

**PERIMETER MEDICAL IMAGING AI, INC.**

**Unaudited Condensed Consolidated Interim Financial Statements**

**For the three and six months ended June 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 June 30, 2023 and December 31, 2022

(Dollar amounts in US Dollars)

	<u>Note</u>	<u>June 30, 2023</u>	<u>December 31, 2022</u>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 20,889,719	\$ 28,439,048
Accounts receivable		81,900	72,000
Grant and other receivables	7	2,459,376	1,904,150
Inventory		164,756	42,880
Prepaid expenses		1,092,591	1,037,072
Total current assets		<u>24,688,342</u>	<u>31,495,150</u>
<b>Non-current assets</b>			
Equipment	8	3,113,001	3,101,038
<b>Total assets</b>		<u>\$ <b>27,801,343</b></u>	<u>\$ <b>34,596,188</b></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 1,434,373	\$ 1,753,282
Current portion of government debt	9	85,851	110,383
Current portion of deferred grant income	10	66,556	103,724
Current portion of lease liability		47,757	39,774
Warrant liability		6,511,267	6,035,502
Total current liabilities		<u>8,145,804</u>	<u>8,042,665</u>
<b>Non-current liabilities</b>			
Government debt	9	-	9,654
Deferred grant income	10	228,964	271,918
Lease liability		165,249	165,865
Total non-current liabilities		<u>394,213</u>	<u>447,437</u>
<b>Shareholders' equity</b>			
Share capital	12	81,055,738	80,835,179
Contributed surplus	12	6,758,030	6,638,421
Accumulated deficit		(67,487,359)	(59,322,981)
Accumulated currency translation adjustment		(1,065,083)	(2,044,533)
<b>Total shareholders' equity</b>		<u>19,261,326</u>	<u>26,106,086</u>
<b>Total liabilities and shareholders' equity</b>		<u>\$ <b>27,801,343</b></u>	<u>\$ <b>34,596,188</b></u>

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  
For the three and six months ended June 30, 2023 and 2022  
(Dollar amounts in US Dollars)

		Three months ended		Six months ended	
	Note	June 30, 2023	June 30, 2022*	June 30, 2023	June 30, 2022*
<b>Revenue</b>	6	\$ 134,367	\$ 16,740	\$ 244,601	\$ 16,740
<b>Cost of goods sold</b>					
Direct Costs		18,304	2,177	33,792	2,177
Depreciation and amortization		30,885	-	57,675	-
		<u>49,189</u>	<u>2,177</u>	<u>91,467</u>	<u>2,177</u>
<b>Gross Profit</b>		85,178	14,563	153,134	14,563
<b>Grants</b>		43,215	179,678	84,656	199,779
<b>Operating Expenses</b>					
Sales and Marketing		901,570	1,319,718	2,145,467	2,438,312
Research and development		1,220,049	1,389,071	2,586,120	2,718,401
General and administrative		1,118,427	2,004,994	2,214,048	3,211,068
Depreciation and amortization		113,014	249,839	240,442	417,843
<b>Total Operating Expenses</b>		<u>3,353,060</u>	<u>4,963,622</u>	<u>7,186,077</u>	<u>8,785,624</u>
Net foreign exchange gain(loss)		(1,114,462)	1,516,834	(1,138,718)	1,571,051
Finance income(costs)	13	<u>(565,790)</u>	<u>2,966,384</u>	<u>(77,373)</u>	<u>1,627,024</u>
Loss before income tax		(4,904,919)	(286,163)	(8,164,378)	(5,373,207)
Income tax expense		-	-	-	-
<b>Loss for the period</b>		<u>(4,904,919)</u>	<u>(286,163)</u>	<u>(8,164,378)</u>	<u>(5,373,207)</u>
<b>Other comprehensive (loss) income items that may be reclassified subsequently to profit:</b>					
Foreign currency translation - net of tax		952,774	(1,413,913)	979,450	(649,036)
<b>Comprehensive loss</b>		<u>\$ (3,952,145)</u>	<u>\$ (1,700,076)</u>	<u>\$ (7,184,928)</u>	<u>\$ (6,022,243)</u>
<b>Basic and diluted loss per common share</b>		<u>\$ (0.08)</u>	<u>\$ (0.01)</u>	<u>\$ (0.13)</u>	<u>\$ (0.09)</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 six months ended June 30, 2023 and 2022

(Dollar amounts in US Dollars)

	Note	Shares Issued	Share Capital	Contributed Surplus	Accumulated foreign currency translation differences	Deficit	Total
<b>Balance as at January 1, 2023</b>		<b>64,458,586</b>	<b>\$ 80,835,179</b>	<b>\$ 6,638,421</b>	<b>\$ (2,044,533)</b>	<b>\$ (59,322,981)</b>	<b>\$ 26,106,086</b>
Issuance of common shares for exercise of options	12	117,153	220,559	(101,472)	-	-	119,087
Stock-based compensation		-	-	221,081	-	-	221,081
Currency translation adjustment		-	-	-	979,450	-	979,450
Net loss for the period		-	-	-	-	(8,164,378)	(8,164,378)
<b>Balance as at June 30, 2023</b>		<b>64,575,739</b>	<b>\$ 81,055,738</b>	<b>\$ 6,758,030</b>	<b>\$ (1,065,083)</b>	<b>\$ (67,487,359)</b>	<b>\$ 19,261,326</b>
<b>Balance as at January 1, 2022*</b>		<b>45,282,548</b>	<b>\$ 47,575,419</b>	<b>\$ 6,673,367</b>	<b>\$ 1,023,411</b>	<b>\$ (49,416,871)</b>	<b>\$ 5,855,326</b>
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	734,955	1,393,604	(645,103)	-	-	748,501
Stock-based compensation		-	-	935,986	-	-	935,986
Issuance of common shares for exercise of warrants	12	960,716	1,340,265	(424,569)	-	-	915,696
Currency translation adjustment		-	-	-	(649,036)	-	(649,036)
Net loss for the period		-	-	-	-	(5,373,207)	(5,373,207)
<b>Balance as at June 30, 2022*</b>		<b>63,646,552</b>	<b>\$ 79,623,987</b>	<b>\$ 6,539,681</b>	<b>\$ 374,375</b>	<b>\$ (54,790,078)</b>	<b>\$ 31,747,965</b>

\* 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 six months ended June 30, 2023 and 2022

(Dollar amounts in US Dollars)

		Six months ended	
	Note	June 30, 2023	June 30, 2022*
<b>Cash flows from operating activities:</b>			
Net loss		\$ (8,164,378)	\$ (5,373,207)
Adjustments for:			
Depreciation and amortization		298,117	417,843
Stock-based compensation		221,082	935,986
Grant Income		(84,656)	199,779
Net finance costs		77,373	(1,627,024)
Unrealized currency translation		1,455,880	(982,555)
Loss on sale of equipment		(2,655)	-
		(6,199,237)	(6,429,178)
Changes in:			
Accounts receivable		(9,900)	(15,300)
Grant and other receivables	7	(475,170)	(939,698)
Inventory		(121,876)	(29,918)
Investment tax credits recoverable		-	66,243
Prepaid expenses		(55,519)	(628,361)
Accounts payable and accrued liabilities		(318,909)	92,947
<b>Net cash from operating activities</b>		(7,180,611)	(7,883,265)
<b>Cash flows from (used in) investing activities:</b>			
Proceeds from the sale of equity investment	13	-	254,974
Interest income		243,349	
Purchase of equipment		(309,293)	(1,088,618)
		(65,944)	(833,644)
<b>Cash flows from financing activities:</b>			
Net proceeds from warrants and options exercised	12	119,087	1,664,197
Net proceeds from issuance of common shares	12	-	38,136,760
Repayment of government debt	9	(86,645)	(93,124)
Repayment of lease liabilities		(14,991)	(35,454)
		17,451	39,672,379
<b>Net decrease in cash</b>		(7,229,104)	30,955,470
<b>Cash, beginning of period</b>		28,439,048	3,723,132
<b>Effect of foreign exchange on cash</b>		(320,225)	215,260
<b>Cash, end of period</b>		\$ <b>20,889,719</b>	\$ <b>34,893,862</b>

\*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

For the three and six months ended June 30, 2023 and 2022

(Dollar amounts in US Dollars)

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### **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 Suite 1700, Park Place, 666 Burrard Street, Vancouver, British Columbia V6C 2X8. 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 six months ended June 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") 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 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 six months ended June 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 August 29, 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 exchange rates for the respective periods;

**PERIMETER MEDICAL IMAGING AI, INC.**

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2023 and 2022

(Dollar amounts in US Dollars)

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- 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 cumulative 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

For the three and six months ended June 30, 2023 and 2022

(Dollar amounts in US Dollars)

**5. Critical accounting estimates and judgements**

The Interim consolidated financial statements for the three and six months ended June 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 six months ended June 30, 2023, \$45,667 (June 30, 2022: \$Nil) and \$95,001 (June 30, 2022: \$Nil), respectively, was recognized as revenue from operating leases and \$88,700 (June 30, 2022: \$16,740) and \$149,600 (June 30, 2022: \$16,740), respectively, was recognized as revenue from sale of consumables in the unaudited condensed consolidated interim statements of loss and comprehensive loss.

As at June 30, 2023, \$8,333 (June 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:

	June 30, 2023	December 31, 2022
Harmonized sales tax receivable	\$ 242,917	152,623
CPRIT grant receivable	2,045,334	1,751,527
Miscellaneous receivables	171,125	-
<b>Grant and other receivables</b>	<b>2,459,376</b>	<b>1,904,150</b>

**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 remaining twelve-year term.

**PERIMETER MEDICAL IMAGING AI, INC.**

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2023 and 2022

(Dollar amounts in US Dollars)

For the three and six months ended June 30, 2023, the Company recognized grant income of \$488,857 (June 30, 2022: \$323,454) and \$996,774 (June 30, 2022: \$651,151,) respectively, as a reduction of project-related costs.

Additionally, for the three and six months ended June 30, 2023, the Company recognized grant income of \$17,912 (June 30, 2022: \$156,918) and \$35,824 (June 30, 2022: \$156,918), respectively, related to depreciation of OCT equipment used in the project.

At June 30, 2023, the CPRIT grant receivable was \$2,045,334 (December 31, 2022: \$1,751,527) of which \$1,552,001 (December 31, 2022: \$1,258,194) related to the reimbursement of project-related costs and \$493,333 (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 June 30, 2023 and December 31, 2022:

	<b>Six months ended June 30, 2023</b>	<b>Year ended December 31, 2022</b>
Balance at beginning of period	\$ 1,751,527	\$ 785,663
Project Related Expenses	996,744	1,456,624
OCT Equipment	-	493,333
Payments received	(702,937)	(984,093)
<b>Balance at end of period</b>	<b>2,045,334</b>	<b>1,751,527</b>

**PERIMETER MEDICAL IMAGING AI, INC.**

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three and six months ended June 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
<b>Cost:</b>									
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	-	-	21,247	55,540	-	13,791	-	218,715	309,293
Transfer	330,806	108,500	-	-	-	-	-	(439,306)	-
Disposals	-	-	-	-	(2,655)	-	-	-	(2,655)
Effect of movement in exchange rates	-	-	-	528	1,215	198	2,885	-	4,826
At June 30, 2023	2,549,756	664,350	145,436	79,001	54,012	22,572	234,170	545,927	4,295,224
<b>Depreciation:</b>									
At January 1, 2022	\$ 625,345	\$ 103,956	\$ 37,041	\$ 19,662	\$ 51,120	\$ 8,146	\$ 37,452	\$ -	\$ 882,722
Additions	199,522	57,675	14,734	3,277	592	305	22,012	-	298,117
Transfer	(42,419)	42,419	-	-	-	-	-	-	-
Effect of movement in exchange rates	-	-	-	456	741	187	-	-	1,384
At June 30, 2023	782,448	204,050	51,775	23,395	52,453	8,638	59,464	-	1,182,223
<b>Net book value:</b>									
At June 30, 2023	\$ 1,767,308	\$ 460,300	\$ 93,661	\$ 55,606	\$ 1,559	\$ 13,934	\$ 174,706	545,927	\$ 3,113,001
	OCT Equipment	OCT Equipment Leased	Leasehold improvement	Research equipment	Computer equipment	Office equipment & Tooling	Right of use asset	Construction in Progress	Total
<b>Cost:</b>									
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	8,583	231,285	766,518	3,983,760
<b>Depreciation:</b>									
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
<b>Net book value:</b>									
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

For the three and six months ended June 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 June 30, 2023 and December 31, 2022:

	<b>Six months ended June 30, 2023</b>		<b>Year Ended December 31, 2022</b>	
Balance at beginning of period	\$	120,037	\$	228,728
Add: Interest accretion		48,832		86,388
Payments		(86,645)		(177,192)
Exchange difference		3,627		(17,887)
<b>Balance at end of period</b>		<b>85,851</b>		<b>120,037</b>
Less: current		(85,851)		(110,383)
<b>Non-current</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>9,654</b>

**Terms and repayment schedule**

Certain terms of the government debt are as follows:

		<b>June 30, 2023</b>		<b>December 31, 2022</b>	
	<b>Stated Interest Rate</b>	<b>Undiscounted Face Value</b>	<b>Carrying Amount</b>	<b>Undiscounted Face Value</b>	<b>Carrying Amount</b>
FedDev Ontario	0%	133,310	85,851	233,672	120,037
Total		133,310	85,851	233,672	120,037

**PERIMETER MEDICAL IMAGING AI, INC.**

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

For the three and six months ended June 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 June 30, 2023 and December 31, 2022, deferred grant income consisted of the following:

	June 30, 2023	December 31, 2022
Current:		
FedDev Ontario	\$ 66,556	\$ 103,724
<b>Total Current</b>	<b>66,556</b>	<b>103,724</b>
Non-current:		
FedDev Ontario	-	9,910
CPRIT	228,964	262,008
<b>Total Non-current</b>	<b>228,964</b>	<b>271,918</b>
<b>Total</b>	<b>\$ 295,520</b>	<b>\$ 375,642</b>

**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.

June 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	6,511,267	6,511,267	-	6,511,267	-	6,511,267
		6,511,267	6,511,267	-	6,511,267	-	6,511,267
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

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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 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 June 30, 2023 was the Black-Scholes option pricing model using a weighted average risk-free rate of the bond-equivalent yield of 3.68 percent, an expected life of the time to maturity of 3.58 years, 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, 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****C. Authorized**

Unlimited common shares without par value

**D. 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 six months ended June 30, 2023, the Company Issued 117,153 common shares on the exercise of share purchase options with a weighted-average exercise price of \$1.02 (CAD\$ 1.34) per share for proceeds of \$119,087 (CAD\$ 157,458). In relation to the exercises, the fair value of the options of \$ 101,472 (CAD\$ 134,166) was reallocated from contributed surplus to share capital.

During the six months ended June 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, \$ 29,326,222 (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 734,955 common shares on the exercise of share purchase options with a weighted-average exercise price of \$1.02 (CAD\$1.28) per share for proceeds of \$768,501 (CAD\$939,821). In relation to the exercises, the fair value of the options of \$645,103 (CAD\$810,087) 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).

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

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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 June 30, 2023, the warrant liability was revalued at \$6,511,267 (December 31, 2022: \$6,035,502) (refer to Note (11 for assumptions). The revaluation of the warrant liability resulted in a loss of \$857,904 (June 30, 2022: gain of \$3,015,976) and loss of \$337,611 (June 30, 2022: gain of \$1,748,627) for the three and six months ended June 30, 2023, respectively, which is recorded in finance income. The exchange difference on the revaluation of the warrant liability of \$125,764 (June 30, 2022: \$Nil) and \$138,154 (June 30, 2022: \$796,943) for the three and six months ended June 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.

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).

**E. Warrants**

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

	June 30, 2023		June 30, 2022	
	Number of warrants	Weighted-average exercise price	Number of warrants	Weighted-average exercise price
<b>Outstanding at January 1</b>	<b>18,687,871</b>	<b>\$ 2.97</b>	<b>3,871,853</b>	<b>\$ 1.23</b>
Issued	-	-	16,234,333	3.17
Exercised	-	-	(960,716)	0.95
Expired	-	-	(457,599)	0.93
<b>Outstanding as of June 30</b>	<b>18,687,871</b>	<b>\$ 2.97</b>	<b>18,687,871</b>	<b>\$ 2.94</b>



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**F. 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 six months ended June 30, 2023 and 2022:

	<b>June 30, 2023</b>		<b>Weighted- average exercise price</b>	<b>June 30, 2022</b>		<b>Weighted- average exercise price</b>
<b>Outstanding at January 1,</b>	6,199,658	\$	1.40	7,592,149	\$	1.31
Issued	1,510,000		1.16	350,000		1.52
Exercised	(117,153)		1.00	(734,955)		0.97
Forfeited	(1,084,777)		1.40	(75,000)		2.31
<b>Outstanding at June 30,</b>	<b>6,507,728</b>	<b>\$</b>	<b>1.35</b>	<b>7,132,194</b>	<b>\$</b>	<b>1.34</b>
<b>Exercisable at June 30</b>	<b>4,320,995</b>	<b>\$</b>	<b>1.27</b>	<b>4,117,298</b>	<b>\$</b>	<b>1.12</b>

**13. FINANCE INCOME (EXPENSE)**

Finance income (expense) for the reporting periods consist of the following:

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30, 2023</b>	<b>June 30, 2022</b>	<b>June 30, 2023</b>	<b>June 30, 2022</b>
<b>Interest expense on government debt</b>	\$ (25,301)	\$ (21,332)	\$ (48,832)	\$ (41,433)
<b>Interest expense on lease liabilities</b>	(5,990)	(3,641)	(14,335)	(7,700)
<b>Realized gain on sale of equity securities</b>	-	(24,619)	-	(72,620)
<b>Revaluation gain/(loss) on warrant liability</b>	(857,904)	3,015,976	(337,611)	1,748,627
<b>Interest income</b>	323,405	-	323,405	150
	<b>\$ (565,790)</b>	<b>\$ 2,966,384</b>	<b>\$ (77,373)</b>	<b>\$ 1,627,024</b>

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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 earnings per share calculations, basic and diluted, for the three and six months ended June 30, 2023 and 2022:

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Loss attributable to common shareholders (basic and diluted)	\$ (4,904,919)	\$ (286,163)	\$ (8,164,378)	\$ (5,373,207)
Weighted average number of common shares (in number of common shares):				
Beginning of the period	64,465,371	62,638,098	64,458,586	45,282,548
Shares issued on exercise of options	13,609	24,652	14,805	375,318
Shares issued on exercise of warrants	-	92,001	-	114,113
Shares issued - private placement	-	-	-	14,273,987
Basic and diluted	64,478,980	62,754,751	64,473,391	60,045,966
Loss per share:				
<b>Basic and diluted</b>	<b>\$ (0.08)</b>	<b>\$ (0.01)</b>	<b>\$ (0.13)</b>	<b>\$ (0.09)</b>

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 June 30, 2023 are shares issuable on the exercise of warrants, 18,687,871 (June 30, 2022: 18,687,871); and of options, 6,507,728 (June 30, 2022: 7,132,194).

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

As at June 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			Six months ended	
		2023	2022		2023	2022
Short-term employment benefits	\$	264,231	196,330	\$	505,168	387,372
Director's fees		74,508	58,543		144,127	117,462
Share based payments		(238,893)	229,747		(208,530)	326,961
<b>Total</b>		<b>99,846</b>	<b>484,620</b>		<b>440,765</b>	<b>831,795</b>

**16. Commitments**

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