



Perimeter Medical Imaging AI, Inc.

Management's Discussion and Analysis

For the Three and Nine Months Ended September 30, 2020 and 2019

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This Management's Discussion and Analysis ("MD&A") for Perimeter Medical Imaging AI Inc. ("Perimeter" or the "Company") prepared as of November 20, 2020 should be read in conjunction with the September 30, 2020 unaudited interim condensed consolidated financial statements and related notes of Perimeter. The unaudited interim condensed consolidated financial statements of Perimeter and related notes were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting. Those interim financial statements do not include all the disclosures required by IFRS for annual consolidated financial statements and accordingly should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2019 prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). All of the amounts are expressed in Canadian dollars unless otherwise indicated. References to "Perimeter" or "the Company" mean Perimeter and/or its management.

## **FORWARD LOOKING STATEMENTS**

This MD&A contains certain information that may constitute forward-looking information within the meaning of Canadian securities laws which the Company refers to as forward-looking information. In some cases, forward-looking information can be identified by the use of terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or other similar expressions concerning matters that are not statements about the present or historical facts. Forward-looking information may relate to management's future outlook and anticipated events or results, and may include statements or information regarding the future financial position, business strategy and strategic goals, competitive conditions, research and development activities, projected costs and capital expenditures, financial results, research and clinical testing outcomes, taxes and plans and objectives of, or involving, Perimeter. Without limitation, information regarding future sales and marketing activities, OTIS™ optical tissue imaging platform (the "Products") sales, placements and utilization rates, reimbursement for the various OTIS™ procedures, future revenues arising from the sales of the Company's Products, future potential partnerships, research and development activities, the Company's plans to seek further regulatory clearances for additional indications, as well as the Company's plans for development of artificial intelligence software is forward-looking information.

Forward-looking information is based on certain factors and assumptions regarding, among other things, market acceptance and the rate of market penetration of Perimeter's Products, the success of Perimeter's partnerships and distribution arrangements, the effect of reimbursement codes for procedures involving use of the Products and the clinical results of the use of the Products. While the Company considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect and actual results may vary materially from the disclosure herein. The successful commercialization of any one of the Products will depend on a number of financial, logistical, technical, legal, regulatory, competitive, economic and other factors, the outcome of which cannot be predicted, and some of which will be out of the Company's control. Due to the early stage of commercialization for certain Products, it is difficult for the Company to accurately predict its future revenues or results of operations or the timing of its current research and development programs. In addition, despite the Company's current focus on the commercialization of its products, the Company continues to invest in additional research and development in order to expand the applications of the OTIS™ platform,

and these activities may require significant cash commitments which may, in turn, affect the profitability of the Company.

Forward-looking information is subject to certain factors, including risks and uncertainties, which could cause actual results to differ materially from what the Company currently expects. These factors include: risks relating to the existence of a material uncertainty that may cast significant doubt as to the Company's ability to continue as a going concern; transition from research and development activities to commercial activities; market acceptance and adoption of the Products; risks relating to the Company's implementation of a sales and marketing model with respect to the OTIS™ platform; the risk that changes to current healthcare reimbursement codes or healthcare spending will negatively affect the acceptance or usage of the Products; quarter to quarter fluctuations in financial results due to numerous external risk factors; risks related to third-party contractual performance; risks associated with the introduction of products or existing products by competitors that compete with the Products; risks associated with conducting business internationally; risks related to medical or scientific advances that could render the Products obsolete; market acceptance and adoption of the OTIS™ platform; dependence on key suppliers for components of certain Products; regulatory and clinical risks; risks relating to the protection of its patents, trade secrets, trademarks and other intellectual property ("IP") and third party IP; risks inherent in the conduct of research and development activities, including the risk of unfavorable or inconclusive clinical trial outcomes; potential product liability, competition and the risks posed by potential technological advances; risks relating to fluctuations in the exchange rate between the U.S. and the Canadian dollar; and risks related to the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", that has resulted in governments worldwide enacting emergency measures to combat the spread of the virus, including but not limited to the implementation of travel bans, self-imposed quarantine periods and social distancing, which have caused material disruption to businesses globally resulting in an economic slowdown.

Undue importance should not be placed on forward-looking information, nor should reliance be placed upon this information as of any other date. Unless required by law, Perimeter does not undertake to update this information at any particular time. These forward-looking statements are made as of the date of this MD&A. Unless otherwise indicated, this MD&A was prepared by management from information available through November 20, 2020 and was approved by the Board of Directors (the "Board") on that date.

## **COMPANY OVERVIEW**

Perimeter Medical Imaging AI, Inc. (the "Company" or "Perimeter") was formed in British Columbia on June 29, 2020 by the amalgamation of New World Resource Corp. ("New World") and Perimeter Medical Imaging, Inc. ("Pre-close Perimeter"). The Company is listed as a Tier 2 issuer on the TSX Venture Exchange ("TSXV") on July 7, 2020 under the symbol PINK. The Company's registered office is located at Suite 1700, Park Place, 666 Burrard Street, Vancouver, British Columbia V6C 2X8. The Company's head office is located at 359 Eastern Avenue, Suite 110, Toronto, Ontario M4M 1B7.

Perimeter has one wholly-owned subsidiary, Perimeter Medical Imaging Corp., a Delaware corporation.

On June 29, 2020, the Company completed a reverse take-over of New World via the plan of arrangement as detailed in the arrangement agreement dated June 3, 2019 and amended November 29, 2019 and April 23, 2020 (the "Plan of Arrangement").

Under the Plan of Arrangement, former New World securityholders were issued 5,000,000 common shares of Perimeter and 1,712,381 common share purchase warrants having an exercise price of \$1.20. Shareholders of Pre-close Perimeter's common shares were issued 26,787,392 common shares of Perimeter. This reflects the exchange ratio established under the Plan of Arrangement under which shareholders of Pre-close Perimeter received 0.2083333 common shares of Perimeter in exchange for each common share of Pre-close Perimeter held and shareholders of New World received 0.36499 common shares of Perimeter in exchange for each New World common share held. Former option holders and warrant holders of Pre-close Perimeter had their options and warrants converted into 5,059,047 options and 3,530,169 warrants of Perimeter based on the same exchange ratio used in the Plan of Arrangement. Accordingly, all common share references to activity prior to the reverse takeover have been restated to reflect the exchange ratio.

Immediately following closing of the Plan of Arrangement, Perimeter closed a non-brokered private placement financing (the "Offering") of units ("Units") for net proceeds of \$9,408,269 (\$9,995,410, before issuance costs).

In the Offering, Perimeter issued 6,893,386 Units at a price of \$1.45 per Unit. Each Unit consists of one (1) common share and one-half (1/2) of a common share purchase warrant ("Warrant") with each whole Warrant exercisable into a common share of Perimeter at an exercise price of \$2.00 for a period of 18 months from closing of the Offering, subject to adjustment in certain customary events. The Warrants will be subject to accelerated conversion if the underlying common shares trade above a \$3.00 15-day volume-weighted average price on the TSXV at any time following the date that is four months and a day following the closing.

In connection with the closing of the Offering, the Company paid finder's fees of \$587,141 in cash and issued 400,806 non-transferable finder's warrants ("Finder's Warrants"). Each Finder's Warrant will entitle the holder thereof to purchase one common share of Perimeter at a price of \$1.45 for a period of 24 months from the date of the closing of the Offering.

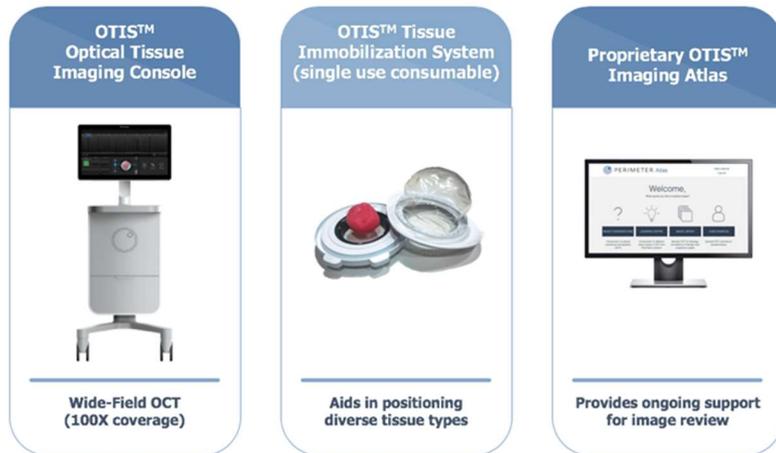
## **BUSINESS OF PERIMETER**

Perimeter's mission, as an innovative medical technology company, is to transform cancer surgery with ultra-high-resolution, real-time, advanced imaging tools to address unmet medical needs. Perimeter's vision is that patients will no longer experience the costly emotional and physical trauma of being called back for a second surgery due to cancer left behind.

### *Perimeter's Optical Tissue Imaging System*

The OTIS™ imaging platform, which has received clearance from the U.S. Food and Drug Administration (FDA), provides clinicians with the real time ability to assess tissue microstructures during diagnostic, surgical and pathology procedures. OTIS's initial product offering is an intraoperative imaging tool which provides surgeons, pathologists and radiologists with real-time ability to review tumor margins during surgery. OTIS™ is based on optical coherence tomography, a mature technology with existing commercial applications in ophthalmology and vascular imaging. Perimeter's novelty is the ability to rapidly image large and complex surfaces.

The OTIS™ optical tissue imaging console includes a specimen handling consumable designed to hold and maintain orientation of the specimen, an intraoperative device for automated scanning of the specimen that provides a rapid subsurface map of up to a 10 x 10 cm surface area, and a proprietary imaging atlas and training set.



OTIS™ scans the specimen in the consumable container during the surgical procedure, with results available for display on the device screen and over the Picture Archiving and Communications Systems ("PACS"), enabling collaboration between surgeon, radiologist and pathologist. A graphical user interface allows the user to navigate through different areas of the specimen and to adjust display parameters on selected images of interest.

OTIS™ has been designed to integrate into current clinical workflows. Following surgical excision, the excised tissue is scanned for confirmation prior to completion of the surgery. This real-time imaging provides the surgeon with information needed to determine whether additional intervention is required. Several key features that OTIS™ delivers include:

- Automated Image Capture – Automated scanning of individual margins (no increased operator workload from manipulating an imaging probe)
- Margin Visualization – Provides the ability to measure true margin width
- Full Specimen Coverage - High resolution images of 1 to 6 margins
- Orientation Management – Preserves and conveys specimen orientation
- Non Destructive – Preserves tissue for post-operative pathology
- No Oral or Injectable – Patient dosing is not required, so there are no side-effects to the patient
- Supports Multiple Clinical Users – PACS integration enables image assessment by surgeons, radiologists or pathologists
- Co-Registration (planned) – Integration with other imaging modalities for enhanced specimen assessment and minimized equipment footprint

Perimeter has four issued patents and five patent applications filed. Three of Perimeter's four issued patents are expected to expire in 2033, and the remaining patent is expected to expire in 2038.

Perimeter submitted a traditional 510(k) to the FDA for its second-generation imaging platform (OTIS 2.0) in 2019 and received clearance in March 2019 (application K190404). The indications for use were identical to the first-generation device. The second-generation device features several key improvements in functionality over the first-generation OTIS™:

- Improvements in scanning methodology resulting in 30x faster image acquisition
- The addition of a vacuum-assisted specimen positioning consumable set
- Refined graphical user interface to enable touchscreen use

## **New developments in 2020**

On February 22, 2020, the Company entered into a product development grant agreement with the Cancer Prevention and Research Institute of Texas ("CPRIT"). Pursuant to the terms of the agreement, CPRIT will grant the Company US\$7,446,844 to fund activities related to its artificial intelligence software. For twelve years following the first commercial sale of commercial products (i.e., anything that is based on, utilizes or is developed from, or materially incorporates, the results of the grant-funded project and that is capable of being sold, licensed, transferred or conveyed to another party or is capable of otherwise being exploited or disposed of, whether in exchange for consideration or not), the Company is required to pay CPRIT a royalty of 2.5% of revenue of until such time that 250% of grant proceeds have been repaid and 0.5% thereafter for the remaining twelve-year term. As of September 30, 2020, the Company received US\$1,220,666 of the US\$7,446,844 to fund activities related to the first year of the project.

### *ATLAS AI Project*

On July 15, 2020, the Company announced the initiation of part one of its ATLAS AI project that will collect images of breast tumors to both train and test their ImgAssist AI technology which is currently under development. This technology is designed to utilize a machine learning model to help surgeons identify, in real-time, if cancer is still present when performing breast-conserving surgery. Perimeter will install OTIS™ high-resolution imaging devices at their partner sites and expects to enroll up to 400 patients. Since the announcement, patients have begun accruing at Baylor College of Medicine, M.D. Anderson Cancer Center, and UT Health San Antonio.

### *Key management personnel updates*

On February 2, 2020, Tom Boon was appointed as the Chief Executive Officer ("CEO") of the company. He succeeds William Rosellini who left his position as CEO and resigned from all of his roles at Perimeter on the same date. On February 3, 2020 Tom Boon joined the Board. Mr. Boon brings extensive experience in the diagnostic imaging industry to Perimeter. As diagnostic imaging is a major part of breast cancer screening, detection, diagnosis and surgery, Mr. Boon's senior leadership roles in the areas of manufacturing, quality and regulatory, sales and product management will be advantageous to his role at Perimeter. Mr. Boon has previously worked with medical device companies including Imaging Dynamics Company Ltd, Del Medical Systems Group, and Agfa Healthcare. His dedication to the mission at Perimeter is a personal one, as his daughter is a breast cancer survivor. Prior to joining Perimeter, Mr. Boon served as President of Summit Industries for nearly 10 years.

On July 3, 2020, the Company announced the appointment of Ian Mortimer to the Board. Mr. Mortimer has been President and Chief Financial Officer of Xenon Pharmaceuticals Inc. (XENE on NASDAQ) since March 2018 and additionally has served as Xenon's Corporate Secretary since June 2015. Mr. Mortimer previously served as Xenon's Chief Financial Officer and Chief Operating Officer since March 2015 and as its Chief Financial Officer since October 2013. Mr. Mortimer previously served in senior executive roles at Tekmira Pharmaceuticals Corporation (now Arbutus Biopharma Corporation), a NASDAQ-listed biotechnology company, and at Inex Pharmaceuticals. Mr. Mortimer also serves as chair of the board of directors of Appili Therapeutics Inc., a publicly-traded biopharmaceutical company focused on developing treatments for infectious diseases.

On August 26, 2020, the Company announced the appointment of Aaron Davidson to the Board. Mr. Aaron Davidson is CFO and Senior Vice President of Corporate Development of Profound

Medical Inc., a medical technology company that is developing real-time MRI-guided thermal ultrasound systems for incision-free ablation of abnormal or cancerous tissue. Before joining Profound, Mr. Davidson served as Co-Head and Managing Director of H.I.G. BioHealth Partners, where he focused on investment opportunities with emerging life sciences companies. Mr. Davidson began his career with Eli Lilly and Company, where he spent a decade in various operating management roles in the United States and Canada, including financial management, business development, strategic planning, market research and general management.

On September 1, 2020, Steve Sapot was appointed Chief Commercial Officer. Mr. Sapot brings a wealth of experience leading and scaling teams commercializing capital equipment in breast cancer surgery. Prior to joining Perimeter, Mr. Sapot was Senior Vice President of Medical Sales of Faxitron, a Hologic Company. He joined Faxitron in 2013 as the Southern California Regional Sales Manager and has served as SVP of Medical Sales from 2016 to 2018, growing the medical business and managing sales growth while overseeing a nationwide salesforce in Capital Equipment sales in the field of specimen radiography. When Hologic acquired Faxitron in 2018, Mr. Sapot assumed a leadership role in the newly formed Breast Surgery franchise.

On October 20, 2020, Jeremy Sobotta was appointed Chief Executive Officer and Tom Boon as Chief Operating Officer. Mr. Sobotta continue to represent Perimeter in the capital markets and focus on leading the Company as it grows and executes on its strategic plans, while Mr. Boon will continue to draw upon his extensive operational expertise to build the appropriate infrastructure for a commercial organization.

## SELECTED FINANCIAL INFORMATION

The following selected financial information as at and for the three-and nine-month periods ended September 30, 2020 and 2019, has been derived from the unaudited interim condensed consolidated financial statements and should be read in conjunction with those unaudited interim condensed consolidated financial statements and related notes.

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	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Current assets	\$ 13,564,771	\$ 2,478,077
Total assets	13,673,137	2,552,234
Current liabilities	2,039,388	18,544,449
Non-current liabilities	634,548	481,000
Total liabilities	2,673,936	19,025,449

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	<u>Nine months ended September 30, 2020</u>	<u>Nine months ended September 30, 2019</u>
Comprehensive loss	\$ (5,585,085)	\$ (7,874,114)
Basic and diluted loss per common share	(0.24)	(0.65)
Cash (used in) operating activities	(5,617,948)	(4,737,545)
Cash from (used in) investing activities	3,869,384	(37,194)
Cash from financing activities	9,604,037	5,716,786

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## RESULTS OF OPERATIONS

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
<b>Grants</b>	\$ 16,416	\$ 41,164	\$ 78,997	\$ 113,722
<b>Operating Expenses</b>				
Salaries and wages	648,956	424,658	1,878,171	2,093,443
Employee taxes and benefits	52,347	41,774	183,267	185,437
Stock-based compensation	521,404	329,415	688,975	799,257
Subcontractors	23,087	140,690	388,391	396,864
Consulting fees	300,831	304,124	447,292	633,009
Professional fees	229,454	601,526	1,443,774	961,810
Marketing	61,882	14,525	74,785	30,445
Dues and subscriptions	42,277	21,668	126,453	57,483
Travel	15,510	38,467	64,235	178,231
Research and development	130,937	353,579	304,270	552,207
Occupancy costs	23,315	20,429	78,293	79,480
Depreciation and amortization	11,996	14,683	32,951	40,399
Other	139,260	17,695	214,396	104,414
<b>Total Operating Expenses</b>	2,201,256	2,323,233	5,925,253	6,112,479
Net foreign exchange losses	(19,252)	(14,675)	(17,483)	(25,529)
Finance income (costs)	3,004,122	453,441	3,523,561	(1,849,828)
Listing costs	-	-	(3,298,270)	-
Impairment of equipment	-	-	-	-
<b>Income (Loss) before income taxes</b>	800,030	(1,843,303)	(5,638,448)	(7,874,114)
<b>Income tax expense</b>	-	-	-	-
<b>Income (Loss) for the period</b>	\$ 800,030	\$ (1,843,303)	\$ (5,638,448)	\$ (7,874,114)
<b>Other comprehensive income (loss)</b>				
<b>Items that may be reclassified subsequently to profit:</b>				
Foreign currency translation differences for foreign operations - net of tax of nil (2019: nil)	39,240	-	53,363	-
<b>Comprehensive Income (Loss)</b>	\$ 839,270	\$ (1,843,303)	\$ (5,585,085)	\$ (7,874,114)
<b>Basic and diluted loss per common share</b>	\$ 0.02	\$ (0.14)	\$ (0.24)	\$ (0.65)

## **RESULTS OF OPERATIONS – Three months ended September 30, 2020 and 2019**

### *Operating expenses*

Operating expenses for the three months ended September 30, 2020 were \$2,201,256 compared to \$2,323,233 during the same period in 2019, a 5.3% decrease.

Salaries and wages expense was \$648,956 for the three months ended September 30, 2020 compared to \$424,658 for the same period during 2019, the increase is mainly attributable to the increase in staffing in 2020 and filling open management roles in 2020 not filled in 2019.

Share based compensation expense was \$521,404 for the three months ended September 30, 2020 compared to \$329,415 for the same period in 2019.

Consulting fees were \$300,831 for the three months ended September 30, 2020 compared to \$304,124 for the same period in 2019, a decrease of \$3,293 mainly driven by the offset of expense on account of the CPRIT grant income recognized in 2020.

Professional fees of \$229,454 for the three months ended September 30, 2020 were \$372,072 lower than fees of \$601,526 in the same period in the previous year resulting, primarily, from costs associated with the private placement in the three months ended September 30, 2019.

Research and development expense was \$130,937 for the three months ended September 30, 2020 compared to \$353,579 for same period during 2019, a decrease of \$222,642 mainly driven by the offset of expense from the CPRIT grant in 2020.

### *Finance income (costs)*

Finance income for the three-month period was \$3,004,122 compared to \$453,441 for the same period in 2019. The increase in finance income for 2020 was mainly attributable to the realized and unrealized gain on investments acquired in the RTO.

### *Net Income (loss)*

The net income for the three months ended September 30, 2020 was \$800,030 compared to a \$(1,843,303) loss in the same period in 2019 primarily as a result of the changes noted above.

## **RESULTS OF OPERATIONS – Nine months ended September 30, 2020 and 2019**

### *Operating expenses*

Operating expenses for the nine months ended September 30, 2020 were \$5,925,253 compared to \$6,112,479 during the same period in 2019, which is consistent.

Salaries and wages expense was \$1,878,171 for the nine months ended September 30, 2020 compared to \$2,093,443 for the same period during 2019 the decrease is mainly attributable to the temporary wage subsidy from the Government of Canada's Innovation Assistance Program and CPRIT grant in 2020.

Share based compensation expense was \$688,975 for the nine months ended September 30, 2020 compared to \$799,257 for the same period in 2019. The reduction was driven primarily by the forfeiture of options related to the departure of the Company's former CEO.

Subcontractors expense was \$388,391 for the nine months ended September 30, 2020 compared to \$396,864 for same period during 2019, a decrease of \$8,473.

Consulting fees were \$447,292 for the nine months ended September 30, 2020 compared to \$633,009 for the same period in 2019, a decrease of \$185,717 mainly driven by the offset of expense on account of the CPRIT grant income recognized in 2020.

Professional fees of \$1,443,774 for the nine months ended September 30, 2020 were \$961,810 higher than fees of \$481,964 in the same period in the previous year resulting, primarily, from costs associated with the RTO and support of commercialization.

### *Finance income (costs)*

Finance income (costs) for the nine-month period were \$3,523,561 compared to \$(1,849,828) for the same period in 2019. The finance income in 2020 was mainly attributable to the realized and unrealized gain on investments acquired in the RTO. The finance costs in 2019 were attributable to accretion on convertible debt.

### *Net Loss*

The net loss for the nine months ended September 30, 2020 was \$5,638,448 compared to \$7,874,114 in the same period in 2019 primarily as a result of the changes noted above.

## SUMMARY OF QUARTERLY RESULTS

The following is selected financial information derived from the most recently completed quarters:

	<b>Grants</b>	<b>Basic and Diluted Income (Loss) per Share</b>	<b>Net Income (Loss) for the period</b>
March 31, 2019	\$36,586	\$(0.14)	\$(2,292,581)
June 30, 2019	35,972	(0.33)	(3,738,227)
September 30, 2019	41,164	(0.14)	(1,843,303)
March 31, 2020	32,117	(0.20)	(1,805,879)
June 30, 2020	30,465	(0.30)	(4,632,599)
September 30, 2020	16,416	0.02	800,030

## FINANCIAL POSITION

The following is a discussion of the changes to the Company's financial position as at September 30, 2020 as compared to December 31, 2019:

	September 30 2020	December 31 2019	Change \$	Change %
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 9,065,685	\$ 1,210,212	7,855,473	649
Investments	2,930,660	-	2,930,660	-
Other receivables	279,218	253,483	25,735	10
Investment tax credits recoverable	305,835	760,951	(455,116)	(60)
Prepaid expenses	983,373	253,431	729,942	288
	<u>13,564,771</u>	<u>2,478,077</u>	<u>11,086,694</u>	<u>447</u>
<b>Non-current assets</b>				
Property and equipment	105,417	70,341	35,076	50
Intangible assets	2,949	3,816	(867)	(23)
<b>Total assets</b>	<u>\$ 13,673,137</u>	<u>\$ 2,552,234</u>	<u>11,120,903</u>	<u>436</u>

	September 30 2020	December 31 2019	Change \$	Change %
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	\$ 1,322,897	\$ 2,029,572	(706,675)	(35)
Current portion of government debt	39,713	153,117	(113,404)	(74)
Current portion of deferred grant income	641,029	140,779	500,250	355
Current portion lease liability	35,749	22,667	13,082	58
Convertible debt	-	13,833,704	(13,833,704)	(100)
Derivative liability	-	2,364,610	(2,364,610)	(100)
	<u>2,039,388</u>	<u>18,544,449</u>	<u>(16,505,061)</u>	<u>(89)</u>
<b>Non-current liabilities</b>				
Government debt	341,682	202,676	139,007	69
Deferred grant income	259,818	278,324	(18,506)	(7)
Lease liability	33,048	-	33,048	-
	<u>634,548</u>	<u>481,000</u>	<u>153,548</u>	<u>32</u>
<b>Shareholders' equity</b>				
Share capital	49,802,720	17,798,486	32,004,234	180
Contributed surplus	6,225,267	5,172,000	1,053,267	20
Accumulated deficit	(45,082,149)	(39,443,701)	(5,638,448)	14
Accumulated currency translation adjustment	53,363	-	53,363	-
	<u>10,999,201</u>	<u>(16,473,215)</u>	<u>27,472,416</u>	<u>(167)</u>
<b>Total shareholders' equity</b>	<u>10,999,201</u>	<u>(16,473,215)</u>	<u>27,472,416</u>	<u>(167)</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 13,673,137</u>	<u>\$ 2,552,234</u>	<u>11,120,903</u>	<u>436</u>

## *Assets*

The increase in Cash and cash equivalents is comprised of net proceeds from the private placement common stock issuance of \$9,408,269, \$1,703,195 from the CPRIT grant in 2020 and \$2,964,119 proceeds from the sale of investments.

Investments of \$2,930,660 are from the acquisition of New World Corp investments as part of the reverse takeover.

The decrease in Investment tax credit recoverable is due to the collection of the 2018 SR&ED tax credit in 2020.

The increases in prepaid expenses are due to general prepayment of operational changes of insurance, investor relations, marketing and product engineering.

The change in property and equipment includes the addition of the right-of-use asset of \$71,300 for the new office lease offset by depreciation of assets in use.

The decrease in intangible assets is due to depreciation of assets in use.

## *Current Liabilities*

The decrease in accounts payable and accrued liabilities is due to working capital requirements.

The reduction in current portion of government debt reflects delay in repayment and modification of terms of government debt due to COVID relief.

Current portion of deferred grant income increased due to the advanced CPRIT grant funds from the State of Texas that have not yet been earned.

Lease liability increased due to the new office lease starting in September 2020.

Convertible debt and derivative liability reflect payoff of debt with common stock issuance.

## *Non-current Liabilities*

The increase in government debt reflects delay in repayment of government debt due to COVID relief.

## *Shareholders' equity*

Share capital increase is mainly due to private placement of shares and the conversion of convertible debt into common stock.

The contributed surplus includes increase in reserves from share purchase options granted and the issuance of share purchase warrants pursuant to the private placement.

## **LIQUIDITY AND CAPITAL RESOURCES**

Since its inception, Perimeter has financed its cash requirements primarily through the issuance of securities and convertible debt, investment tax credits and government funding.

The Company has generated losses and negative cash flows from operations and does not yet generate sufficient operational cash flows to meet the Company's planned growth and to fund development activities. The Company relies on funding from outside sources to execute its current and future business development plans which include but are not limited to potential acquisitions, design and development and clinical trials, the investment required for the potential revenue

generating assets utilized in placement models and the required funding for the recruitment and development of a commercial team. The Company is dependent on investors or strategic partners to continue to invest in the Company or to enter into strategic relationships to continue further development of the Company's products.

Based on the cash and cash equivalents and investments of \$11,996,345 at September 30, 2020, the inflows from approved government grants, and the capital available from the conversion of outstanding share purchase warrants, the Company expects to continued support from investors and lenders as capital needs arise. The Company will need to raise additional capital in the form of equity and/or debt to fund its product development, clinical research and commercialization activities. There is no assurance of the success or sufficiency of any these initiatives. The Company's ability to continue as a going concern is dependent upon developing patents and commercializing advanced in-procedural medical imaging tools. The failure to raise such financing could result in the delay or indefinite postponement of current business objectives and additional financing may not be available, or on favorable terms. The above conditions indicate the existence of a material uncertainty that may cast significant doubt as to the Company's ability to continue as a going concern.

The Company invests its cash and cash equivalents in daily interest accounts at chartered banks in Canada and the USA.

#### Use of Proceeds

On June 29, 2020, Perimeter closed a non-brokered private placement financing (the "Offering") of 6,893,386 Units for net proceeds of \$9,408,269. Each Unit consists of one (1) common share and one-half (1/2) of a common share purchase warrant. The following table compares the intended use of proceeds with the actual expenditures as at September 30, 2020, by which time the proceeds from the Offering were partially expended.

	<b>Estimated per Offering</b>	<b>Total spending at September 30, 2020</b>
Research & Development	\$ 1,870,600	\$ 935,399
Regulatory and Quality Assurance	527,580	217,436
Clinical Studies	4,801,294	790,570
Sales and Marketing	2,645,904	621,653
General & Administration Expenses	3,061,396	2,145,155
Capital Equipment and Inventory	683,722	410,616
Unallocated Funds (Cash and Marketable Securities)	200,000	-
	<b>\$ 13,790,496</b>	<b>\$ 5,120,829</b>

The Company invests its cash and cash equivalents in daily interest accounts at chartered banks in Canada and the USA.

### **Selected consolidated financial information**

The table below summarizes information regarding Perimeter's change in cash and cash equivalents:

	<b>Nine months ended September 30, 2020</b>		<b>Nine months ended September 30, 2019</b>	
Operating activities	\$	(5,617,948)	\$	(4,737,545)
Investing activities		3,869,384		(37,194)
Financing activities		9,604,037		5,716,786
<b>Net increase in cash and cash equivalents</b>	<b>\$</b>	<b>7,855,473</b>	<b>\$</b>	<b>942,047</b>

#### *Operating Activities*

For the nine-month period ended September 30, 2020, cash used in operating activities was \$(5,617,948) (2019: \$(4,737,545)) which included cash expenditures (cash burn) before change in working capital of \$(4,590,225) (2019: \$(5,573,547)) and a decrease in non-cash working capital of \$(414,146) and an increase in 2019 of \$836,002. The cash burn during the nine months ended September 30, 2020 was mainly driven by costs associated with the reverse takeover. The decrease in working capital was driven by decreases in accounts payable and accrued liabilities and an increase deferred grant associated with professional services related to the reverse takeover, activities related to clinical study startup costs, and an increase in prepaids for manufacturing.

#### *Investing Activities*

For the nine months ended September 30, 2020, cash from investing activities was \$3,869,384 compared to \$(37,194) used in the same period in 2019. The cash received in 2020 was from the New World Corp. acquisition and the proceeds from the sale of investments while the cash used in 2019 was driven by the purchase of equipment.

#### *Financing Activities*

For the nine months ended September 30, 2020, cash generated in financing activities was \$9,604,037 (2019: \$(5,716,786)) of which \$9,408,269 (2019: \$3,913,405) was generated from the issuance of common shares and \$1,830,000 in 2019 (2020: nil) from the proceeds of the issuance of convertible debt.

### Contractual Obligations

September 30, 2020	Carrying Amount	Total	2 months or less	2-12 months	1-2 years	Thereafter
Trade and other payables	\$ 1,322,897	(1,322,897)	(1,322,897)	-	-	-
Lease liabilities	68,797	(78,329)	(6,638)	(40,326)	(31,365)	-
Unsecured loans from the government	381,395	(721,500)	(10,000)	(110,000)	(225,000)	(376,500)
	<b>1,773,089</b>	<b>(2,122,726)</b>	<b>(1,339,535)</b>	<b>(150,326)</b>	<b>(256,356)</b>	<b>(376,500)</b>

### OUTSTANDING SHARES

As at September 30, 2020, the Company had the following securities outstanding:

	Number
Common Shares	38,866,728
Warrants	9,039,775
Options	5,549,862

### OFF-BALANCE SHEET ARRANGEMENTS

On February 22, 2020, the Company entered into a product development grant agreement with the CPRIT. Pursuant to the terms of the agreement, CPRIT will grant the Company US\$7,446,844 to fund activities related to its artificial intelligence software. For twelve years following the first commercial sale of commercial products (i.e., anything that is based on, utilizes or is developed from, or materially incorporates, the results of the grant-funded project and that is capable of being sold, licensed, transferred or conveyed to another party or is capable of otherwise being exploited or disposed of, whether in exchange for consideration or not), the Company is required to pay CPRIT a royalty of 2.5% of revenue of until such time that 250% of grant proceeds have been repaid and 0.5% thereafter for the remaining twelve-year term. On March 27, 2020, the Company received US\$1,220,666 of the US\$7,446,844 to fund activities related to the first year of the project.

### BASIS OF PREPERATION

These interim financial statements for the three and nine months ended September 30, 2020 and 2019 have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB").

These interim financial statements do not include all the disclosures required by International Financial Reporting Standards ("IFRS") for annual consolidated financial statements and accordingly should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2019 prepared in accordance with IFRS as issued by the IASB.

The preparation of the interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported assets, liabilities, revenue and expenses, consistent with those described in the 2019 annual consolidated financial statements and as described in these interim financial statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Estimates are based on historical experience and other assumptions that are considered reasonable in the circumstances. The actual amount or values may vary in certain instances from the assumptions and estimates made.

The accounting policies applied by the Company in these interim financial statements are consistent with those applied by the Company in its consolidated financial statements as at and for the year ended December 31, 2019; except for the following new accounting policies:

### **GOING CONCERN AND STATEMENT OF COMPLIANCE**

The interim financial statements have been on the assumption that the Company is a going concern and will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business, as outlined in Note 2(a) of the interim financial statements.

The Company is currently in its product development stage and therefore has not generated revenue to date, has experienced losses since inception and additional financing will be required before the Company expects to generate positive cash flow. The Company intends to continue to pursue opportunities to raise additional capital in the form of equity and/or debt to fund its product development, clinical research and commercialization activities. There is no assurance of the success or sufficiency of any these initiatives. The Company's ability to continue as a going concern is dependent upon developing patents and commercializing advanced in-procedural medical imaging tools. The failure to raise such financing could result in the delay or indefinite postponement of current business objectives and additional financing may not be available, or on favorable terms.

The above conditions indicate the existence of a material uncertainty that may cast significant doubt as to the Company's ability to continue as a going concern. The interim financial statements do not reflect adjustments that would be necessary if the going concern assumptions were not appropriate. If the going concern basis was not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses, and the consolidated statement of financial position classification used and such adjustments may be material.

### **USE OF ESTIMATES AND JUDGEMENTS**

The preparation of financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of expenses during the reporting period. Actual results could materially differ from these estimates.

## **CRITICAL JUDGEMENTS**

The preparation of the interim financial statements requires management to make judgements, including, among others:

Going concern: The going concern of the Company, as discussed above.

Capitalization of internally developed software: Distinguishing the research and development phases of software projects and determining whether the recognition requirements for the capitalisation of development costs are met requires judgement.

Government grants: Pursuant to the terms of the Company's grant from the Province of Ontario, the Company has met certain terms and conditions to qualify for the grant funding. The Company has therefore recognized the portion of the grant that represents expenses the Company incurred in the applicable period under the grant parameters. The expenses are subject to assessment by granting agency for compliance with the grant regulations which may result in certain claimed expenses being denied.

### **Key Sources of Estimation Uncertainty**

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements in conformity with IFRS requires management to make estimates that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the financial statements and the reported amounts during each reporting period. Actual results could materially differ from those estimates. Significant estimates made by management affecting the consolidated financial statements include, among others:

Fair value measurement: The Company uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets

Valuation of share-based compensation: The Company uses the Black-Scholes option pricing model for valuation of share-based compensation. Option pricing models require the input of subjective assumptions including expected price volatility, risk-free interest rate, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate which correspondingly affects the Company's stock-based compensation expense and equity reserves.

Valuation of warrants: The Company uses the Black-Scholes option pricing model for valuation of the warrants issued to purchasers of its convertible debentures and the arrangers of such financings. Option pricing models require the input of subjective assumptions including expected price volatility, risk-free interest rate, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate which correspondingly affects the Company's finance costs and equity reserves.

Valuation of convertible debt: The Company uses the Black-Scholes option pricing model for valuation of the derivative liability associated with the conversion option of convertible debentures. Option pricing models require the input of subjective assumptions including expected price volatility, risk-free interest rate, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate which correspondingly affects the Company's finance costs and liabilities. The Company was also required to estimate the market rate for a comparable

instrument with a similar term. Changes in the interest rate used can materially affect the fair value estimate and accretion rate of the debt.

Eligibility of expenses for tax refund: The Company is required to interpret government regulations and apply those interpretations in preparing claims for scientific research and development tax credits. Those interpretations and applications are subject to audit and retrospective challenge by taxing authorities. Changes in the eligibility of expenses under government tax credit programs can materially adversely affect the Company's tax credit claim and correspondingly the recorded amounts due from/to the applicable taxing authorities and the recorded amount of tax credit.

Eligibility of expenses under grant programs: The Company is required to interpret government regulations and apply those interpretations in preparing expense claims under grant programs. Those interpretations and applications are subject to audit and retrospective challenge by the granting authorities. Changes in the eligibility of expenses under government grant programs can materially adversely affect the Company's grant claim and correspondingly the recorded amounts due to the applicable granting authorities and the recorded amount as grant income or an offset to the relevant expenses.

Useful lives of depreciable assets: The Company reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and property and equipment.

The uncertainties around the outbreak of the novel coronavirus ( "COVID - 19" ) pandemic required the use of judgments and estimates which resulted in no material impact for the period ended September 30, 2020. The future impact of COVID - 19 uncertainties could generate, in future reporting periods, a significant risk of material adjustment to the reported amounts of assets, liabilities, and expenses in the consolidated financial statements. The extent to which COVID-19 and any other pandemic or public health crisis impacts the Company's business, affairs, operations, financial condition, liquidity, availability of credit and results of operations will depend on future developments that are highly uncertain and cannot be predicted with any meaningful precision, including new information which may emerge concerning the severity of the COVID-19 virus and the actions required to contain the COVID-19 virus or remedy its impact, among others. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions.

## **FINANCIAL INSTRUMENTS**

### **A. Measurement of fair values**

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 - Inputs to the valuation methodology are quoted prices unadjusted for identical assets or liabilities in active markets.

Level 2 - Inputs to valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The equity securities are classified as FVTPL and valued using Level 1 fair value hierarchy in the statement of financial position. The valuation methodology used for these instruments was the quoted price in the active market.

The derivative component of convertible debt is classified as FVTPL and valued using Level 2 fair value hierarchy in the statement of financial position. The valuation technique used for these instruments was the Black-Scholes option pricing model using a weighted average risk-free rate of the bond-equivalent yield at issue date, an expected life of the time to maturity of the host contract, and an expected volatility of between 55 per cent and 65 per cent based on time to maturity. The Company did not have any Level 3 financial instruments or significant unobservable inputs used for the reporting periods. Financial instruments not measured at fair value utilized a discounted cash flows technique. The valuation model considers the present value of expected payments, discounted using a risk-adjusted discount rate. Related valuation processes are described in Note 2 of the consolidated financial statements.

There were no transfers between levels for the periods reported.

## **B. Risk management**

The Company is exposed to various risks in relation to financial instruments. The Company's activities expose it to a variety of financial risks: market risk (including foreign currency and interest rate risk), credit risk and liquidity risk. Risk management is the responsibility of the corporate finance function, which has the appropriate skills, experience and supervision. The Company's risk management is coordinated at its headquarters, in close cooperation with the board of directors, and focuses on identifying and analyzing the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management practices and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company does not actively engage in the trading of financial assets for speculative purposes. The most significant financial risks to which the Company is exposed are described below.

The Company's financial instruments are exposed to certain financial risks including credit risk, liquidity risk, currency risk and interest rate risk. There have been no significant changes to those risks impacting the Company since December 31, 2019.

## **C. Capital management**

Management's objective when managing capital is to ensure the Company has sufficient liquidity to meet all of its commitments and to support the cash requirements for ongoing operations. Management defines capital as shareholders' deficiency, short-term and long-term borrowings and cash and cash equivalents. Management manages the Company's capital structure commitments and maturities and adjusts based on general economic conditions, financial markets and operating risks, and the Company's investment and working capital requirements. To maintain or adjust the Company's capital structure, management may, with approval from the

Company's Board of Directors, issue shares, repurchase shares, issue or repay debt and/or short-term borrowings, or undertake other activities as deemed appropriate under the circumstances. The Board reviews and approves any material transactions that are not part of the ordinary course of business, including proposals for financing transactions and annual capital and operating budgets.

## RELATED PARTY TRANSACTIONS

### A. Transactions with key management personnel

As at September 30, 2020 and 2019, the Company has no receivable or payable amounts with key management personnel or directors.

#### ***Key management personnel compensation***

		September 30, 2020		September 30, 2019
Short-term employment benefits	\$	768,410	\$	432,513
Stock-based compensation		293,284		795,801
		1,061,694		1,228,314

Short-term employment benefits of the Company's key management personnel include salaries and non-cash benefits and includes \$257,810 in cash compensation related to the exit costs of the Company's former CEO. As a result of the separation, the former CEO forfeited 1,681,610 options resulting in a reduction to stock-based compensation of \$518,634.

### B. Other related party transactions

	Note	Transaction value for the period ended		Balance outstanding as at	
		September 30, 2020	September 30, 2019	September 30, 2020	December 31, 2019
<b>Roadmap Capital</b>					
Convertible debt	i	\$ -	\$ 1,600,000	\$ -	\$ 10,887,793
Investor warrants		-	799,973	-	-
Finance fees		-	96,116	-	-
Consulting fees		137,600	-	-	-
Total		\$ 137,600	2,496,089	\$ -	\$ 10,887,793

Roadmap Capital, Inc. has significant influence over the Company. As at September 30, 2020 investment funds managed by Roadmap Capital, Inc. and Roadmap Capital, Inc. owned an aggregate of 16,693,527 common shares (2019 – 6,953,700) of the Company and 467,548 warrants (2019 – 1,134,215) to purchase common shares of the Company. Under a shareholders'

agreement, investment funds managed by Roadmap Capital, Inc. are entitled to elect and have elected two members of the Company's Board of directors.

All transactions with Roadmap Capital, Inc. and funds managed by Roadmap Capital, Inc. are priced on an arm's length basis and are summarized below:

- i. On June 29, 2020, the Company issued 9,073,161 common shares to investment funds managed by Roadmap Capital, Inc. on the conversion of convertible debentures with an aggregate principal of \$10,887,793 with a conversion price of \$1.20 per share. Additionally, the Company issued 666,666 common shares to investment funds managed by Roadmap Capital, Inc. on the exercise of share purchase warrants with an exercise price of \$0.000048.

## **RISKS AND UNCERTAINTIES**

For a detailed discussion of risk factors associated with the Company, refer to the "Risk Factors" section of the latest Management Information Circular which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

The results of operations and financial condition of the Company are subject to a number of risks and uncertainties and are affected by a number of factors outside of the control of management. The Company attempts to mitigate these risks through a combination of sound risk-management practices, insurance and systems of internal control. The risks and uncertainties outlined below do not constitute an exhaustive list. Additional risks and uncertainties not presently known to the Company or that the Company believes to be immaterial may also adversely affect the Company's business.

### **Disclosure Controls and Procedures**

Our disclosure controls and procedures have been designed to provide reasonable assurance that all relevant information is identified to ensure appropriate and timely decisions are made regarding public disclosure.

The Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures are appropriately designed as at September 30, 2020.

### **Internal Control over Financial Reporting**

Management is responsible for designing internal controls over financial reporting, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Chief Executive Officer and the Chief Financial Officer have concluded that the internal controls over financial reporting are appropriately designed as at September 30, 2020. No changes were made to our internal controls over financial reporting during the third quarter ended September 30, 2020, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**Additional Information**

Perimeter Medical Imaging AI, Inc. shares currently trade on the TSX Venture Exchange under the symbol "PINK" and on the Frankfurt Stock Exchange under the symbol "4PC." Additional information relating to us, including all public filings and our Annual Information Form, is available on the SEDAR website ([sedar.com](http://sedar.com)) and on our own website at [perimetermed.com](http://perimetermed.com).

The content of this MD&A reflects information known as of November 20, 2020.