



# Perimeter Medical Imaging AI, Inc. Management's Discussion and Analysis

For the three and nine months ended September 30, 2024

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This Management's Discussion and Analysis ("MD&A") for Perimeter Medical Imaging AI, Inc. ("Perimeter" or the "Company") should be read in conjunction with our Third Quarter 2024 Unaudited Condensed Consolidated Interim Financial Statements and notes thereto, which have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). All of the amounts are expressed in US dollars unless otherwise indicated. References to "Perimeter" or "the Company" mean Perimeter and/or its management.

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

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

Forward-looking information is subject to certain factors, including risks and uncertainties, which could cause actual results to differ materially from what the Company currently expects. These factors include: the Company's ability to obtain additional financing on terms favourable to it, if at all; transition from

research and development activities to commercial activities; market acceptance and adoption of the Products; risks relating to the Company's implementation of a sales and marketing model with respect to its platform; the risk that changes to current healthcare reimbursement codes or healthcare spending will negatively affect the acceptance or usage of the Products; quarter to quarter fluctuations in financial results due to numerous external risk factors; risks related to third-party contractual performance; risks associated with the introduction of products or existing products by competitors that compete with the Products; risks associated with conducting business internationally; risks related to medical or scientific advances that could render the Products obsolete; market acceptance and adoption of the its platform; dependence on key supplier for components of certain Products; regulatory and clinical risks; risks relating to the protection of its patents, trade secrets, trademarks and other intellectual property ("IP") and third party IP; risks inherent in the conduct of research and development activities, including the risk of unfavourable or inconclusive clinical trial outcomes; potential product liability, competition and the risks posed by potential technological advances; and, risks relating to fluctuations in the exchange rate between the U.S. and the Canadian dollar.

Undue importance should not be placed on forward-looking information, nor should reliance be placed upon this information as of any other date. Unless required by law, Perimeter does not undertake to update this information at any particular time. These forward-looking statements are made as of the date of this MD&A. Unless otherwise indicated, this MD&A was prepared by management from information available through November 14, 2024, and was approved by the Board of Directors (the "Board") on that date.

## BUSINESS OF PERIMETER

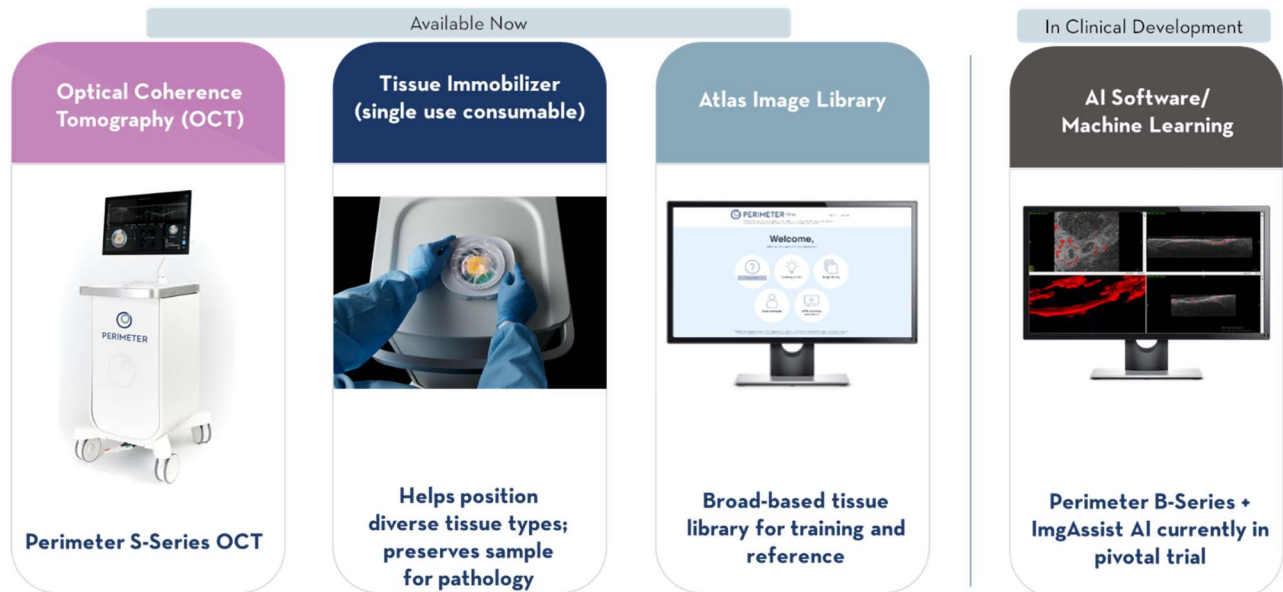
Perimeter's mission, as an innovative medical technology company, is to transform cancer surgery with ultra-high-resolution, real-time, advanced imaging tools to address unmet medical needs. Perimeter's vision is that patients will no longer experience the costly emotional and physical trauma of being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

### ***Perimeter's Medical Imaging Platform***

The console of Perimeter's Optical Coherence Tomography ("OCT") imaging system includes:

- an intraoperative device for automated scanning of the specimen that provides a rapid subsurface map of up to a 10 cm by 10 cm surface area;
- a specimen handling consumable designed to hold and maintain orientation of the specimen; and
- a proprietary image library and training set.

A tissue specimen is placed in the consumable container and scanned during the surgical procedure, with results available for display on the device's touchscreen typically within one to two minutes, enabling collaboration between surgeons, radiologists, and pathologists. A graphical user interface allows the surgeon/user to navigate through different areas of the specimen and to adjust display parameters on selected images of interest.



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

- **Margin visualization:** 2 mm subsurface imaging to visualize microscopic tissue structures in real-time.
- **Automated image capture:** Automated scanning of individual margins with no increased operator workload from manipulating an imaging probe.
- **Full specimen coverage:** High resolution images of one to six margins, with 10 times higher resolution than ultrasound or X-ray.
- **Orientation management:** Preserves and conveys specimen orientation, with ability to label and capture images of individual margins.
- **Non-destructive:** Images tissue without compromising standard histopathology.
- **No oral or injectable required:** Because patient dosing is not required, so there are no drug-related side-effects.

Perimeter has six issued patents in total in the U.S. and internationally. Three of the granted patents are expected to expire in 2033, one in 2037, and one in 2038.

### ***Perimeter S-Series OCT***

Cleared by the U.S. Food and Drug Administration ("FDA") with a general tissue indication, the Perimeter S-Series OCT system is commercially available across the United States. Perimeter S-Series OCT provides cross-sectional images of tissues down to 2 mm depth, with 10-times higher image resolution than standard x-ray and ultrasound. This innovative technology gives physicians the ability to visualize microscopic tissue structures at the point-of-care – during the primary surgery compared to days later when pathology reports are available – which has the potential to result in better long-term outcomes for patients and lower costs to the healthcare system.

### ***ATLAS AI Project***

Perimeter is advancing its proprietary, next-generation machine learning tools and artificial intelligence ("AI") technology, called "ImgAssist AI," through clinical development under its ATLAS AI Project, which is supported, in part, by a \$7.4 million grant awarded by the Cancer Prevention and Research Institute of Texas ("CPRIT"), a leading state body that funds cancer research.

Perimeter's ImgAssist AI technology has the potential to increase the efficiency of image review and be an additional powerful tool when combined with Perimeter OCT to aid physicians with real-time margin visualization and assessment – with the goal of improving surgical outcomes for patients and reducing the likelihood of needing additional surgeries.

During the initial stages of the ATLAS AI Project more than 400 volumes of images of excised breast tissue were collected at leading cancer centers in Texas using the Perimeter S-Series OCT. This database of breast tissue images was then precisely labeled and signed off by a board-certified pathologist and subsequently used to train and test the accuracy of Perimeter's proprietary ImgAssist AI algorithm.

The output of the initial stages of the ATLAS AI Project was the standalone ImgAssist AI, which achieved a key performance metric of 0.94 AUC (area under the receiver operating characteristic curve), which is a measure of how well the algorithm can differentiate between suspicious and non-suspicious breast tissue areas.

### ***Clinical Development of Perimeter B-Series OCT with ImgAssist AI***

In April 2021, the FDA granted a Breakthrough Device Designation for Perimeter B-Series OCT combined with + ImgAssist AI, allowing for accelerated interactions with the FDA during product development and prioritized review of future regulatory submissions. In November 2021, the FDA granted an Investigational Device Exemption ("IDE"), enabling the ATLAS AI Project to move into the next validation stage of clinical development by evaluating Perimeter B-Series OCT with + ImgAssist AI in a pivotal study.

Led by Principal Investigator, Dr. Alastair Thompson at Baylor College of Medicine, a multi-center, randomized, two-arm clinical trial is currently underway to measure the effectiveness of the breakthrough-device-designated Perimeter B-Series OCT + ImgAssist AI in reducing the number of unaddressed positive margins in breast lumpectomy procedures when used in addition to standard intraoperative margin assessment. All eight of the initially planned clinical trial sites were activated and, subsequently Perimeter received FDA approval to expand the number of institutions with the goal of further accelerating enrollment.

### **SUMMARY OF KEY DEVELOPMENTS IN 2024**

Perimeter continues its commercial expansion efforts and, year to date, has completed placements of its flagship Perimeter S-Series OCT system at three new hospital sites, including two additional follow-on placements in North Texas within a leading national healthcare system.

In February 2024, researchers from the University of Texas Health Science Center and The University of Texas MD Anderson Cancer Center published results from a new study in the *Annals of Surgical Oncology* that provides a comprehensive and up-to-date understanding of population-level reoperation rates in breast-conserving surgeries and the incremental healthcare costs. Funding to support this research was provided, in part, by Perimeter.

In February 2024, Perimeter announced results demonstrating its proprietary AI algorithm combined with OCT identified 96.8% of pathology-positive margins in a peer reviewed retrospective study. These results highlight the clinical viability of AI-enhanced margin visualization using OCT in breast cancer surgery and its potential to decrease reoperation rates due to residual tumors.

In May 2024, Perimeter provided an update on the ongoing pivotal clinical trial evaluating the use of its proprietary AI technology combined with OCT during breast-conserving surgeries.

In June 2024, a white paper authored by Amelia A. Gunter, M.D. from the Center for Cancer and Blood Disorders, Weatherford, TX, reported results from a retrospective, quantitative assessment of reoperation rates among 72 patients in the surgeon's practice who underwent OCT imaging during BCS in order to gain insight into the potential benefits and limitations of OCT for patient outcomes. The research demonstrated that OCT helped achieve a reoperation rate of 5.6%, as compared to the national rate of 19.9%. Notably, while the national reoperation rate in patients with ductal carcinoma in situ ("DCIS") was 30.8%, the white paper demonstrated a Perimeter S-Series OCT reoperation rate in patients with

DCIS of 13.3%. In patients with invasive ductal carcinoma ("IDC"), the national rate of reoperation was shown to be 18.0%, while Perimeter's S-Series OCT reoperation rate in patients with IDC was 0.0%.

In July 2024, the 1,000th paid Perimeter S-Series OCT patient scan was performed, representing an important clinical and commercial milestone achievement for the Company.

In July 2024, the Company's product innovation team completed the first-of-its-kind installation of the recently developed "ImgClear" AI image enhancement algorithm with a commercial Perimeter S-Series OCT system. Internal testing has demonstrated ImgClear enables users to achieve better quality images (up to 441% signal-to-noise ratio increase) and reduce scan time (28% reduction). The Company plans to upgrade all installed Perimeter S-Series OCT systems with ImgClear before the end of the year.

In August 2024, Perimeter provided an update on the ongoing pivotal clinical trial evaluating the use of its proprietary AI technology combined with OCT during breast-conserving surgeries. Based on enrollment trends, the Company announced that it expected patient enrollment in the study to be completed in Q3-2024 rather than later in the 2024 fourth quarter, as previously anticipated.

On September 30 2024, Perimeter announced the first closing of its private placement where the Company issued 23,470,560 common shares for gross proceeds of \$9,857,635 Canadian dollars. Social Capital, Perimeter's largest shareholder, purchased 14,507,453 shares. Prior to the Offering, Social Capital owned 14,466,667 common shares and 14,466,667 warrants to purchase common shares, which represented approximately 22.2% of the then common shares outstanding on an undiluted basis and 35.5% on a partially diluted basis, assuming the exercise of the 14,466,667 warrants. Following the closing of the Offering, Social Capital now owns 28,974,120 common shares and 14,466,667 warrants, representing approximately 32.7% of the common shares outstanding on an undiluted and 41.4% on a partially diluted basis, assuming the exercise of the 14,466,667 warrants. In addition, Rocco Schiralli acquired 8,043,757 common shares under the Offering. Prior to the Offering, Mr. Schiralli owned 3,819,786 Common Shares, which represented approximately 5.9% of the then Common Shares outstanding on an undiluted basis. Following the closing of the Offering, Mr. Schiralli now owns 11,863,543 Common Shares, representing approximately 13.4% of the common shares outstanding on an undiluted basis.

In October 2024, Perimeter announced the completion of patient enrollment in the ongoing pivotal clinical trial evaluating the use of its proprietary AI technology combined with OCT during breast-conserving surgeries. If successful, the trial is expected to support the Company's application to the FDA for clearance to market Perimeter B-Series OCT in the United States.

In October 2024, Perimeter announced the second and final closing of the Offering where the company issued 4,846,501 common shares at a price of \$0.42 per common share, for gross proceeds of CAD\$2,035,530. In total, the Company has issued 28,317,061 common shares for aggregate gross proceeds of \$11,893,166 under the Offering. The net proceeds of the Offering will be used for working capital, commercialization of Perimeter's technology, clinical studies and the further development of Perimeter's technology, and general corporate purposes.

## RESULTS OF OPERATIONS

The following is a discussion of the results for the three and nine months ended September 30, 2024, as compared to the three and nine months ended September 30, 2023:

	Three months ended		Nine months ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
<b>Revenue</b>	\$ 208,420	\$ 86,267	\$ 553,061	\$ 330,868
<b>Cost of goods sold</b>				
Direct costs	24,198	11,652	66,708	45,444
Depreciation	57,135	47,159	140,108	104,834
	<u>81,333</u>	<u>58,811</u>	<u>206,816</u>	<u>150,278</u>
<b>Gross Profit</b>	127,087	27,456	346,245	180,590
<b>Grants income</b>	12,259	100,405	36,777	185,061
<b>Operating Expenses</b>				
Sales and marketing	1,242,981	1,174,606	4,025,345	3,320,073
Research and development	1,529,956	1,384,837	4,767,120	3,970,957
General and administrative	1,637,810	1,856,344	5,561,547	4,070,392
Depreciation	<u>131,829</u>	<u>130,468</u>	<u>378,690</u>	<u>370,910</u>
<b>Total Operating Expenses</b>	<u>4,542,576</u>	<u>4,546,255</u>	<u>14,732,702</u>	<u>11,732,332</u>
Net foreign exchange gain (loss)	(159,527)	1,212,610	1,240,389	73,892
Net finance income (expense)	<u>(108,483)</u>	<u>2,860,992</u>	<u>3,137,267</u>	<u>2,783,619</u>
Loss before income tax	(4,671,240)	(344,792)	(9,972,024)	(8,509,170)
Income tax expense	-	-	-	-
<b>Net Loss</b>	<u>(4,671,240)</u>	<u>(344,792)</u>	<u>(9,972,024)</u>	<u>(8,509,170)</u>
<b>Other comprehensive income (loss) items that may be reclassified subsequently to profit:</b>				
Foreign currency translation - net of tax	37,252	(1,040,128)	(1,324,956)	(60,681)
<b>Comprehensive loss</b>	\$ <u>(4,633,988)</u>	\$ <u>(1,384,920)</u>	\$ <u>(11,296,980)</u>	\$ <u>(8,569,851)</u>
<b>Basic and diluted loss per common share</b>	\$ <u>(0.07)</u>	\$ <u>(0.01)</u>	\$ <u>(0.15)</u>	\$ <u>(0.13)</u>

## **DISCUSSION OF OPERATIONS:**

### **Revenue**

Revenue increased by \$122,153 to \$208,420 for the three months ended September 30, 2024, compared to \$86,267 for the three months ended September 30, 2023. Of this amount, \$76,726 (September 30, 2023: \$35,267) was recognized as revenue from operating leases, \$119,665 (September 30, 2023: \$51,000) and \$12,029 (September 30, 2023: \$Nil) was recognized as Exchange Service Plan ("ESP") Warranty revenue in the unaudited condensed consolidated interim statements of loss and comprehensive loss. The increase is comprised of \$68,665 in consumable sales, \$41,459 increase in operating lease revenue on commercial equipment placed at healthcare sites, and \$12,029 increase from ESP Warranty revenue which started in the quarter.

Revenue increased by \$222,193 to \$553,061 for the nine months ended September 30, 2024, compared to \$330,868 for the nine months ended September 30, 2023. Of this amount, \$213,534 (September 30, 2023: \$130,268) recognized as revenue from operating leases, and \$327,498 (September 30, 2023: \$200,600) was recognized as revenue from sale of consumables and \$12,029 (September 30, 2023: \$Nil) was recognized as ESP Warranty revenue. The increase comprised of \$126,898 in increased consumable sales, \$83,266 increase in operating lease revenue on commercial equipment placed at healthcare sites, and \$12,029 increase from ESP Warranty revenue which started in the current quarter.

### **Cost of goods sold**

Cost of goods sold increased by \$22,522 to \$81,333 for the three months ended September 30, 2024, compared to \$58,811 for the three months ended September 30, 2023.

Cost of goods sold increased by \$56,538 to \$206,816 for the nine months ended September 30, 2024, compared to \$150,278 for the nine months ended September 30, 2023.

The Cost of goods sold consists of direct material costs of specimen immobilizers and depreciation on commercial equipment placed at healthcare sites recognized as operating leases. The increase in direct costs is in line with higher consumable sales. The increase in depreciation and amortization costs is consistent with the recognition of the operating lease revenue on commercial equipment.

### **Grant Income**

Grant income for the three months ended September 30, 2024, decreased \$88,146 to \$12,259 compared to \$100,405 for the three months ended September 30, 2023. The decrease is due to the lower number of OCT equipment placed at sites funded by CPRIT in 2024.

Grant income for the nine months ended September 30, 2024, decreased \$148,284 to \$36,777 compared to \$185,061 for the nine months ended September 30, 2023. The decrease is due to the lower number of OCT equipment placed at sites funded by CPRIT in 2024.

### **Operating expenses**

Operating expenses for the three months ended September 30, 2024, decreased \$3,679 to \$4,542,576 compared to \$4,546,255 for the three months ended September 30, 2023. The decrease was primarily due to lower employee expenses, general and administrative expenses and subcontractor expenses.

Operating expenses for the nine months ended September 30, 2024, increased \$3,000,370 to \$14,732,702 compared to \$11,732,332 for the nine months ended September 30, 2023. The increase was primarily due to higher stock-based compensation, employee expenses, research and development expenses and subcontractor expenses.

#### *Sales and marketing*

For the three months ended September 30, 2024, sales and marketing expenses increased \$68,375 to \$1,242,981 compared to \$1,174,606 for the same period in the previous year. The increase is attributable to higher employee expenses, partially offset by lower advertising and promotion expenses.

For the nine months ended September 30, 2024, sales and marketing expenses increased \$705,272 to \$4,025,345 compared to \$3,320,073 for the same period in the previous year. The increase is attributable to higher employee expenses, partially offset by lower advertising and promotion expenses.

#### *Research and development*

For the three months ended September 30, 2024, research and development expenses increased \$145,119 to \$1,529,956 compared to \$1,384,837 for the same period in the previous year. The increase was primarily higher employee expenses and subcontractor expenses.

For the nine months ended September 30, 2024, research and development expenses increased \$796,163 to \$4,767,120 compared to \$3,970,957 for the same period in the previous year. The increase was primarily higher employee expenses, partly offset by lower subcontractor expenses.

#### *General and administrative*

For the three months ended September 30, 2024, general and administrative expenses decreased \$218,534 to \$1,637,810 compared to \$1,856,344 for the same period in the previous year. The decrease was as a result of lower expenses in stock-based compensation in three months and professional fees.

For the nine months ended September 30, 2024, general and administrative expenses increased \$1,491,155 to \$5,561,547 compared to \$4,070,392 for the same period in the previous year. The increase was as a result of higher expenses in stock-based compensation, employee expenses and professional fees.

#### *Depreciation*

For the three months ended September 30, 2024, depreciation expenses increased \$1,361 to \$131,829 compared to \$130,468 for the same period in the previous year. The increase was as a result of a higher number of OCT equipment being depreciated.

For the nine months ended September 30, 2024, depreciation expenses increased \$7,780 to \$378,690 compared to \$370,910 for the same period in the previous year. The increase was as a result of a higher number of OCT equipment being depreciated.

**Net finance income (expense)**

For the three months ended September 30, 2024, net finance expense increased \$2,969,475 to \$108,483 compared to net finance income of \$2,860,992 for the three months ended September 30, 2023. The change was as a result of the revaluation of the warrant liability.

For the nine months ended September 30, 2024, net finance income increased \$353,648 to \$3,137,267 compared to net finance income of \$2,783,619 for the nine months ended September 30, 2023. The change was as a result of the revaluation of the warrant liability.

For the three months ended September 30, 2024, net foreign exchange loss increased \$1,372,137 to \$159,527 compared to net foreign exchange gain of \$1,212,610 for the three months ended September 30, 2023. The increase was due to an unfavourable exchange rate on Canadian dollar cash holdings over the period.

For the nine months ended September 30, 2024, net foreign exchange gain increased \$1,166,497 to \$1,240,389 compared to net foreign exchange gain of \$73,892 for the nine months ended September 30, 2023. The increase was due to a favourable exchange rate when translating US Dollar cash holdings to Canada dollar domination over the period.

**Net loss**

For the three months ended September 30, 2024, net loss increased \$4,326,448 to \$4,671,240 compared to \$344,792 for three months ended September 30, 2023. The increase in net loss was primarily the result of higher finance expense resulting from the revaluation of the warrant liability and net foreign exchange loss.

For the nine months ended September 30, 2024, net loss increased \$1,462,854 to \$9,972,024 compared to \$8,509,170 for the nine months ended September 30, 2023. The increase in net loss was primarily the result of higher finance expense resulting from the revaluation of the warrant liability and net foreign exchange loss, partially offset by higher operating expenses.

## FINANCIAL POSITION

The following is a discussion of the changes to the Company's financial position as of September 30, 2024, as compared to December 31, 2023:

	September 30, 2024	December 31, 2023
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 9,529,060	\$ 13,980,176
Accounts receivable	223,281	36,900
Grant and other receivables	1,928,332	2,312,831
Inventory	32,425	128,999
Prepaid expenses	1,162,212	1,121,369
Total current assets	12,875,310	17,580,275
<b>Non-current assets</b>		
Equipment	2,781,010	2,961,096
Total non-current assets	2,781,010	2,961,096
<b>Total assets</b>	<b>\$ 15,656,320</b>	<b>\$ 20,541,371</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 1,952,916	\$ 1,682,958
Deferred revenue	95,863	-
Current portion of deferred grant income	49,032	49,032
Current portion of lease liability	49,800	50,565
Warrant liability	438,509	3,455,939
Total current liabilities	2,586,120	5,238,494
<b>Non-current liabilities</b>		
Deferred grant income	58,966	95,743
Lease liability	106,631	142,329
Deferred revenue	109,069	-
Total non-current liabilities	274,666	238,072
<b>Shareholders' equity</b>		
Share capital	89,036,578	81,820,732
Contributed surplus	9,447,519	7,635,656
Accumulated deficit	(83,330,999)	(73,358,975)
Accumulated currency translation adjustment	(2,357,564)	(1,032,608)
<b>Total shareholders' equity</b>	12,795,534	15,064,805
<b>Total liabilities and shareholders' equity</b>	<b>\$ 15,656,320</b>	<b>\$ 20,541,371</b>

## **Assets**

Cash decreased by \$4,451,116 to \$9,529,060 as at September 30, 2024, compared to \$13,980,176 at the end of 2023, due to cash used to support the Company's operations which was partially offset by financing from the first close of a non-brokered private placement.

Accounts receivable increased by \$186,381 to \$223,281 as at September 30, 2024, compared to \$36,900 at the end of 2023, resulting from the sale of specimen immobilizers and service contracts.

Grant and other receivables decreased by \$384,499 to \$1,928,332 as at September 30, 2024, compared to \$2,312,831 at the end of 2023, primarily the result of CPRIT reimbursements received by the Company for eligible expenses incurred, and interest receivable on cash balance.

Inventory decreased by \$96,574 to \$32,425 as at September 30, 2024, compared to \$128,999 at the end of 2023, primarily due to higher sales of specimen immobilizers.

Prepaid expenses increased \$40,843 to \$1,162,212 at September 30, 2024 compared to \$1,121,369 at the end of 2023 primarily due to a prepayment of insurance and software licenses.

Equipment decreased by \$180,086 to \$2,781,010 as at September 30, 2024, compared to \$2,961,096 at the end of 2023, mainly due to depreciation expense for the period.

## **Liabilities**

Accounts payable and accrued liabilities increased by \$269,958 to \$1,952,916 as at September 30, 2024, compared to \$1,682,958 at the end of 2023, primarily due to timing of trade payables and higher commission and vacation accruals.

Deferred revenue increased by \$204,932 to \$204,932 as at September 30, 2024 compared to \$nil at the end of 2023, due to the sale of the three-year ESP Warranty program.

Deferred grant income decreased \$36,777 to \$107,998 as at September 30, 2024, compared to \$144,775 at end of 2023, due to depreciation of CPRIT OCT equipment placed in clinical trials.

Lease liability decreased by \$36,463 to \$156,431 as at September 30, 2024, compared to \$192,894 at the end of 2023, due to contractually scheduled repayments.

Warrant liability decreased \$3,017,430 to \$438,509 as at September 30, 2024, compared to \$3,455,939 at the end of 2023, due to fair value revaluation of the warrant liability as a result of a decrease in share price.

## **Shareholders' equity**

Share capital increased \$7,215,846 to \$89,036,578 as at September 30, 2024, compared to \$81,820,732 at the end of 2023, due to the issuance of common shares associated with the exercise of options.

Contributed surplus increased \$1,811,863 to \$9,447,519 as at September 30, 2024, compared to \$7,635,656 at the end of 2023, due to stock-based compensation expense, partially offset by the exercise of options.

Accumulated deficit increased \$9,972,024 to \$83,330,999 as at September 30, 2024, compared to \$73,358,975 at the end of 2023, due to the net loss for the nine months ended September 30, 2024.

## SUMMARY OF QUARTERLY RESULTS

The table below summarizes information regarding the Company's loss from operations and other financial information for the quarters presented in accordance with IAS 34 as issued by the IASB:

Three months ended	September 30, 2024	June 30, 2024	March 31, 2024
Revenue	\$ 208,420	\$ 246,311	\$ 98,330
Operating expenses	4,542,576	5,486,001	4,704,125
Other (income) expenses	(268,010)	2,122,933	2,522,733
Net loss	\$ (4,671,240)	\$ (3,179,083)	\$ (2,121,701)
Basic and diluted loss per share	\$ (0.07)	\$ (0.05)	\$ (0.03)

Three months ended	December 31, 2023	September 30, 2023	June 30, 2023
Revenue	\$ 72,665	\$ 86,267	\$ 134,367
Operating expenses	4,975,447	4,546,255	3,353,060
Other (income) expenses	(663,366)	4,073,602	(1,680,252)
Net loss	\$ (5,526,824)	\$ (344,792)	\$ (4,904,919)
Basic and diluted loss per share	\$ (0.09)	\$ (0.01)	\$ (0.08)

Three months ended	March 31, 2023	December 31, 2022
Revenue	\$ 110,234	\$ 73,226
Operating expenses	3,833,017	3,216,303
Other (income) expenses	464,161	(749,083)
Net loss	\$ (3,259,459)	\$ (3,872,122)
Basic and diluted loss per share	\$ (0.05)	\$ (0.06)

\*Restated for change in presentation currency

## LIQUIDITY AND CAPITAL RESOURCES

Since its inception, Perimeter has financed its operations primarily through the issuance of securities and convertible debt, investment tax credits, government funding, and interest income. Given the Company's history of continuing losses and its accumulated deficit, revenues will need to begin and continue to increase over a sustained period.

The Company does not yet generate sufficient cash flow from operations to meet its planned growth and to fund development activities. The Company relies on funding from outside sources to execute its current and future business development plans, which include but are not limited to potential acquisitions, design and development and clinical trials, the investment required for the potential revenue generating assets utilized in the placement and rental models and the required funding for the recruitment and development of a commercial team. The Company is dependent on the willingness of investors or strategic partners to continue to invest in the Company or to enter into strategic relationships to continue further development of the Company's products.

Based on the cash of \$9,529,060 as of September 30, 2024, and the expected inflows from approved government grants and additional funding in 2024, additional financing will be required before the Company expects to generate positive cash flow. The Company's ability to continue as a going concern is dependent on its ability to realize positive cashflows from operations. The ability to generate positive cash flows from operations is dependent on obtaining financing in order to continue its product development, including developing patents and commercializing advanced in-procedural medical imaging tools. 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. Failure to raise such financing or obtain it on favourable terms could result in the delay or indefinite postponement of business objectives.

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

### Selected consolidated financial information

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

	Nine months ended	
	September 30, 2024	September 30, 2023
Operating activities	\$ (11,578,486)	\$ (10,638,621)
Investing activities	(156,839)	1,162
Financing activities	7,157,476	325,238
Net increase (decrease) in cash	\$ (4,577,849)	\$ (10,312,221)

### *Operating Activities*

For the nine months ended September 30, 2024, cash used in operating activities increased \$939,865 to \$11,578,486 compared to \$10,638,621 for the nine months ended September 30, 2023. Cash used in operating activities was unfavourably impacted by the change in working capital during the period.

### *Investing Activities*

For the nine months ended September 30, 2024, cash used (generated) from investing activities decreased \$158,001 to \$(156,839) compared to \$1,162 for the nine months ended September 30, 2023. Cash outflows for the nine months ended Sep 30, 2024 related to the purchase of OCT equipment partially offset by interest income.

### *Financing Activities*

For the nine months ended September 30, 2024, cash generated from financing activities increased \$6,832,238 to \$7,157,476 compared to \$325,238 for the nine months ended September 30, 2023. The increase is due to proceeds from the issuance of common shares in the period.

### *Contractual Obligations*

The table below summarizes the maturity profile of the Company's financial liabilities as at September 30, 2024 based on contractual undiscounted payments:

September 30, 2024	Carrying Amount	Total	Contractual cash flows			
			2 months or less	3-12 months	1-2 years	Thereafter
Accounts payable and accrued liabilities	\$ 1,952,916	1,952,916	1,952,916	-	-	-
Lease liabilities	156,431	201,301	12,232	61,606	60,860	66,603
	\$ 2,109,347	2,154,217	1,965,148	61,606	60,860	66,603

### **OUTSTANDING SHARES**

As of November 12, 2024, the Company had the following securities outstanding:

	Number
Common Shares	88,528,592
Warrants	16,362,594
Options	8,814,589

## OFF-BALANCE SHEET ARRANGEMENTS

On February 22, 2020, the Company entered into a product development grant agreement with CPRIT. Pursuant to the terms of the agreement, CPRIT will grant the Company up to \$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 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. From inception of the grant agreement through to September 30, 2024, the Company received \$5,548,602 of the \$7,446,844 to fund activities related to the project. At September 30, 2024, the Company recorded a receivable of \$1,875,650 of which \$1,875,650 related to the reimbursement of project-related costs and \$nil related to the OCT equipment.

## FINANCIAL INSTRUMENTS

### 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.

September 30, 2024	Carrying Amount		Fair Value			
	Mandatorily at FVTPL	Total	Level 1	Level 2	Level 3	Total
<b>Financial liabilities measured at fair value</b>						
Warrant liability	\$ (438,509)	(438,509)	-	(438,509)	-	(438,509)
	<b>\$ (438,509)</b>	<b>(438,509)</b>	<b>-</b>	<b>(438,509)</b>	<b>-</b>	<b>(438,509)</b>

December 31, 2023	Carrying Amount		Fair Value			
	Mandatorily at FVTPL	Total	Level 1	Level 2	Level 3	Total
<b>Financial liabilities measured at fair value</b>						
Warrant liability	\$ (3,455,939)	(3,455,939)	-	(3,455,939)	-	(3,455,939)
	<b>\$ (3,455,939)</b>	<b>(3,455,939)</b>	<b>-</b>	<b>(3,455,939)</b>	<b>-</b>	<b>(3,455,939)</b>

## **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. 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, 2024 was the Black-Scholes option pricing model using a weighted average risk-free rate of the bond-equivalent yield of 2.84 percent (September 30, 2023: 4.6 percent), an expected life of the time to maturity of 2.3 years (September 30, 2023: 3.3 years), and an expected volatility of 100 percent (September 30, 2023: 109 per percent).

The valuation technique used to measure the fair value of the warrant liability at December 31, 2023, was the Black-Scholes option pricing model using a weighted average risk-free rate of the bond-equivalent yield of 3.91 percent, an expected life of the time to maturity of 3.1 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.

## **C. Financial Risk Management**

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 warrant liability, cash and 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 currency in which these transactions are primarily denominated is US dollars.

### Foreign currency sensitivity analysis

As of September 30, 2024, the Company's net exposure to currency risk through its current assets and liabilities denominated in US dollars was \$7,655,951 (December 31, 2023: \$11,370,190). An appreciation (depreciation) of the Canadian dollar against the US dollar would have resulted in an increase (decrease) of approximately \$525,066 (December 31, 2023: \$751,911) in the Company's comprehensive income as a result of the Company's net exposure to currency risk through its current assets and current liabilities denominated in US dollars. This analysis is based on a foreign currency exchange rate variance of 5% which the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The Company's net exposure to other foreign currencies is not significant.

### 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 and accounts receivables from customers. 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.

The Company considers that its cash has low credit risk based on the external credit ratings of the counterparties and monitors this 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 60 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). At September 30, 2024, \$19,473 was more than 60 days past due.

### 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 interim statements have been prepared in accordance with the basis of presentation on the assumption that the Company is a going concern, outlined in Note 3 of the interim financial statements, and will continue 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.

## RELATED PARTY TRANSACTIONS

### Transactions with key management personnel

As of September 30, 2024, and 2023, the Company has no receivable or payable amounts with key management personnel or directors.

### Key management personnel compensation

	Three months ended		Nine months ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Short-term employment benefits	\$ 252,812	\$ 252,058	\$ 752,813	\$ 757,226
Director's fees	70,892	74,752	213,405	218,879
Share based payments	211,516	530,868	958,454	322,338
<b>Total</b>	<b>535,220</b>	<b>857,678</b>	<b>1,924,672</b>	<b>1,298,443</b>

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.

## **RISKS AND UNCERTAINTIES**

An investment in the common shares of the Company involves a high degree of risk and should be considered speculative. Investors should carefully consider the risks and uncertainties set forth under the heading "Risks and Uncertainties" in our 2023 Annual MD&A dated March 28, 2024, and filed on SEDAR+, as well as the other information described elsewhere in this MD&A. Additional risks and uncertainties not presently known to us or that we believe to be immaterial may also adversely affect our business. If any such risks occur, our business, financial condition and results of operations could be seriously harmed, and you could lose all or part of your investment. Further, if we fail to meet the expectations of the public market in any given period, the market price of our common shares could decline. We operate in a highly competitive environment that involves significant risks and uncertainties, some of which are outside of our control.

## **ADDITIONAL INFORMATION**

Additional information regarding Perimeter, including all public filings, are available under Perimeter's profile on the SEDAR+ website ([www.sedarplus.ca](http://www.sedarplus.ca)) and on the Perimeter website at [ir.perimetermed.com](http://ir.perimetermed.com).