

PERIMETER MEDICAL IMAGING AI, INC.

Unaudited Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2023 and 2022

Presented in US Dollars

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PERIMETER MEDICAL IMAGING AI, INC.

Unaudited Condensed Consolidated Interim Statements of Financial Position

As of September 30, 2023 and December 31, 2022

(Dollar amounts in US Dollars)

	Note	September 30, 2023	December 31, 2022
ASSETS			
Current assets			
Cash		\$ 18,105,837	\$ 28,439,048
Accounts receivable		27,900	72,000
Grant and other receivables	7	1,778,538	1,904,150
Inventory		153,581	42,880
Prepaid expenses		1,053,971	1,037,072
Total current assets		21,119,827	31,495,150
Non-current assets			
Property and equipment	8	3,105,185	3,101,038
Total assets		\$ 24,225,012	\$ 34,596,188
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 1,237,133	\$ 1,753,282
Current portion of government debt	9	36,749	110,383
Current portion of deferred grant income	10	38,320	103,724
Current portion of lease liability		48,813	39,774
Warrant liability	11	3,713,486	6,035,502
Total current liabilities		5,074,501	8,042,665
Non-current liabilities			
Government debt	9	-	9,654
Deferred grant income	10	157,034	271,918
Lease liability		151,448	165,865
Total non-current liabilities		308,482	447,437
Shareholders' equity			
Share capital	12	81,796,158	80,835,179
Contributed surplus	12	6,983,236	6,638,421
Accumulated deficit		(67,832,151)	(59,322,981)
Accumulated currency translation adjustment		(2,105,214)	(2,044,533)
Total shareholders' equity		18,842,029	26,106,086
Total liabilities and shareholders' equity		\$ 24,225,012	\$ 34,596,188

Commitments and contingencies (Note 16)

Going concern (Note 4)

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

Approved on behalf of the Board of Directors:

/s/ Ian Mortimer

Director

/s/ Hugh Cleland

Director

/s/ Josh Vose

Director

PERIMETER MEDICAL IMAGING AI, INC.

Unaudited Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
Three and nine months ended September 30, 2023 and 2022
(Dollar amounts in US Dollars)

	Three months ended		Nine months ended	
	September 30, 2023	September 30, 2022*	September 30, 2023	September 30, 2022*
Revenue	\$ 86,267	\$ 42,800	\$ 330,868	\$ 59,540
Cost of goods sold				
Direct Costs	11,652	9,424	45,444	11,601
Depreciation	47,159	-	104,834	-
	<u>58,811</u>	<u>9,424</u>	<u>150,278</u>	<u>11,601</u>
Gross Profit	27,456	33,376	180,590	47,939
Grants	100,405	96,833	185,061	296,612
Operating Expenses				
Sales and Marketing	1,174,606	1,507,362	3,320,073	3,945,674
Research and development	1,384,837	1,597,646	3,970,957	4,316,047
General and administrative	1,856,344	1,166,370	4,070,392	4,377,438
Depreciation and amortization	130,468	285,822	370,910	703,665
Total Operating Expenses	<u>4,546,255</u>	<u>4,557,200</u>	<u>11,732,332</u>	<u>13,342,824</u>
Net foreign exchange gain	1,212,610	3,049,989	73,892	4,621,040
Net finance income	2,860,992	716,221	2,783,619	2,343,245
Loss before income tax	<u>(344,792)</u>	<u>(660,781)</u>	<u>(8,509,170)</u>	<u>(6,033,988)</u>
Income tax expense	-	-	-	-
Loss for the period	<u>(344,792)</u>	<u>(660,781)</u>	<u>(8,509,170)</u>	<u>(6,033,988)</u>
Other comprehensive loss items that may be reclassified subsequently to profit:				
Foreign currency translation - net of tax	(1,040,128)	(2,981,031)	(60,681)	(3,558,547)
Comprehensive loss	<u>\$ (1,384,920)</u>	<u>\$ (3,641,812)</u>	<u>\$ (8,569,851)</u>	<u>\$ (9,592,535)</u>
Basic and diluted loss per common share	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.13)</u>	<u>\$ (0.10)</u>

*Restated for change in presentation currency see Note 3

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

PERIMETER MEDICAL IMAGING AI, INC.

Unaudited Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

For the nine months ended September 30, 2023 and 2022

(Dollar amounts in US Dollars)

	Note	Shares Issued	Share Capital	Contributed Surplus	Accumulated foreign currency translation adjustment	Accumulated Deficit	Total
Balance as at January 1, 2023		64,458,586	\$ 80,835,179	\$ 6,638,421	\$ (2,044,533)	\$ (59,322,981)	\$ 26,106,086
Issuance of common shares for exercise of options	12	567,153	960,979	(441,663)	-	-	519,316
Stock-based compensation		-	-	786,478	-	-	786,478
Currency translation adjustment		-	-	-	(60,681)	-	(60,681)
Net loss for the period		-	-	-	-	(8,509,170)	(8,509,170)
Balance as at September 30, 2023		65,025,739	\$ 81,796,158	\$ 6,983,236	\$ (2,105,214)	\$ (67,832,151)	\$ 18,842,029
Balance as at January 1, 2022*		45,282,548	\$ 47,575,419	\$ 6,673,367	\$ 1,023,411	\$ (49,416,871)	\$ 5,855,326
Issuance of common shares for cash, net of issuance cost	12	16,234,333	29,314,699	-	-	-	29,314,699
Issuance of common shares for services rendered	12	434,000	-	-	-	-	-
Issuance of common shares for exercise of options	12	1,427,188	2,428,030	(1,073,562)	-	-	1,354,468
Stock-based compensation		-	-	1,276,897	-	-	1,276,897
Issuance of common shares for exercise of warrants	12	960,716	1,340,265	(424,569)	-	-	915,696
Currency translation adjustment		-	-	-	(3,558,547)	-	(3,558,547)
Net loss for the period		-	-	-	-	(6,033,988)	(6,033,988)
Balance as at September 30, 2022*		64,338,785	\$ 80,658,413	\$ 6,452,133	\$ (2,535,136)	\$ (55,450,859)	\$ 29,124,551

* Restated for change in presentation currency see Note 3

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

PERIMETER MEDICAL IMAGING AI, INC.

Unaudited Condensed Consolidated Interim Statements of Cash Flows

For the nine months ended September 30, 2023 and 2022

(Dollar amounts in US Dollars)

		Nine months ended	
	Note	September 30, 2023	September 30, 2022*
Cash flows used in operating activities:			
Net loss		\$ (8,509,170)	\$ (6,033,988)
Adjustments for:			
Depreciation		475,744	703,665
Stock-based compensation		786,478	1,276,897
Grant income		(185,061)	(296,612)
Net finance income		(2,783,619)	(2,343,245)
Unrealized currency translation		(25,565)	(4,228,441)
		(10,241,193)	(10,921,724)
Changes in:			
Accounts receivable		44,100	(23,900)
Grant and other receivables	7	202,221	(952,150)
Inventory		(110,701)	(45,051)
Investment tax credits recoverable		-	66,243
Prepaid expenses		(16,899)	(80,087)
Deferred grant income	10	-	493,333
Accounts payable and accrued liabilities		(516,149)	293,682
Net cash used in operating activities		(10,638,621)	(11,169,654)
Cash flows from (used in) investing activities:			
Proceeds from the sale of equity investment	13	-	254,974
Interest income		483,191	-
Purchase of equipment	8	(482,029)	(1,673,782)
		1,162	(1,418,808)
Cash flows from financing activities:			
Net proceeds from warrants and options exercised	12	519,316	2,270,164
Net proceeds from issuance of common shares	12	-	38,136,760
Repayment of government debt	9	(161,078)	(166,562)
Repayment of lease liabilities		(33,000)	(35,439)
		325,238	40,204,923
Net decrease in cash		(10,312,221)	27,616,461
Cash, beginning of period		28,439,048	3,723,132
Effect of foreign exchange on cash		(20,990)	179,220
Cash, end of period		\$ 18,105,837	\$ 31,518,813

*Restated for change in presentation currency see Note 3

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

PERIMETER MEDICAL IMAGING AI, INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2023 and 2022

(Dollar amounts in US Dollars)

1. Reporting entity

Perimeter Medical Imaging AI, Inc. (the "Company" or "Perimeter") is listed as a Tier 1 issuer on the TSX Venture Exchange ("TSXV") under the symbol PINK. The Company's registered office is located at 1600-925 West Georgia Street, Vancouver, British Columbia V6C 3L2. The Company's head office is located at 555 Richmond Street West, Suite 511, Toronto, Ontario M5V 3B1.

The Company was formed in British Columbia on June 29, 2020, pursuant to an amalgamation agreement between a non-reporting issuer New World Resource Corp. ("New World") and Perimeter Medical Imaging Inc., when the Company completed a reverse takeover ("RTO") transaction on June 29, 2020.

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

2. Basis of presentation

These unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2023 and 2022 (the "interim financial statements") have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting ("IAS 34"), as issued by the International Accounting Standards Board ("IASB").

These interim financial statements do not include all the disclosures required by International Financial Reporting Standards ("IFRS") Accounting Standards as issued by IASB for annual consolidated financial statements and accordingly should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2022, prepared in accordance with IFRS Accounting Standards as issued by the IASB. The accounting policies used are consistent with those used in the audited financial statements. There were no new accounting standards adopted for the nine months ended September 30, 2023.

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

The accompanying interim financial statements were reviewed, approved and authorized for issue by the Company's Board of Directors on November 14, 2023.

3. Functional and presentation currency

The Company elected to change its presentation currency from Canadian dollars ("CAD") to United States dollars ("US dollars") effective October 1, 2022. This change in presentation currency constitutes a change in accounting policy with retrospective application in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" and is affected in these interim financial statements by applying the procedures outlined below, in accordance with the requirements set out in IAS 21 "Effects of Changes in Foreign Exchange Rates":

- the condensed consolidated interim statements of financial position have been translated at the foreign exchange rate at the balance sheet dates;
- the condensed consolidated interim statements of loss and comprehensive loss and condensed consolidated interim statements of cash flows have been translated at the average

PERIMETER MEDICAL IMAGING AI, INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2023 and 2022

(Dollar amounts in US Dollars)

exchange rates for the respective periods;

- Equity in the condensed consolidated interim statements of financial position and condensed consolidated interim statements of changes in shareholders' equity, including foreign currency translation reserve, retained deficit, share capital, and contributed surplus have been translated into US dollars using historic rates.

All information in these interim financial statements is presented in US Dollars unless otherwise specified.

The Company has a functional currency of Canadian dollars, and the functional currency of its subsidiary is US dollars. Functional currencies are determined based on facts and circumstances relevant for each of the entities.

Transactions in currencies other than the functional currency are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rate of exchange at the reporting date. Revenue and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Foreign exchange gains and losses arising on translation into the functional currency are recognized as foreign exchange gain and loss in the statement of loss.

Translation gains and losses from the application of the US dollar as the presentation currency while Canadian dollar is the functional currency are included as part of the accumulated foreign currency translation adjustment.

4. Going concern

These interim financial statements have been prepared in accordance with IFRS as issued by the IASB and the basis of presentation outlined in Note 2 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.

While the Company has generated some revenue to date, it is currently in early-stage commercial roll-out and has experienced losses since inception. Additional financing will be required before the Company expects to generate positive cash flow.

As such, 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.

On January 27, 2022, the Company completed a private placement as described in Note 12, which provided the Company with the cash required to continue operations in the foreseeable future and realize its assets and discharge its liabilities and commitments in the normal course of business.

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 of these initiatives. However, the failure to raise such financing or obtain it on favorable terms could result in the delay or indefinite postponement of business objectives.

PERIMETER MEDICAL IMAGING AI, INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2023 and 2022

(Dollar amounts in US Dollars)

5. Critical accounting estimates and judgements

The interim consolidated financial statements three and nine months ended September 30, 2023, have been prepared using the same policies and methods as the annual consolidated financial statements of the Company. Refer to note 4 of the Company's annual audited consolidated financial statements for the year ended December 31, 2022 for more information on accounting estimates and judgements applied.

6. Revenue

For the three and nine months ended September 30, 2023, \$35,267 (September 30, 2022: \$Nil) and \$130,268 (September 30, 2022: \$Nil), respectively, was recognized as revenue from operating leases and \$51,000 (September 30, 2022: \$42,800) and \$200,600 (September 30, 2022: \$59,540), respectively, was recognized as revenue from sale of consumables in the unaudited condensed consolidated interim statements of loss and comprehensive loss.

As at September 30, 2023, \$6,665 (September 30, 2022: \$Nil) relating to revenue from operating leases has been deferred and included in accounts payable and accrued liabilities in the unaudited condensed consolidated interim statement of financial position.

7. GRANT AND OTHER RECEIVABLES

Grant and other receivables balance is comprised of the following:

		September 30, 2023	December 31, 2022
Harmonized sales tax receivable	\$	269,762	152,623
CPRIT grant receivable		1,339,212	1,751,527
Miscellaneous receivables		92,955	-
Interest Accrual		76,609	-
Grant and other receivables		1,778,538	1,904,150

Cancer Prevention and Research Institute of Texas ("CPRIT")

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 up to US\$7,446,844 to fund activities related to its artificial intelligence software (B-Series). The agreement will expire on February 29, 2024. 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 percent of revenue until such time that 250.0 percent of grant proceeds have been repaid and 0.5 percent thereafter for the remainder of the twelve-year term.

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2023 and 2022

(Dollar amounts in US Dollars)

For the three and nine months ended September 30, 2023, the Company recognized grant income of \$359,220 (September 30, 2022: \$343,858) and \$1,355,964 (September 30, 2022: \$995,009) respectively, as a reduction of project-related costs.

Additionally, three and nine months ended September 30, 2023, the Company recognized grant income of \$73,321 (September 30, 2022: \$73,544) and \$109,145 (September 30, 2022: \$231,462), respectively, related to depreciation of OCT equipment used in the project.

At September 30, 2023, the CPRIT grant receivable was \$1,339,212 (December 31, 2022: \$1,751,527) of which \$1,092,545 (December 31, 2022: \$1,258,194) related to the reimbursement of project-related costs and \$246,667 (December 31, 2022: \$493,333) related to OCT equipment. The following table shows a reconciliation on the movement of the balances for the period ended September 30, 2023 and year ended December 31, 2022:

	Nine months ended September 30, 2023	Year ended December 31, 2022
Balance at beginning of period	\$ 1,751,527	\$ 785,663
Project related expenses	1,355,964	1,456,624
OCT Equipment	-	493,333
Payments received	(1,768,279)	(984,093)
Balance at end of period	1,339,212	1,751,527

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2023 and 2022

(Dollar amounts in US Dollars)

8. PROPERTY AND EQUIPMENT

	OCT Equipment	OCT Equipment Leased	Leasehold improvement	Research equipment	Computer equipment	Office equipment & Tooling	Right of use asset	Construction in Progress	Total
Cost:									
At January 1, 2023	\$ 2,218,950	\$ 555,850	\$ 124,189	\$ 22,933	\$ 55,452	\$ 8,583	\$ 231,285	\$ 766,518	\$ 3,983,760
Additions	-	-	30,917	-	-	13,679	-	437,433	482,029
Transfer	222,306	217,000	-	-	-	-	-	(439,306)	-
Disposals	-	-	-	-	-	-	-	-	-
Effect of movement in exchange rates	-	-	-	40	(2,562)	(160)	222	-	(2,460)
At September 30, 2023	2,441,256	772,850	155,106	22,973	52,890	22,102	231,507	764,645	4,463,329
Depreciation:									
At January 1, 2022	\$ 625,345	\$ 103,956	\$ 37,041	\$ 19,662	\$ 51,120	\$ 8,146	\$ 37,452	\$ -	\$ 882,722
Additions	312,062	104,834	23,464	995	880	847	32,662	-	475,744
Transfer	(42,419)	42,419	-	-	-	-	-	-	-
Effect of movement in exchange rates	-	-	-	21	(348)	5	-	-	(322)
At September 30, 2023	894,988	251,209	60,505	20,678	51,652	8,998	70,114	-	1,358,144
Net book value:									
At September 30, 2023	\$ 1,546,268	\$ 521,641	\$ 94,601	\$ 2,295	\$ 1,238	\$ 13,104	\$ 161,393	\$ 764,645	\$ 3,105,185
	OCT Equipment	OCT Equipment Leased	Leasehold improvement	Research equipment	Computer equipment	Office equipment & Tooling	Right of use asset	Construction in Progress	Total
Cost:									
At January 1, 2022	\$ 332,268	\$ -	\$ 92,774	\$ 24,502	\$ 56,408	\$ 9,170	\$ 162,296	\$ 1,242,500	\$ 1,919,918
Additions	-	-	24,819	-	-	-	125,231	1,966,550	2,116,600
Transfer	1,886,682	555,850	-	-	-	-	-	(2,442,532)	-
Disposals	-	-	-	-	-	-	(56,242)	-	(56,242)
Effect of movement in exchange rates	-	-	6,596	(1,569)	(956)	(587)	-	-	3,484
At December 31, 2022	2,218,950	555,850	124,189	22,933	55,452	-	231,285	766,518	3,983,760
Depreciation:									
At January 1, 2022	\$ 12,333	\$ -	\$ 2,577	\$ 19,509	\$ 51,415	\$ 8,503	\$ 53,142	\$ -	\$ 147,479
Additions	613,012	103,956	34,464	1,444	3,086	200	44,702	-	800,864
Disposals	-	-	-	-	-	-	(56,242)	-	(56,242)
Effect of movement in exchange rates	-	-	-	(1,291)	(3,381)	(557)	(4,150)	-	(9,379)
At December 31, 2022	625,345	103,956	37,041	19,662	51,120	8,146	37,452	-	882,722
Net book value:									
At December 31, 2022	\$ 1,593,605	\$ 451,894	\$ 87,148	\$ 3,271	\$ 4,332	\$ 437	\$ 193,833	\$ 766,518	\$ 3,101,038

Construction in progress consists of OCT equipment which the Company has not deployed to its intended location and condition necessary for it to be capable of operating in the manner as intended by management. As such, no depreciation has been recorded on this equipment.

PERIMETER MEDICAL IMAGING AI, INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2023 and 2022

(Dollar amounts in US Dollars)

9. GOVERNMENT DEBT**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 16, 2015, collectively known as the Contribution Agreement, whereby FedDev Ontario agreed to contribute up to CAD\$980,000. The interest rate on this debt was 0% with a maturity of June 1, 2022. Repayments began April 1, 2017, and consisted of repayments of CAD\$500 per month in the first year, CAD\$1,000 per month in the second year, and CAD\$26,722 per month for the remainder of the term.

On June 4, 2020, the Company entered into an amended agreement with FedDev Ontario. The primary changes to the amended agreement were to defer and revise the repayment schedule and to extend the maturity date to January 1, 2024, which included no repayments from April 1, 2020, through September 30, 2020.

The effective interest rate used to measure the fair value of the original and the amended loan was 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 grant income.

The following table shows a reconciliation of the amounts carried as at September 30, 2023 and December 31, 2022:

		Nine months ended September 30, 2023		Year Ended December 31, 2022
Balance at beginning of period	\$	120,037	\$	228,728
Add: Interest accretion		75,917		86,388
Payments		(161,078)		(177,192)
Exchange difference		1,873		(17,887)
Balance at end of period		36,749		120,037
Less: current		(36,749)		(110,383)
Non-current	\$	-	\$	9,654

Terms and repayment schedule

Certain terms of the government debt are as follows:

		September 30, 2023		December 31, 2022	
	Stated Interest Rate	Undiscounted Face Value	Carrying Amount	Undiscounted Face Value	Carrying Amount
FedDev Ontario	0%	\$ 76,044	\$ 36,749	\$ 233,672	\$ 120,037
Total		\$ 76,044	\$ 36,749	\$ 233,672	\$ 120,037

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2023 and 2022

(Dollar amounts in US Dollars)

10. DEFERRED GRANT INCOME

Deferred grant income arises as a result of the benefit received from below-market interest rate government loan from FedDev Ontario (see Note 9) and a product development agreement with the CPRIT (see Note 7).

At September 30, 2023 and December 31, 2022, deferred grant income consisted of the following:

	September 30, 2023		December 31, 2022	
Current:				
FedDev Ontario	\$	38,320	\$	103,724
Total Current		38,320		103,724
Non-current:				
FedDev Ontario		-		9,910
CPRIT		157,034		262,008
Total Non-current		157,034		271,918
Total	\$	195,354	\$	375,642

11. FINANCIAL INSTRUMENTS**A. Accounting classification and fair values**

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

The tables do 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.

September 30, 2023	Note	Carrying Amount		Fair Value				
		Mandatorily at FVTPL	Total	Level 1	Level 2	Level 3	Total	
Financial liabilities measured at fair value								
Warrant liability	12	\$	(3,713,486)	(3,713,486)	-	(3,713,486)	-	(3,713,486)
		\$	(3,713,486)	(3,713,486)	-	(3,713,486)	-	(3,713,486)
December 31, 2022	Note	Carrying Amount		Fair Value				
		Mandatorily at FVTPL	Total	Level 1	Level 2	Level 3	Total	
Financial assets measured at fair value								
Warrant liability	12	\$	(6,035,502)	(6,035,502)	-	(6,035,502)	-	(6,035,502)
		\$	(6,035,502)	(6,035,502)	-	(6,035,502)	-	(6,035,502)

PERIMETER MEDICAL IMAGING AI, INC.

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2023 and 2022

(Dollar amounts in US Dollars)

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 warrant liability is comprised of warrants designated as derivatives (see Note 12). The warrant liability is classified as FVTPL and valued using Level 2 fair value hierarchy in the unaudited condensed consolidated interim statement of financial position. The valuation technique used to measure the fair value of the warrant liability at September 30, 2023 was the Black-Scholes option pricing model using a weighted average risk-free rate of the bond-equivalent yield of 4.6 percent, an expected life of the time to maturity of 3.3 years, a share price of \$1.2 and an expected volatility of 109 percent.

The valuation technique used to measure the fair value of the warrant liability at December 31, 2022, was the Black-Scholes option pricing model using a weighted average risk-free rate of the bond-equivalent yield of 3.4 percent, an expected life of the time to maturity of 4.1 years, a share price of 1.64 and an expected volatility of 109 percent.

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.

There were no transfers between levels for the periods reported.

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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 nine months ended September 30, 2023, the Company Issued 567,153 common shares on the exercise of share purchase options with a weighted-average exercise price of \$0.88 (CAD\$1.23) per share for proceeds of \$519,316 (CAD\$ 697,457). In relation to the exercises, the fair value of the options of \$441,663 (CAD\$593,167) was reallocated from contributed surplus to share capital.

During the nine months ended September 30, 2022, the Company:

- i. Issued 16,234,333 units comprising common shares and one-warrant, for the private placement for net proceeds of \$38,136,760 (CAD\$48,476,878) (\$38,314,649 (CAD\$ 48,702,999) before issuance costs). Of the net proceeds, \$29,314,699 (CAD\$37,277,516) were allocated to share capital based on the common shares' relative standalone fair value proportion of the transaction price.
- ii. Issued 960,716 common shares on the exercise of warrants with a weighted-average exercise price of \$0.95 (CAD\$1.23) per share for proceeds of \$915,696 (CAD\$1,182,411). In relation to the exercises, the fair value of the warrants of \$424,569 (CAD\$548,060) was reallocated from contributed surplus to share capital.
- iii. Issued 1,427,188 common shares on the exercise of share purchase options with a weighted-average exercise price of \$0.93 (CAD\$1.22) per share for proceeds of \$1,354,468 (CAD\$1,736,181). In relation to the exercises, the fair value of the options of \$1,073,562 (CAD\$1,371,910) was allocated to share capital.

On January 27, 2022, the Company executed a private placement of units (each, a "Unit") for gross proceeds of \$38,314,649 (CAD\$48,702,999) (the "Private Placement") on a non-brokered basis at a price of \$2.36 (CAD\$3.00) per Unit for a total of 16,234,333 Units. Each Unit consisted of one common share (each, a "Common Share") and a total of one warrant ("Warrant") to purchase an additional Common Share (a "Warrant Share"). Of the Warrants issued in the Private Placement, 80.0 percent have a strike price of \$3.14 (CAD\$3.99) and 20.0 percent have a strike price of \$3.54 (CAD\$4.50).

In connection with the Private Placement, the Company paid a finder's fee equal to 3.0 percent of the proceeds from the sale of Units to the finders by issuing 434,000 Common Shares at a price of \$2.36 (CAD\$3.00) per Common Share. The Company also paid a cash finder's and other fees associated with the transaction of \$177,879 (CAD\$226,121) for resulting net proceeds of \$38,136,760 (CAD\$48,476,878).

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Half of the Warrants at each strike price are subject to accelerated expiry if the 60-day volume weighted average trading price of Perimeter's Common Shares is greater than the strike price during the applicable period. Due to the Company's option to accelerate the expiry of these Warrants, and that there will be a fixed number of common shares issued for a fixed amount, the relative standalone fair value of these Warrants is included in the common share equity portion of the transaction price.

The other half of the Warrants are not subject to accelerated expiry, and instead they may be exercised at the option of the holder for cash or exercised the warrants using a cashless exercise feature at any time prior to expiry. Due to the holder's option to exercise on a cashless basis, the number of common shares to be issued upon exercise is not fixed. As such, at January 27, 2022, the relative standalone fair value proportion of the transaction price of these Warrants was \$8,268,490 (CAD\$11,199,362) and allocated to warrant liability and classified as FVTPL. At September 30, 2023, the warrant liability was revalued at \$3,713,486 (December 31, 2022: \$6,035,502) (refer to Note 11 for assumptions). The revaluation of the warrant liability resulted in a gain of \$2,659,914 (September 30, 2022: gain of \$742,486) and gain of \$2,322,303 (September 30, 2022: gain of \$2,491,144) for three and nine months ended September 30, 2023, respectively, which is recorded in net finance income. The exchange difference on the revaluation of the warrant liability of (\$137,866) (September 30, 2022: (\$380,390)) and \$288 (September 30, 2022: \$49,935) for three and nine months ended September 30, 2023, respectively, is recorded in other comprehensive income.

Subject to the accelerated expiry clause described above, all Warrants will expire on January 27, 2027.

C. Warrants

The following schedule summarizes the warrant transactions for the nine months ended September 30, 2023 and 2022:

	September 30, 2023		September 30, 2022	
	Number of warrants	Weighted-average exercise price	Number of warrants	Weighted-average exercise price
Outstanding at January 1	18,687,871	\$ 2.97	3,871,853	\$ 1.23
Issued	-	-	16,234,333	3.17
Exercised	-	-	(960,716)	0.95
Expired	(1,984,529)	1.44	(457,599)	0.93
Outstanding as of September 30	16,703,342	\$ 3.15	18,687,871	\$ 2.97

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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 to directors, officers, employees, consultants, and advisors from time-to-time stock options not to exceed 20 percent of the shares of the Company calculated at the date of shareholder approval. The options can be granted for a maximum of 10 years and vest at the discretion of the Board of Directors.

The following schedule summarizes the share purchase option transactions for the nine months ended September 30, 2023, and 2022:

	September 30, 2023		September 30, 2022	
	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price
Outstanding at January 1,	6,199,658	\$ 1.40	7,592,149	\$ 1.31
Issued	5,133,408	1.15	350,000	1.52
Exercised	(567,153)	0.88	(1,427,188)	0.93
Forfeited	(2,366,784)	1.49	(207,651)	1.75
Outstanding at September 30	8,399,129	\$ 1.26	6,307,310	\$ 1.39
Exercisable at September 30	2,909,451	\$ 1.27	3,556,339	\$ 1.16

During the nine months ended September 30, 2023, the Company:

- i. On March 23, 2023, granted 1,510,000 stock options ("Options") to certain directors, officers, consultants, and employees of the Company with an exercise price of \$1.16 (CAD \$1.58) per share. Of the 1,510,000 Options, 1,145,000 Options vest over a period of four years and 365,000 Options vest after one year. All Options expire after 10 years from date of issuance. On September 13, 2023, the Board of Directors approved an amendment to the Options vesting schedules of 1,145,000 such options ("Amended Options") issued to employees of the Company, to better reflect the Company's intended vesting schedule and to encourage employee retention. 25% of the Amended Options will vest on the one-year anniversary of the grant and the remaining Amended Options will vest monthly in 1/48th increments over the following 3 years.
- ii. On August 23, 2023, granted 100,000 options to certain consultants with an exercise price of \$1.48 (CAD \$2.00) per share over a term of three years and vesting over a period of one year.
- iii. On September 13, 2023, granted 3,523,408 options to certain directors, officers, consultants, and employees with an exercise price of \$1.13 (CAD \$1.53) per share. Of the 3,523,408 Options, 50,000 Options vest by December 31, 2023, 90,000 Options vest over a period of one year and 3,383,408 vest over a period of four years. All Options expire after 10 years from date of issuance.

During the nine months ended September 30, 2022, the Company granted 350,000 stock options to an officer of the Company with an exercise price of \$1.52 (CAD \$1.92) per share, exercisable over a term of ten years and vesting over a period of four years.

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As at September 30, 2023, the following options were outstanding enabling holders to acquire common shares as follows:

Exercise price \$	Number of options outstanding	Weighted-average remaining contractual life (years)	Number of options exercisable
0.00	171,043	0.3	171,043
0.6-0.89	291,477	3.8	290,436
0.9-1.1	1,562,704	5.6	1,332,182
1.13	3,523,408	10.0	-
1.16	1,028,500	9.5	-
1.44-1.51	654,586	7.3	444,584
2.31	1,167,411	8.1	671,206
	8,399,129		2,909,451

The share purchase options granted during the period ended September 30, 2023, were valued using the Black-Scholes option pricing model using a weighted average risk-free rate of 3.42 percent, a weighted-average expected life of 7 years, an expected annualized volatility of 109 percent, and an expected dividend rate of 0.0 percent. The weighted average fair value per option was \$0.94.

The share purchase options granted during the period ended September 30, 2022, were valued using the Black-Scholes option pricing model using a weighted average risk-free rate of 1.6 percent, a weighted-average expected life of 10 years, an expected annualized volatility of 90 percent, and an expected dividend rate of 0.0 percent. The weighted average fair value per option was \$1.35.

13. NET FINANCE INCOME (EXPENSE)

Net finance income (expense) for the reporting periods consists of the following:

	Three months ended		Nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Interest expense on government debt	\$ (27,085)	\$ (22,291)	\$ (75,917)	\$ (63,724)
Interest expense on lease liabilities	(8,232)	(3,238)	(22,567)	(10,938)
Unrealized loss on fair value of equity securities	-	(731)	-	(73,351)
Revaluation income on warrant liability	2,659,914	742,486	2,322,303	2,491,114
Other finance income	236,395	(5)	559,800	144
	\$ 2,860,992	\$ 716,221	\$ 2,783,619	\$ 2,343,245

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14. LOSS PER SHARE

Both the basic and diluted loss per share have been calculated using the loss attributable to shareholders of the Company as the numerator, i.e., no adjustments to the loss was necessary in 2023 or 2022.

The following details the loss per share calculations, basic and diluted, three and nine months ended September 30, 2023 and 2022:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Loss attributable to common shareholders (basic and diluted)	\$ (344,792)	\$ (660,781)	\$ (8,509,170)	\$ (6,033,988)
Weighted average number of common shares (in number of common shares):				
Beginning of the period	64,575,739	63,646,552	64,458,586	45,282,548
Shares issued on exercise of options	132,778	316,761	215,755	662,423
Shares issued on exercise of warrants	-	-	-	525,348
Shares issued - private placement	-	-	-	15,080,873
Basic and diluted	64,708,517	63,963,313	64,674,341	61,551,192
Loss per share:				
Basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.13)	\$ (0.10)

As the Company experienced a loss in both periods, 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 loss per share calculations at September 30, 2023 are shares issuable on the exercise of warrants, 16,703,342 (September 30, 2022: 18,687,871); and of options, 8,399,129 (September 30, 2022: 6,307,310).

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15. RELATED PARTIES**Transactions with key management personnel**

As at September 30, 2023 and 2022, the Company has no receivable or payable amounts with key management personnel or directors.

Key management personnel compensation

Short-term employment benefits of the Company's key management personnel include salaries and non-cash benefits. Key management personnel also participate in the Company's share option program (see Note 12).

Key management personnel and directors participated in the Private Placement (see Note 12) and subscribed for an aggregate of 147,000 units at a price of \$2.36 (CAD\$3.00) per unit for gross proceeds of \$345,000 (CAD\$ 441,000).

	Three months ended		Nine months ended	
	2023	2022	2023	2022
Short-term employment benefits	\$ 252,058	258,750	\$ 757,226	646,122
Director's fees	74,752	57,156	218,879	174,618
Share based payments	530,868	144,927	322,338	471,888
Total	857,678	460,833	1,298,443	1,292,628

16. Commitments and contingencies

As at September 30, 2023 and December 31, 2022, the Company has a contract to purchase OCT equipment from a medical equipment supplier amounting to \$500,000.