30, 2018, the company recognized $77,783 and $90,775, respectively, of interest and accretion expense on this loan (three and six months ended June 30, 2017 - $13,607 and $27,412, respectively).

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

During the three and six months ended June 30, 2018, the company recognized $nil and $18,078, respectively, of interest and accretion expense on these loans (three and six months ended June 30, 2017 - $24,665 and $60,814, respectively).

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

	June 30, 2018 $	December 31, 2017 $
Balance - Beginning of period	1,607,195	2,027,893
Repayment	(1,138,048)	(586,700)
Interest and accretion expense	108,853	166,002
Balance - End of period	578,000	1,607,195
Less: Current portion	578,000	1,163,320
Non-current portion	-	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 had the option to extend the loan for up to four successive additional 12-month periods subject to certain conditions. 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). Subsequent to the period-end, the full amount of the Knight Loan, including prepayment fees, was repaid for a total payment of $3,188,023.

A reconciliation of the Knight Loan balance is as follows:

	June 30, 2018 $	December 31, 2017 $
Balance - Beginning of period	3,537,894	4,609,983
Repayment	(815,774)	(2,290,350)
Interest and accretion expense	416,745	1,218,261
Balance - End of period	3,138,865	3,537,894
Less: Current portion	3,138,865	3,537,894
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 and six months ended June 30, 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 recovery of $7,931 and $3,383, respectively (three and six months ended June 30, 2017 - accretion recovery of $71,311 and $74,302, respectively). 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	-	-	20,670	20,670
Amounts paid	(11,333)	(153,056)	-	(164,389)
Change in fair value	-	(24,546)	-	(24,546)
Accretion recovery	(3,383)	-	-	(3,383)
As at June 30, 2018	82,178	1,556,448	305,617	1,944,243
Less: Current portion	82,178	532,388	-	614,566
Non-current portion	-	1,024,060	305,617	1,329,677

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.

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)

	June 30, 2018 $	December 31, 2017 $
108,043,939 (December 31, 2017 - 73,117,377) common shares	120,938,106	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 ($32,044,305, 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	2.22
Granted	17,250,000	1.40	4.72
Balance - June 30, 2018	22,250,000	1.40	4.17

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 and six months ended June 30, 2018 was $235,873 and $476,931, respectively (three and six months ended June 30, 2017 - $450,461 and $551,025, respectively).

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

	Number of options	Weighted average exercise price $
Balance - January 1, 2018	5,318,279	1.09
Granted	1,066,500	1.17
Exercised	(426,562)	0.24
Forfeited	(423,188)	1.01
Balance - June 30, 2018	5,535,029	1.18

The following table summarizes information about the share options outstanding as at June 30, 2018:

Exercise price $	Number of options outstanding	Weighted average remaining contractual life (years)	Number of options exercisable
0.24	220,000	4.21	220,000
0.30	21,000	0.81	21,000
0.85	392,000	9.38	-
0.97	66,000	8.82	44,000
0.99	28,000	9.75	-
1.02	115,500	9.97	-
1.10	1,971,724	8.46	750,943
1.19	918,000	9.90	-
1.35	132,500	8.15	84,462
1.46	964,055	8.14	443,733
1.50	706,250	7.17	533,737
	5,535,029	8.38	2,097,875

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.

	June 15, 2018	May 22, 2018	March 28, 2018
Expected volatility	96%	96%	96%
Expected life of share options	6 years	6 years	6 years
Risk-free interest rate	2.19%	2.30%	2.14%
Dividend yield	-	-	-

13 Nature of expenses

	Three months ended June 30, 2018 $	Three months ended June 30, 2017 $	Six months ended June 30, 2018 $	Six months ended June 30, 2017 $
Production and manufacturing costs	45,537	318,726	237,590	492,827
Salaries and benefits	2,657,601	1,466,530	5,095,979	3,188,370
Consulting fees	1,286,739	2,078,647	2,552,083	3,242,981
Research and development expense	266,463	309,782	320,255	475,021
Sales and marketing expenses	427,721	444,998	685,885	1,166,015
Amortization and depreciation	424,548	77,277	848,386	143,629
Share-based compensation	235,873	450,461	476,931	551,025
Rent	193,075	157,015	348,741	309,292
Other expenses	286,365	211,633	256,035	408,776
	5,823,922	5,515,069	10,821,885	9,977,936

14 Finance costs

	Three months ended June 30, 2018 $	Three months ended June 30, 2017 $	Six months ended June 30, 2018 $	Six months ended June 30, 2017 $
Knight loan (note 9)	264,766	262,327	416,745	511,488
Change in fair value of contingent consideration (note 10)	(73,193)	-	(24,546)	-
HTX and FedDev loans (note 9)	77,783	38,272	108,853	88,226
Royalty interest accretion recovery (note 9)	(7,931)	(71,311)	(3,383)	(74,302)
Provisions (note 8)	1,261	1,130	2,488	2,230
Foreign exchange (gain) loss	50,920	(99,982)	133,412	(107,506)
	313,606	130,436	633,569	420,136

15 Loss per common share

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

	Three months ended June 30, 2018 $	Three months ended June 30, 2017 $	Six months ended June 30, 2018 $	Six months ended June 30, 2017 $
Net loss for the period	5,831,028	4,658,493	10,769,214	8,773,275
Denominator for basic and diluted loss per share	107,727,319	55,372,307	92,614,640	55,329,563
Basic and diluted loss per share	0.05	0.08	0.12	0.16

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 5,535,029 share options and 22,250,000 warrants not included in the calculation of diluted loss per common share for the period ended June 30, 2018, 24,347,875 were exercisable (June 30, 2017 - 1,345,487).

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 June 30, 2018 $	Three months ended June 30, 2017 $	Six months ended June 30, 2018 $	Six months ended June 30, 2017 $
Salaries and employee benefits	705,127	219,928	908,853	547,417
Termination benefits	-	-	114,750	138,125
Directors' fees	20,084	19,739	40,031	41,989
Share-based compensation	228,792	423,403	401,596	496,554
	954,003	663,070	1,456,230	1,224,085

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 office space and took possession of this office space effective July 1, 2016. Included in prepaid expenses and deposits at June 30, 2018 is an amount of $270,000 related to prepaid rent for this lease that is drawn down at $10,000 per month starting October 1, 2016. The future minimum obligations are as follows:

	$
No later than 1 year	482,512
Later than 1 year and no later than 5 years	2,239,050
Later than 5 years	1,880,021
	4,601,583

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.

The company has also indemnified certain lenders and underwriters in relation to certain debt and equity 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 lenders or their affiliates against certain liabilities.

18 Segment information

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

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

	Canada $	Germany $	Finland $	Total $
Revenue				
Product	-	170,931	-	170,931
Services	12,119	30,293	-	42,412
	12,119	201,224	-	213,343
Cost of sales	-	126,259	-	126,259
Gross profit	12,119	74,965	-	87,084
Expenses				
Research and development	2,009,586	-	338,323	2,347,909
General and administrative	2,236,529	-	-	2,236,529
Selling and distribution	599,998	333,040	180,187	1,113,225
	4,846,113	333,040	518,510	5,697,663
Segment loss	4,833,994	258,075	518,510	5,610,579
Net finance costs				196,249
Net loss for the period before income taxes				5,806,828

For the six-month period ended June 30, 2018:

	Canada $	Germany $	Finland $	Total $
Revenue				
Product	-	543,425	-	543,425
Services	12,119	34,134	-	46,253
	12,119	577,559	-	589,678
Cost of sales	-	357,334	-	357,334
Gross profit	12,119	220,225	-	232,344
Expenses				
Research and development	3,835,311	-	1,029,379	4,864,690
General and administrative	3,359,195	-	180,538	3,539,733
Selling and distribution	1,003,598	726,324	330,205	2,060,127
	8,198,104	726,324	1,540,122	10,464,550
Segment loss	8,185,985	506,099	1,540,122	10,232,206
Net finance costs				476,408
Net loss for the period before income taxes				10,708,614

Other financial information for the three-month period ended June 30, 2018:

	Canada $	Germany $	Finland $	Total $
Amortization of intangible assets	282,110	-	-	282,110
Depreciation of property and equipment	78,865	935	62,638	142,438

Other financial information for the six-month period ended June 30, 2018:

	Canada $	Germany $	Finland $	Total $
Amortization of intangible assets	564,219	-	-	564,219
Depreciation of property and equipment	157,730	1,859	124,578	284,167

Other financial information by segment as at June 30, 2018:

	Canada $	Germany $	Finland $	Total $
Total assets	43,605,406	804,767	1,659,746	46,069,919
Goodwill and intangible assets	7,986,944	-	-	7,986,944
Property and equipment	935,659	1,506	519,756	1,456,921

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

19 Subsequent event

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 of the principal of $378,788 plus accrued interest will commence 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. In connection with this term loan agreement, the company also issued 321,714 common share purchase warrants to CIBC.