
PERIMETER MEDICAL IMAGING, INC.

Consolidated Financial Statements

Years Ended December 31, 2019 and December 31, 2018



KPMG LLP
Vaughan Metropolitan Centre
Suite 1400
100 New Park Place
Vaughan, Ontario
L4K 0J3
Telephone (905) 265-5900
Fax (905) 265-6390
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Perimeter Medical Imaging Inc.

Opinion

We have audited the consolidated financial statements of Perimeter Medical Imaging Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2019 and December 31, 2018
- the consolidated statements of loss and other comprehensive loss for the years then ended
- the consolidated statements of changes in shareholders' deficiency for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Material Uncertainty Related to Going Concern

We draw attention to Note 1(B) in the financial statements, which indicates that the Entity has experienced losses since inception, has a working capital deficiency and significant debt obligations.

As stated in Note 1(B) in the financial statements, these conditions, along with other matters as set forth in Note 1(B) in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.



We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada
May 12, 2020

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PERIMETER MEDICAL IMAGING, INC.
Consolidated Statements of Financial Position
As at December 31, 2019 and December 31, 2018
(Dollar amounts in Canadian Dollars)

	<u>Note</u>	<u>December 31 2019</u>	<u>December 31 2018</u>
ASSETS			
Current assets			
Cash and cash equivalents	3	\$ 1,210,212	\$ 1,845,620
Other receivables	4	253,483	423,897
Investment tax credits recoverable	5	760,951	425,700
Prepaid expenses and other		253,431	203,180
Total current assets		<u>2,478,077</u>	<u>2,898,397</u>
Non-current assets			
Property and equipment	6	70,341	44,527
Intangible assets	7	3,816	5,468
Total non-current assets		<u>74,157</u>	<u>49,995</u>
Total assets		<u>\$ 2,552,234</u>	<u>\$ 2,948,392</u>

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

PERIMETER MEDICAL IMAGING, INC.

Consolidated Statements of Financial Position (continued)

As at December 31, 2019 and December 31, 2018

(Dollar amounts in Canadian Dollars)

	<u>Note</u>	<u>December 31</u> <u>2019</u>	<u>December 31</u> <u>2018</u>
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 2,029,572	\$ 630,513
Current portion of government debt	8	153,117	371,401
Current portion of deferred grant income	10	140,779	141,841
Lease liability	16	22,667	-
Convertible debt	9	13,833,704	11,878,998
Derivative liability	9	2,364,610	2,023,634
Total current liabilities		<u>18,544,449</u>	<u>15,046,387</u>
Non-current liabilities			
Government debt	8	202,676	382,564
Deferred grant income	10	278,324	421,683
Total non-current liabilities		<u>481,000</u>	<u>804,247</u>
Shareholders' deficiency			
Share capital	12	17,798,486	13,541,747
Contributed surplus	12	5,172,000	2,657,026
Accumulated deficit		(39,443,701)	(29,101,015)
Total shareholders' deficiency		<u>(16,473,215)</u>	<u>(12,902,242)</u>
Total liabilities and shareholders' deficiency		<u>\$ 2,552,234</u>	<u>\$ 2,948,392</u>

Going concern (Note 1b)

Subsequent events (Note 18)

*The Company adopted IFRS 16 Leases using a modified retrospective approach. Under this method, the comparative information is not restated. See Note 2(u).

Approved on behalf of the Board of Directors:

Anthony Holler
Director

Douglas G. Janzen
Director

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

PERIMETER MEDICAL IMAGING, INC.

Consolidated Statement of Loss and Comprehensive Loss

For the years ended December 31, 2019 and December 31, 2018

(Dollar amounts in Canadian Dollars)

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Grants		\$ 144,421	\$ 123,410
Operating Expenses			
Salaries and wages		2,627,466	2,081,043
Employee taxes and benefits		237,271	199,807
Stock-based compensation	12	1,320,627	1,367,458
Subcontractors		989,657	224,260
Consulting fees		817,350	619,666
Professional fees		1,288,100	350,325
Dues and subscriptions		85,612	113,183
Travel		232,230	267,300
Research and development	5	643,352	437,262
Occupancy costs		98,905	215,916
Depreciation and amortization	6,7	51,836	31,080
Other		316,724	110,617
Total Operating Expenses		<u>8,709,130</u>	<u>6,017,917</u>
Net foreign exchange losses		(16,066)	(11,810)
Finance income		4,645	-
Finance costs	13	(1,766,556)	(569,122)
Impairment of equipment	6	-	(29,071)
Loss before income taxes		<u>(10,342,686)</u>	<u>(6,504,510)</u>
Income tax expense		-	-
Comprehensive Loss		<u>\$ (10,342,686)</u>	<u>\$ (6,504,510)</u>
Basic and diluted loss per common share	15	\$ (0.17)	\$ (0.12)

*The Company adopted IFRS 16 Leases using a modified retrospective approach. Under this method, the comparative information is not restated. See Note 2(u).

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

PERIMETER MEDICAL IMAGING, INC.

Consolidated Statements of Changes in Shareholders' Deficiency
For the years ended December 31, 2019 and December 31, 2018
(Dollar amounts in Canadian Dollars)

	Note	Shares Issued	Share Capital	Contributed Surplus	Deficit	Total
Balance as at January 1, 2018		53,929,780	\$ 13,468,959	\$ 1,361,353	\$ (22,596,505)	\$ (7,766,193)
Stock-based compensation		-	-	1,367,458	-	1,367,458
Exercise of options	12	287,724	72,788	(71,785)	-	1,003
Net loss for the year					(6,504,510)	(6,504,510)
Balance as at December 31, 2018		54,217,504	\$ 13,541,747	\$ 2,657,026	\$ (29,101,015)	\$ (12,902,242)
Shares issued - private placement	12	17,554,000	4,388,500	-	-	4,388,500
Share issuance cost	12	-	(475,095)	168,950	-	(306,145)
Stock-based compensation		-	-	1,320,627	-	1,320,627
Shares and warrants issued for services rendered	12	1,173,332	293,334	64,310	-	357,644
Warrants issued with convertible debt	9, 12	-	-	1,011,085	-	1,011,085
Shares issued on exercise of warrants	12	200,000	50,000	(49,998)	-	2
Net loss for the year					(10,342,686)	(10,342,686)
Balance as at December 31, 2019		73,144,836	\$ 17,798,486	\$ 5,172,000	\$ (39,443,701)	\$ (16,473,215)

*The Company adopted IFRS 16 Leases using a modified retrospective approach. Under this method, the comparative information is not restated. See Note 2(u).

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

PERIMETR MEDICAL IMAGING, INC.
Consolidated Statement of Cash Flows
For the years ended December 31, 2019 and 2018
(Dollar amounts in Canadian Dollars)

	Note	2019	2018
Cash flows from operating activities:			
Net loss		\$ (10,342,686)	\$ (6,504,510)
Adjustments for:			
Depreciation	6	50,184	28,737
Amortization	7	1,652	2,343
Stock-based compensation		1,320,627	1,367,458
Equity-settled share-based payment transactions		357,644	-
Net finance costs	13	1,766,556	569,122
Impairment of equipment	6	-	29,071
Grant income		(144,421)	(123,410)
		<u>(6,990,444)</u>	<u>(4,631,189)</u>
Changes in:			
Other receivables	4	191,734	(178,584)
Investment tax credits recoverable	5	(335,251)	688,886
Prepaid expenses and other		(50,251)	(23,873)
Accounts payable and accrued liabilities		<u>1,399,059</u>	<u>56,995</u>
Net cash used in operating activities		(5,785,153)	(4,087,765)
Cash flows used in investing activities:			
Purchase of equipment	6	(46,947)	(53,853)
		<u>(46,947)</u>	<u>(53,853)</u>
Cash flows from/ (used in) financing activities:			
Net proceeds from issuance of common shares	12	4,082,355	1,003
Net proceeds from issuance of convertible debt	9	1,830,000	-
Finance costs paid	13	(142,899)	-
Principal payment of lease liability	16	(27,704)	-
Repayment of amounts related to government debt	8	(545,060)	(30,763)
		<u>5,196,692</u>	<u>(29,760)</u>
Net decrease in cash and cash equivalents		(635,408)	(4,171,378)
Cash and cash equivalents at beginning of year		<u>1,845,620</u>	<u>6,016,998</u>
Cash and cash equivalents at end of year		<u>\$ 1,210,212</u>	<u>\$ 1,845,620</u>

*The Company adopted IFRS 16 Leases using a modified retrospective approach. Under this method, the comparative information is not restated. See Note 2(u).

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

PERIMETER MEDICAL IMAGING, INC.

Notes to the Consolidated Financial Statements

For the years ending December 31, 2019 and 2018

(Dollar amounts in Canadian Dollars)

1 BASIS OF PRESENTATION

A. Description of the entity

Perimeter Medical Imaging Inc. (the "Company" or "Perimeter") was incorporated under the Business Corporations Act of Ontario on May 16, 2013. The Company's registered office is located at 1Yonge Street, Suite 201, Toronto, Ontario M5E 1E6. The Company has one subsidiary, Perimeter Medical Imaging Corp., a Delaware corporation.

The Company develops and commercializes advanced in-procedural medical imaging tools.

The Company and New World Resource Corp (TSXV:NW) ("New World") entered into an Arrangement Agreement dated June 3, 2019 and amended November 29, 2019 and April 23, 2020 to execute an amalgamation by way of a planned reverse take-over (the "Transaction"). The Transaction is an arm's length transaction and will result in a reverse take-over and change of control of New World by the shareholders of Perimeter. The resulting publicly traded company will be named Perimeter Medical Imaging AI, Inc. The Arrangement Agreement was amended to extend the outside closing date of the Transaction to December 31, 2020.

B. Going concern

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the basis of presentation outlined in Note 2(a) 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.

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 obtaining such financing in order to continue its product development, including 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 consolidated 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.

2. SIGNIFICANT ACCOUNTING POLICIES

A. Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB.

PERIMETER MEDICAL IMAGING, INC.

Notes to the Consolidated Financial Statements

For the years ending December 31, 2019 and 2018

(Dollar amounts in Canadian Dollars)

The accompanying consolidated financial statements were reviewed, approved and authorized for issue by the Company's board of directors on May 12, 2020.

B. Basis of consolidation

The accompanying consolidated financial statements include the Company and its subsidiary on a consolidated basis. All intercompany transactions and balances are eliminated on consolidation.

C. Foreign currency translation

Functional and presentation currency

The accompanying consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company.

Foreign currency transactions and balances

Transactions in currencies other than the functional currency of the Company are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date while non-monetary assets and liabilities are translated at historical rates. Expenses are translated at the exchange rates approximating those in effect on the date of the transactions. These exchange gains and losses arising on translation into functional currency are recognized through profit or loss.

D. Use of estimates and judgments

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 accompanying consolidated 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 capitalization 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.

PERIMETER MEDICAL IMAGING, INC.

Notes to the Consolidated Financial Statements

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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 accompanying 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. Additionally, the Company made estimates regarding the conversion election of the holders. 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 investment tax credit 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 of grant income.

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

PERIMETER MEDICAL IMAGING, INC.

Notes to the Consolidated Financial Statements

For the years ending December 31, 2019 and 2018

(Dollar amounts in Canadian Dollars)

equipment.

E. Cash and Cash Equivalents

Cash includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amount of cash and subject to an insignificant risk of change value.

F. Equipment

Equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for management's intended use of the asset and, where relevant, the present value of all dismantling and removal costs. Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company. All repair and maintenance costs are recognized in the consolidated statements of loss and comprehensive loss as an expense when incurred. Equipment is depreciated over its estimated useful life on a declining balance basis at the following rates and methods:

Research equipment	30%
Computer equipment	55%
Office equipment	30%
Tooling	30%

An item of equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the consolidated statements of loss and comprehensive loss when the asset is derecognized.

The assets' useful lives, residual values, and methods of depreciation are reviewed at each financial year-end, and adjusted prospectively, if appropriate. No depreciation is taken on construction in progress until the asset is ready for management's intended use.

G. Intangible Assets

The Company owns intangible assets consisting of software licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and impairment losses, if any. The useful lives of intangible assets are assessed as either finite or indefinite. The Company currently does not hold any intangible assets with indefinite lives.

Intangible assets with finite useful lives are amortized over their estimated useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization method and amortization period of an intangible asset with a finite useful life is reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of loss and comprehensive loss. Intangible assets are amortized over their estimated useful life on a declining balance basis at the following rates and methods:

PERIMETER MEDICAL IMAGING, INC.

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Software licenses 30%

Software development costs:

Computer application software is recorded at cost less accumulated amortization. Costs associated with maintaining computer software applications or incurred during the research phase are recognized as an expense as incurred. Development costs that are directly attributable to the design, build and testing of identifiable and unique software applications controlled by the Company are recognized as intangibles when the following criteria are met:

- it is technically feasible to complete the software application so that it will be available for use or sale;
- management intends to complete the software application and either use or sell it;
- there is an ability to use or sell the software application;
- it can be demonstrated how the software application will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software application are available; and
- the expenditure attributable to the software application during its development can be reliably measured.

Development expenditures that do not meet these criteria are recognized as an expense as incurred. The Company did not capitalize any internally developed software in the periods reported.

H. Impairment of Non-Financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If such an indication exists, the Company estimates the asset's recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value-in-use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Value-in-use is determined by discounting estimated future cash flows using a pre-tax discount rate that reflects the current market assessment of the time value of money and the specific risks of the asset. In determining fair value less costs to sell, recent market transactions are considered, if available. If no such transactions can be identified, an appropriate valuation model is used. An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased.

I. Leases

The Company adopted IFRS 16, Leases (IFRS 16) on January 1, 2019, using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 Leases (IAS 17) and IFRIC 4 Determining whether an arrangement contains a lease (IFRIC 4). The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

This policy applies to contracts entered into, on or after January 1, 2019.

PERIMETER MEDICAL IMAGING, INC.

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(Dollar amounts in Canadian Dollars)

i. As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

The Company determines its incremental borrowing rate by comparing existing financing rates from external sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise of fixed payments, including in-substance fixed payments.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in 'Property and equipment' and lease liabilities in 'lease liabilities' in the statements of financial position.

ii. As a lessor

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use

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asset arising from the head lease, not with reference to the underlying asset.

The Company applies the derecognition and impairment requirements in IFRS 9, Financial Instruments (IFRS 9) to the net investment in the lease. Generally, the accounting policies applicable to the Company as a lessor in the comparative period were not different from IFRS 16 except for the finance lease classification of the sub-lease.

Policy applicable before January 1, 2019

For contracts entered into before January 1, 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
 - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
 - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
 - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

i. As a lessee

In the comparative period, as a lessee the Company classified its lease as an operating lease as substantially all of the risks and rewards of ownership were not transferred. Assets held under the operating lease were not recognized in the Company's statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease.

ii. As a lessor

When the Company acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease. To classify each lease, the Company made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Company considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

J. Financial Instruments

The following is the Company's accounting policy for financial assets and liabilities under IFRS 9:

Recognition and derecognition

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

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A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets are classified into the following categories:

- amortized cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

In the periods presented the Company has neither financial assets categorized as FVTPL nor as FVOCI.

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

Subsequent measurement of financial assets

Financial assets are measured at amortized cost if the assets meet the following conditions:

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents and other receivables fall into this category.

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognize expected credit losses – the 'expected credit loss (ECL) model'.

At each reporting date, the Company assesses its receivables for expected credit losses. In the periods presented, the company does not have an allowance for expected credit losses recorded.

Classification and measurement of financial liabilities

The Company's financial liabilities include government debt, accounts payable and accrued liabilities, lease liabilities, and convertible debt.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss. Embedded derivatives in convertible debt instruments are separated from the host contract and recorded at fair value at initial recognition.

Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for embedded derivatives, which are carried subsequently at fair value with gains or losses recognized in profit or loss.

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All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

K. Share Capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share purchase options are recognized as a deduction from equity, net of any tax effects. For unit offerings that consist of multiple categories of securities, the proceeds from the issuance of units are allocated between common shares and share purchase warrants using the residual method, allocating fair value to the common shares first, and then to the share purchase warrants.

L. Loss Per Share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

M. Employee benefits***Short-term employee benefits***

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

N. Share Based Payments

The Company operates equity-settled share-based remuneration plans for its employees and others providing similar services. None of the Company's plans are cash-settled.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair value of employees' services is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 12.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

All share-based remuneration is ultimately recognized as an expense in profit or loss with a

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corresponding credit to equity reserves. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

O. Income Taxes

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in Other Comprehensive Income.

Current Tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred Tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting or taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Company. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

P. Finance income and finance costs

The Company's finance income and finance costs include:

- interest income;
- interest expense, including accretion on convertible debt and the Company's lease liabilities;
- gain or loss on derecognition of financial instruments; and
- day one gain or loss on financial instruments.

Finance costs are expensed in the period in which they are incurred and reported in finance costs (see

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Note 13).

Q. Government Assistance

Government assistance is periodically received in the form of grants, loans or investment tax credits that may be repayable based on future target. Amounts that are repayable will be accounted for in the period in which conditions arise that will cause repayment. Government assistance with predetermined repayment requirements or conditional criteria is recorded as a liability when received or until the conditions are satisfied. If no predetermined repayment requirements exist, the assistance is treated as a reduction in the cost of the related item.

Interest free or less than market interest government loans are measured at amortized cost using the effective interest rate method. The interest rate used is based on the market rate for a comparable instrument with a similar term. The difference between the fair value at inception and the loan proceeds received is recorded as a government grant. The grant portion is presented separately as deferred income that is amortized over the useful life of the loan and as presented as grant income (or grants) on the statements of consolidated loss and comprehensive loss.

R. Research and Development Costs

Expenditures on research and development activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Investment tax credits related to current expenditures are included in the determination of net income as the expenditures are incurred when there is reasonable assurance they will be realized.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. These criteria will be deemed by the Company to have been met when revenue is received by the Company and a determination that it has sufficient resources to market and sell its product offerings. Upon a determination that the criteria to capitalize development expenditures have been met, the expenditures capitalized will include the cost of materials, direct labour, and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures will be expensed as incurred.

Capitalized development expenditures will be measured at cost less accumulated amortization and accumulated impairment losses. No development costs have been capitalized in the periods presented.

S. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related parties are in the normal course of business and have commercial substance (see Note 17).

T. Provisions

Provisions are recorded when a present legal, statutory or constructive obligation exists as a result of

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past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, if the effect is material, its carrying amount is the present value of those cash flows.

In the periods presented, no provisions have been recorded.

U. Standards, amendments and interpretations

New standards adopted as at January 1, 2019

The following new standards were adopted by the Company during the 2019 fiscal year:

The Company adopted IFRS 16 Leases on January 1, 2019. A number of other new standards are also effective from January 1, 2019 but they do not have a material effect on the Company's financial statements.

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e., it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

i. Definition of a lease

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

ii. As a lessee

As a lessee, the Company leases office space. The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for its lease – i.e. the lease is on-balance sheet.

Leases classified as operating leases under IAS 17

Previously, the Company classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019 (see Note 2(U)(iv)). Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use

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assets are impaired.

The Company used practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company did not recognize right-of-use assets and liabilities for leases of low value assets (e.g., certain IT equipment).

The Company had no leases classified as finance leases under IAS 17.

iii. As a lessor

The Company sub-leases some of its right-of-use assets. Under IAS 17, the head lease and sub-lease contracts were classified as operating leases. On transition to IFRS 16, the right-of-use assets recognized from the head leases are presented in property, plant, and equipment and measured at the value of the lease liability at that date. The Company assessed the classification of the sub-lease contracts with reference to the right-of-use asset rather than the underlying asset and concluded that they are finance leases under IFRS 16.

iv. Impact on financial statements

On transition to IFRS 16, the Company recognized additional right-of-use assets, lease receivables, and lease liabilities. The impact on transition is summarized below:

	January 1, 2019
Right-of-use assets - property, plant, and equipment	\$ 29,051
Net investment in sub-lease	21,320
Lease liabilities	50,371

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average rate applied is 25%.

Standards, amendments and Interpretations to existing Standards that are not yet effective and have not been adopted early by the Company

Certain pronouncements were issued by the IASB that are mandatory for accounting periods after December 31, 2019. There are no recent accounting pronouncements that are applicable or that are expected to have a significant impact on the Company.

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3. CASH AND CASH EQUIVALENTS

	December 31, 2019		December 31, 2018	
Bank balances	\$	1,180,212	\$	1,815,620
Call deposits		30,000		30,000
Cash and cash equivalents		1,210,212		1,845,620

4. OTHER RECEIVABLES

	December 31, 2019		December 31, 2018	
Harmonized sales tax receivable	\$	243,888	\$	407,882
Net investment in sublease		9,595		-
Credits due from suppliers		-		16,015
Other Receivables		253,483		423,897

5. INVESTMENT TAX CREDITS RECOVERABLE

	2019		2018	
Balance, January 1	\$	425,700	\$	1,114,586
Additions		335,251		425,700
Receipts		-		(1,114,586)
Balance, December 31		760,951		425,700

During the year ended 2019, the Company recorded \$335,251 (2018: \$425,700) as a reduction in research and development costs in connection with the expenditures related to the additional investment tax credits recoverable expected to be received.

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6. PROPERTY AND EQUIPMENT

	Research equipment	Computer equipment	Office equipment	Right of use asset	Tooling	Under construction	Total
Cost:							
At January 1, 2019	\$ 30,045	\$ 54,210	\$ 14,333	\$ 29,051	\$ 6,979	\$ -	\$ 134,618
Additions	1,017	37,159	1,057	-	-	7,714	46,947
At December 31, 2019	31,062	91,369	15,390	29,051	6,979	7,714	181,565
Depreciation							
At January 1, 2019	\$ 13,019	\$ 34,183	\$ 6,859	\$ -	\$ 6,979	\$ -	\$ 61,040
Additions	5,131	25,186	2,436	17,431	-	-	50,184
At December 31, 2019	18,150	59,369	9,295	17,431	6,979	-	111,224
Net book value:							
At December 31, 2019	\$ 12,912	\$ 32,000	\$ 6,095	\$ 11,620	\$ -	\$ 7,714	\$ 70,341
Cost:							
At January 1, 2018	\$ 29,039	\$ 39,292	\$ 12,454	\$ -	\$ -	\$ -	\$ 80,785
Additions	1,006	14,918	1,879	-	36,050	-	53,853
Impairment ⁽¹⁾	-	-	-	-	(29,071)	-	(29,071)
At December 31, 2018	30,045	54,210	14,333	-	6,979	-	105,567
Depreciation							
At January 1, 2018	\$ 6,004	\$ 22,048	\$ 4,251	\$ -	\$ -	\$ -	\$ 32,303
Additions	7,015	12,135	2,608	-	6,979	-	28,737
At December 31, 2018	13,019	34,183	6,859	-	6,979	-	61,040
Net book value:							
At December 31, 2018	\$ 17,026	\$ 20,027	\$ 7,474	\$ -	\$ -	\$ -	\$ 44,527

(1) During the year ended December 31, 2018, the company recognized an impairment loss on tooling as a result of product lifecycle management activities which rendered the tooling obsolete. The recoverable amount is nil.

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7. INTANGIBLE ASSETS

	Software licenses	Total
Cost:		
At January 1, 2019	\$ 11,444	\$ 11,444
Additions	-	-
At December 31, 2019	11,444	11,444
Amortization		
At January 1, 2019	\$ 5,976	\$ 5,976
Additions	1,652	1,652
At December 31, 2019	7,628	7,628
Net book value:		
At December 31, 2019	\$ 3,816	\$ 3,816
	Software licenses	Total
Cost:		
At January 1, 2018	\$ 11,444	\$ 11,444
Additions	-	-
At December 31, 2018	11,444	11,444
Amortization		
At January 1, 2018	\$ 3,633	\$ 3,633
Additions	2,343	2,343
At December 31, 2018	5,976	5,976
Net book value:		
At December 31, 2018	\$ 5,468	\$ 5,468

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8. GOVERNMENT DEBT

Northern Ontario Heritage Fund Corporation ("NOHFC"):

The Company assumed a loan and conditional contribution agreement with Northern Ontario Heritage Fund Corporation on March 14, 2014 in the amount of \$607,266. The loan is a non-revolving term loan with an interest rate of 3.5% per annum with blended monthly payments of \$9,301. The monthly payments were waived until May 2017. The loan is repayable over 84 months (with certain larger monthly repayments occurring in 2017) and was set to mature in October 2022. The loan is secured by a General Security over the Company's assets.

The effective interest rate used to measure the fair value of the loan is 25%, and the benefit of the interest rate concession is a grant which gives the Company economic benefits over the term of the loan and recorded as grants (see note 10).

During the year ended December 31, 2019, the Company satisfied all obligations of the agreement, repaid the outstanding balance and the loan was discharged.

Federal Economic Development Agency for Southern Ontario ("FedDev Ontario"):

The Company entered into a contribution agreement dated May 15, 2015 under the Investing in Business Innovation Program and Amendment dated December 31, 2015, collectively known as the Contribution Agreement, whereby FedDev Ontario agreed to contribute in the maximum amount of \$980,000. The interest rate on this debt was 0%. Repayments are schedule to begin April 1, 2017 and repayments of \$500 per month in the first year, \$1,000 per month in the second year, and \$26,722 per month for the remainder of the term.

The effective interest rate used to measure the fair value of the loan is 25%, and the benefit of the interest rate concession is a grant which gives the Company economic benefits over the term of the loan and recorded as grants (see note 10).

A. Terms and repayment schedule

			December 31, 2019		December 31, 2018	
	Nominal		Undiscounted	Carrying	Undiscounted	Carrying
	Interest	Year of	Face Value	Amount	Face Value	Amount
	Rate	Maturity				
FedDev Ontario	0.0%	2022	801,666	355,793	968,000	436,636
NOHFC	3.5%	2019	-	-	342,567	317,329
Total			801,667	355,793	1,310,567	753,965

9. CONVERTIBLE DEBT

During the years 2016, 2017, and 2019, the company issued convertible debt with principal of \$1,500,000, \$9,540,753 (of which \$107,960 is denominated in United States dollars), and \$1,830,000 respectively (the "Convertible Debentures"). All Convertible Debentures outstanding as at December 31, 2019 (amounting to a principal value of \$12,870,753) mature on June 30, 2020. The notes are convertible into ordinary shares at the option of the debenture holder at maturity or immediately prior to and in connection with a financing. The conversion price is \$0.25 if converted at maturity or at a 20 per cent discount to the price per security paid by investors in connection with a financing if converted in connection with a financing. The notes issued in 2019 (principal value of \$1,830,000) also include a mandatory conversion at \$0.25 without any action of the holder upon completion of the proposed amalgamation with New World

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Resource Corp. If the notes are not converted, they will be redeemed at maturity at 120 per cent of par. Additionally, in connection with the subscription for the Convertible Debenture, the holder is granted two warrants to purchase common shares in the capital of the Company for each one Canadian dollar of principal amount of debenture with a conversion price of \$0.00001 per share with a fair value at issuance of \$914,969.

Upon issuance of the Convertible Debentures, the debt liability component was recognized initially at the fair value of a comparable instrument with no conversion option, using a risk-adjusted discount rate of 25 per cent (2018 – 24%). Subsequent to initial recognition, the debt liability is measured at amortized cost with an accretion rate of 25%. The initial fair value of the derivative liability associated with the conversion option was valued using the Black-Scholes option pricing model as described in note 11(B). During the year ended December 31, 2019, the difference between the total initial fair value of the Convertible Debentures of \$3,198,125 and the consideration received by the Company of \$1,830,000 is recorded as a day-one loss of \$1,368,125 in finance costs (see note 13). Additionally, in connection with the 2019 issuances, the Company paid financing costs of \$134,100 in cash and issued 448,000 warrants to purchase common shares in the Company with a fair value of \$96,116 (see note 13) recorded as finance costs.

On April 25, 2019, all outstanding Convertible Debentures that were amended in the prior years to mature at the end of the financial year 2018 had the maturity term revised and extended to December 31, 2019, resulting in substantially modified terms. On December 6, 2019, an agreement was signed with the debenture holders to extend the maturities of all outstanding convertible debentures to June 30, 2020, resulting in substantially modified terms. At the amendment dates, an aggregate realized gain on change in fair value of the derivative liability was recognized of \$2,692,977 in 2019 (2018: \$2,386,461). The difference between the carrying value at the date of amendments of the extinguished liabilities and the fair value of the amended notes was recorded as a derecognition gain of \$185,399 in 2019 (loss of \$228,426 in 2018) in finance costs (See note 13).

The following table indicates the changes in the Convertible Debentures during the reporting period:

	2019	2018
Carrying value of debt at January 1	\$ 11,878,998	\$ 10,611,124
Carrying value of derivative liability at January 1	2,023,634	2,858,919
Total carrying value of convertible notes at January 1	13,902,632	13,470,043
Proceeds from issue of convertible notes	1,830,000	-
Less: Proceeds allocated Investor warrants classified as equity	(914,969)	-
Loss on day 1 of new issuances (note 13)	1,368,125	-
Accreted Interest (note 13)	3,046,441	2,647,610
Unrealized gain on change in fair value of derivative (note 13)	(155,539)	(56,986)
Derecognition (gain) or loss from amendment (note 13)	(185,399)	228,426
Realized gain on change in fair value of derivative (note 13)	(2,692,977)	(2,386,461)
Total carrying value of convertible notes at December 31	\$ 16,198,314	\$ 13,902,632
Carrying value of debt at December 31	13,833,704	11,878,998
Carrying value of derivative liability at December 31	2,364,610	2,023,634

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10. DEFERRED GRANT INCOME

	December 31, 2019		December 31, 2018	
Government grants	\$	419,103	\$	563,524
Current	\$	140,779	\$	141,841
Non-current		278,324		421,683

The deferred income arises as a result of the benefit received from below-market interest rate government loans (see Note 8).

11. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT**A. Accounting classification and fair values**

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

It does not include fair value information for financial assets and financial liabilities measured at amortized cost where the carrying amount is a reasonable approximation of fair value.

The financial assets measured at amortized cost include cash and cash equivalents, and other receivables.

The financial liabilities measured at amortized cost include accounts payable and accrued liabilities, government debt, and convertible debt.

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Carrying Amount				Fair Value			
December 31, 2019	Note	Mandatorily at FVTPL	Total	Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value							
Derivative liability	9	(2,364,610)	(2,364,610)	-	(2,364,610)	-	(2,364,610)
		(2,364,610)	(2,364,610)	-	(2,364,610)	-	(2,364,610)

Carrying Amount				Fair Value			
December 31, 2018	Note	Mandatorily at FVTPL	Total	Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value							
Derivative liability	9	(2,023,634)	(2,023,634)	-	(2,023,634)	-	(2,023,634)
		(2,023,634)	(2,023,634)	-	(2,023,634)	-	(2,023,634)

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B. 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 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.

There were no transfers between levels for the periods reported.

C. 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.

i. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Components of market risk to which the Company is exposed are discussed below. Financial instruments affected by market risk primarily include trade accounts payable.

Foreign currency risk

The Company is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which purchases are denominated and the Canadian dollar, the functional currency of the Company. The currencies in which these transactions are primarily denominated are US

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dollars and Euro.

Exposure to currency risk

The summary quantitative data about the Company's exposure to currency risk as reported to the management of the Company is as follows.

		December 31, 2019		December 31, 2018	
		USD	EUR	USD	EUR
Trade Payables	\$	654,451	-	80,704	2,683
Convertible Debt		107,960	-	107,960	-
Total		762,411	-	188,664	2,683

Sensitivity analysis

A reasonably possible strengthening (weakening) of the US dollar or euro against the Canadian dollar at December 31 would have affected the measurement of financial instruments denominated in a foreign currency and affected profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant and ignores any impact of forecast purchases.

Effect in Canadian dollars	Profit and Loss	
	Strengthening	Weakening
December 31, 2019		
USD (5% movement)	50,201	(50,201)
EUR (5% movement)	-	-
December 31, 2018		
USD (5% movement)	12,799	(12,799)
EUR (5% movement)	204	(204)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not have any significant exposure to interest rate risk.

ii. Credit risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. The Company is exposed to credit risk from its operating and from financing activities, including cash deposits with banks and financial institutions. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The objective of managing counterparty credit risk is to prevent losses in financial assets. The Company assesses the credit quality of the counterparties, considering their financial position, experience, and other factors. Credit risk is mitigated by entering into agreements with only stable, creditworthy parties and through frequent reviews of exposures to individual entities. The credit risk in respect of cash balances held with banks and deposits with banks are only with major reputable financial institutions.

Impairment on cash and cash equivalents of nil has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties and monitors this

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risk on an ongoing basis to identify any significant increases subsequent to initial recognition.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when the debtor is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held).

iii. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company attempts to meet financial obligations through managing cash from operations and financing activities and through cash on hand.

The table below summarizes the maturity profile of the Company's financial liabilities as at December 31, 2019 and 2018 based on contractual undiscounted payments:

December 31, 2019	Carrying Amount	Total	Undiscounted contractual cash flows			
			2 months or less	2-12 months	1-2 years	Thereafter
Accounts payable and accrued liabilities	\$ 2,029,572	(2,029,572)	(2,029,572)	-	-	-
Lease liability	22,667	(24,336)	(6,084)	(18,252)	-	-
Unsecured loans from the government	355,793	(801,666)	(53,444)	(267,222)	(320,667)	(160,333)
Convertible debt	13,833,704	(15,444,903)	-	(15,444,903)	-	-
	16,241,736	(18,300,477)	(2,089,100)	(15,730,377)	(320,667)	(160,333)
December 31, 2018						
Accounts payable and accrued liabilities	\$ 630,513	(630,513)	(630,513)	-	-	-
Unsecured loans from the government	436,636	(968,000)	(2,000)	(164,333)	(320,667)	(481,000)
Secured loans from the government	317,329	(342,567)	(268,930)	(73,637)	-	-
Convertible debt	11,878,998	(13,248,904)	-	(13,248,904)	-	-
	13,263,476	(15,189,984)	(901,443)	(13,486,874)	(320,667)	(481,000)

D. 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

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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 of Directors 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.

12. SHARE CAPITAL**A. Authorized**

Unlimited common shares without par value

B. Share capital

All common shares rank equally with regard to the Company's residual assets. Holders of these shares are entitled to one vote per share at general meetings of the Company.

During the year ended December 31, 2019, the Company:

- i. Issued 17,554,000 common shares through a private placement at \$0.25 per share for gross proceeds of \$4,388,500. Share issuance costs were \$306,145 in cash and \$168,950 in non-cash consideration.
- ii. Issued 200,000 common shares on the exercise of share purchase warrants with an exercise price of \$0.00001 per share for nominal proceeds. In relation to the exercise, the fair value of the options of \$49,998 was reallocated from reserves to share capital.
- iii. Issued 1,173,332 common shares in share-based payments for services rendered by consultants. The fair value of the shares issued of \$293,334 was allocated to share capital.

During the year ended December 31, 2018, the Company:

- i. Issued 283,724 common shares on the exercise of financing options, with an exercise price of \$0.00001 per share for nominal proceeds. In relation to the exercise, the fair value of the options of \$70,928 was reallocated from reserves to share capital; and
- ii. Issued 4,000 common shares on the exercise of share purchase options with an exercise price of \$0.25 per share for gross proceeds of \$1,000. In relation to the exercise, the fair value of the options of \$856 was reallocated from reserves to share capital.

C. Warrants

The following schedule summarizes the warrant transactions for the years ended December 31, 2019 and 2018:

	Number of warrants		Weighted- average exercise price
January 1, 2018	2,316,732	\$	0.25
December 31, 2018	2,316,732		0.25
Issued	18,798,080		0.32
Exercised	(200,000)		0.0001
Expired	(510,000)		0.60
December 31, 2019	20,404,812	\$	0.31

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During the year ended December 31, 2019, the Company:

- i. In connection with the private placement, issued 13,165,500 warrants to subscribers and 1,224,580 warrants to brokers. The fair value of the warrants issued of \$168,950 was allocated to contributed surplus.
- ii. In connection with the issuance of convertible debt, issued 3,660,000 warrants to subscribers and 448,000 warrants to brokers. The fair value of the warrants issued of \$1,011,085 was allocated to contributed surplus.
- iii. Issued 300,000 warrants as consideration for services rendered by consultants. The fair value of the warrants issued of \$64,310 was allocated to contributed surplus.

At December 31, 2019, warrants were outstanding enabling holders to acquire common shares as follows:

Number of warrants	Exercise price	Expiry date
392,000	\$ 0.25	July 15, 2020
8,000	0.25	August 5, 2020
280,000	0.25	December 31, 2023
612,582	0.25	February 27, 2024
7,000	0.25	April 3, 2024
336,000	0.25	April 27, 2024
167,650	0.25	September 29, 2025
3,500	0.25	December 22, 2025
336,000	0.25	April 25, 2029
112,000	0.25	May 17, 2029
1,574,400	0.4	August 6, 2023
11,868,680	0.4	August 7, 2023
373,000	0.4	August 14, 2023
49,000	0.4	August 19, 2023
2,400,000	0.00001	April 25, 2029
60,000	0.00001	May 7, 2029
800,000	0.00001	May 17, 2029
200,000	0.00001	May 16, 2029
525,000	0.4	August 17, 2023
300,000	0.25	July 12, 2029
20,404,812		

The warrants granted during fiscal 2019 were valued using 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 time to maturity, an expected annualized volatility of 90%, an expected forfeiture rate of nil, and an expected dividend rate of nil%.

D. Options

The Company may grant stock options pursuant to a Stock Option Plan (the "Plan"). The Board of Directors administers the Plan, pursuant to which the Board of Directors may grant from time to time stock options not to exceed twenty percent (20%) of the shares (calculated on a fully-diluted Basis) of the Company calculated at the date of grant to directors, officers, employees, consultants, and

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advisors. The options can be granted for a maximum of 10 years and vest at the discretion of the Board of Directors. Vesting is determined by the Board but typically one-quarter vests immediately upon grant and one-quarter vests annually on the anniversary of the grant date until completely vested.

The following schedule summarizes the share purchase option transactions for the years ended December 31, 2019 and 2018:

	Number of options		Weighted- average exercise price
January 1, 2018	5,140,195	\$	0.19
Issued	5,550,254		0.17
Exercised	(287,724)		0.00
December 31, 2018	10,402,725		0.18
Issued	14,565,085		0.25
Exercised	-		-
December 31, 2019	24,967,810	\$	0.22

At December 31, 2019, options were outstanding enabling holders to acquire common shares as follows:

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Number of options	Exercise price	Expiry date
130,000	\$ 0.00	January 1, 2024
30,000	0.25	April 14, 2024
250,000	0.00	April 15, 2024
260,000	0.25	April 15, 2024
500,000	0.25	January 1, 2025
380,000	0.25	June 1, 2025
60,000	0.25	July 15, 2025
74,100	0.00	August 15, 2025
54,000	0.00	December 31, 2025
736,000	0.25	January 1, 2026
380,000	0.00	January 2, 2026
40,000	0.40	June 27, 2026
72,375	0.00	June 30, 2026
78,000	0.25	December 31, 2026
24,960	0.00	January 1, 2026
100,000	0.25	February 1, 2027
923,036	0.40	September 1, 2027
50,000	0.40	October 3, 2027
360,000	0.00	October 3, 2027
150,000	0.40	November 10, 2027
50,000	0.00	December 22, 2027
150,000	0.00	December 31, 2027
150,000	0.17	April 13, 2028
5,130,254	0.17	May 1, 2028
120,000	0.17	December 29, 2028
150,000	0.00	December 29, 2028
9,153,614	0.25	January 15, 2029
905,000	0.25	April 9, 2029
27,400	0.25	May 17, 2029
216,500	0.25	July 9, 2029
1,000,000	0.25	August 8, 2029
266,668	0.00	September 1, 2029
2,995,903	0.25	December 1, 2029
24,967,810		

The share purchase options granted during the year ended December 31, 2019 were valued using the Black-Scholes option pricing model using a weighted average risk free rate of 1.78%, an expected life of 10 years, an expected annualized volatility of 90%, an expected forfeiture rate of nil, and an expected dividend rate of nil%. The weighted average fair value per option was \$0.22

The share purchase options granted during the year ended December 31, 2018 were valued using the Black-Scholes option pricing model using a weighted average risk free rate of 2.45%, an expected life of 10 years, an expected annualized volatility of 90%, an expected forfeiture rate of nil, and an expected dividend rate of nil%. The weighted average fair value per option was \$0.22

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13. FINANCE COSTS

Finance costs for the reporting periods consist of the following:

	December 31, 2019	December 31, 2018
Interest expense on government debt	\$ 146,890	\$ 136,533
Interest expense on lease liabilities	8,799	-
Finance fees on issuance of convertible debt (note 9)	230,216	-
Accretion on convertible debt using effective interest rate of 25% (2018: 24%) (note 9)	3,046,441	2,647,610
Unrealized gain on fair value movement of derivative (note 9)	(155,539)	(56,986)
Day-one loss on convertible notes (note 9)	1,368,125	-
Derecognition (gain) or loss on convertible notes (note 9)	(185,399)	228,426
Realized gain on change in fair value of derivative (note 9)	(2,692,977)	(2,386,461)
	\$ 1,766,556	\$ 569,122

14. INCOME TAXES

The provision for income taxes reported differs from the amounts computed by applying statutory Canadian federal and provincial tax rates to the loss before tax due to the following:

	December 31, 2019	December 31, 2018
Loss for the year before income taxes	\$ (10,342,686)	\$ (6,504,510)
Statutory tax rate	26.5%	26.5%
Recovery of income taxes computed at statutory rates	(2,740,812)	(1,723,695)
Non-deductible items	324,845	423,689
Differing effective tax rate on loss in foreign jurisdiction	(17,695)	(6,312)
Unrecognized deferred tax assets	2,569,871	1,302,460
Impact of foreign exchange and other	(136,209)	3,858
Total income tax (expense) recovery	\$ -	\$ -

The Company has the following deductible temporary differences for which no deferred tax assets have been recognized:

	December 31, 2019	December 31, 2018
Non-capital losses	\$ 19,380,592	\$ 10,662,161
Other deductible temporary differences	7,869,715	6,679,470
Total	\$ 27,250,307	\$ 17,341,631

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At December 31, 2019 the Company has non - capital loss carry forwards in Canada aggregating \$17,679,581 (December 31, 2018: \$10,251,512) which expire over the period between 2033 and 2039, available to offset future taxable income in Canada.

At December 31, 2019 the Company has non - capital loss carry forwards in United States of America aggregating \$1,701,011 (December 31, 2018: \$410,649) which carry forward indefinitely, available to offset future taxable income in the United States of America.

Other deductible temporary differences do not expire.

Tax attributes are subject to review, and potential adjustment, by tax authorities.

15. LOSS PER SHARE

Both the basic and diluted earnings per share have been calculated using the loss attributable to shareholders of the Company as the numerator, i.e. no adjustments to profit were necessary in 2019 or 2018.

The following details the earnings per share, basic and diluted, calculations for the years ended December 31, 2019 and 2018:

	2019	2018
Loss attributable to common shareholders (basic and diluted)	\$ (10,342,686)	\$ (6,504,510)
Weighted average number of common shares (in number of common shares):		
January 1	54,217,504	53,929,780
Issued on exercise of options	-	231,373
Issued on private placement	7,002,586	-
Issued on exercise of warrants	96,438	
Issued on share-based payment	231,306	
Basic and diluted	61,547,834	54,161,153
Loss per share:		
Basic and diluted	\$ (0.17)	\$ (0.12)

As the Company experienced a loss in both years, all potential common shares outstanding from dilutive securities are considered anti-dilutive and are excluded from the calculation of loss per share. Potential anti-dilutive securities outstanding not included in EPS calculations at December 31, 2019 are shares issuable on conversion of convertible notes, 51,503,812 (2018: 44,183,812); warrants, 20,404,812 (2018: 2,316,732); options, 24,967,810 (2018: 10,402,725).

16. LEASES**A. Leases as lessee**

The Company leases office space. The lease period ends August 30, 2020, with no option to renew

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the lease after that date. The lease was entered into on August 15, 2018.

In 2018, the Company sublet a portion of the office space lease. The lease and sublease are coterminous.

Information about leases for which the Company is a lessee is presented below:

i. Lease Liability

	Office space
Balance at January 1, 2019	\$ -
IFRS 16 implementation adjustment	50,371
Payments	(36,503)
Interest expense	8,799
Balance at December 31, 2019	22,667

ii. Amounts recognized in profit and loss

2019 - Leases under IFRS 16	
Interest on lease liabilities	\$ 8,799
Income from sub-leasing right of use asset	(3,724)
2018 - Operating leases under IAS 17	
Lease expense	36,504
Sub-lease income	(15,450)

B. Leases as a lessor

The Company leases out investment property consisting of leased office space. The sub-lease is classified as a finance lease. The Company recognized interest income of \$3,724 on the lease receivable. The undiscounted lease payments to be received of \$10,300 as at December 31, 2019 are expected to mature in less than one year. The ending receivable as at December 31, 2019 is \$9,595 which is included in 'Other receivables' in the consolidated statement of financial position.

17. RELATED PARTY**A. Transactions with key management personnel**

As at December 31, 2019 and 2018, the Company has no receivable or payable amounts with key management personnel or directors.

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Key management personnel compensation

	December 31, 2019		December 31, 2018	
Short-term employment benefits	\$	1,396,692	\$	800,429
Stock-based compensation		1,359,256		1,312,560
		2,755,948		2,112,989

Short-term employment benefits of the Company's key management personnel includes salaries and non-cash benefits, and includes \$261,423 in cash compensation related to the exit costs of the Company's former CEO. Executive officers also participate in the Company's share option program (see Note 11).

B. Other related party transactions

	Note	Transaction value for the year ended		Balance outstanding as at	
		December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Roadmap Capital					
Convertible debt	i	\$ 1,600,000	\$ -	\$ 10,887,793	\$ 9,287,793
Investor warrants	i	799,973	-	-	-
Finance fees	ii	96,116	-	-	-
Total		\$ 2,496,089	\$ -	\$ 10,887,793	\$ 9,287,793

Roadmap Capital, Inc. has significant influence over the Company as a result of the following:

As at December 31, 2019 Investment funds managed by Roadmap Capital, Inc. and Roadmap Capital, Inc. owned an aggregate of 33,377,761 common shares (2018 – 33,377,761) of the Company and 5,444,232 warrants (2018 – 1,796,232) 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.

Roadmap Capital, Inc. acts as collateral agent for holders of convertible debentures issued by the Company. The convertible debentures may be modified by action of holders of greater than 70% of the then outstanding principal. Investment funds managed by Roadmap Capital, holding greater than 70% of the outstanding principal have consented to extensions of the maturity date of the debentures and other changes as described in Note 9 that affected all outstanding convertible debentures.

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. During the year ended December 31, 2019, investment funds managed by Roadmap Capital, Inc. purchased convertible debentures with an aggregate principal of \$1,600,000. In connection with the debenture subscription, Roadmap Capital, Inc. was issued 3,200,000 warrants to purchase common shares in the Company with an exercise price of \$0.00001 and a fair value of \$799,973.
- ii. During the year ended December 31, 2019, The Company paid commissions to Roadmap Capital, Inc. for fund raising activities in connection with convertible notes issued. The Company issued

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warrants with an exercise price of \$0.25 exercisable for 448,000 shares and a fair value of \$96,116.

18. SUBSEQUENT EVENTS**A. COVID-19**

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. 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. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its subsidiaries in future periods.

B. Grant Agreements

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. 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.

C. Stock options

Since December 31, 2019, the Company's board of directors has granted 8,020,000 share purchase options to employees and consultants, including 4,320,000 to key management personnel. Additionally, 8,192,723 share purchase options were forfeited, and 266,668 share purchase options were exercised by consultants on a cashless basis.