# Perimeter Medical Imaging AI, Inc.

# Management's Discussion and Analysis

For the three months ended March 31, 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 First Quarter 2024 Interim Condensed Consolidated Financial Statements and notes thereto, which have been prepared in accordance with IFRS Accounting Standards. 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, 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 favorable 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 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 unfavorable or inconclusive clinical trial outcomes; potential product liability, competition and the risks posed by potential technological advances; and 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 May 14, 2024, and was approved by the Board of Directors (the "Board") on that date.

**COMPANY OVERVIEW**

Perimeter Medical Imaging AI, Inc. (the "Company" or "Perimeter") is a medical technology company driven to transform cancer surgery with ultra-high resolution, real-time, advanced imaging tools that address unmet medical needs. 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.

**BUSINESS OF PERIMETER**

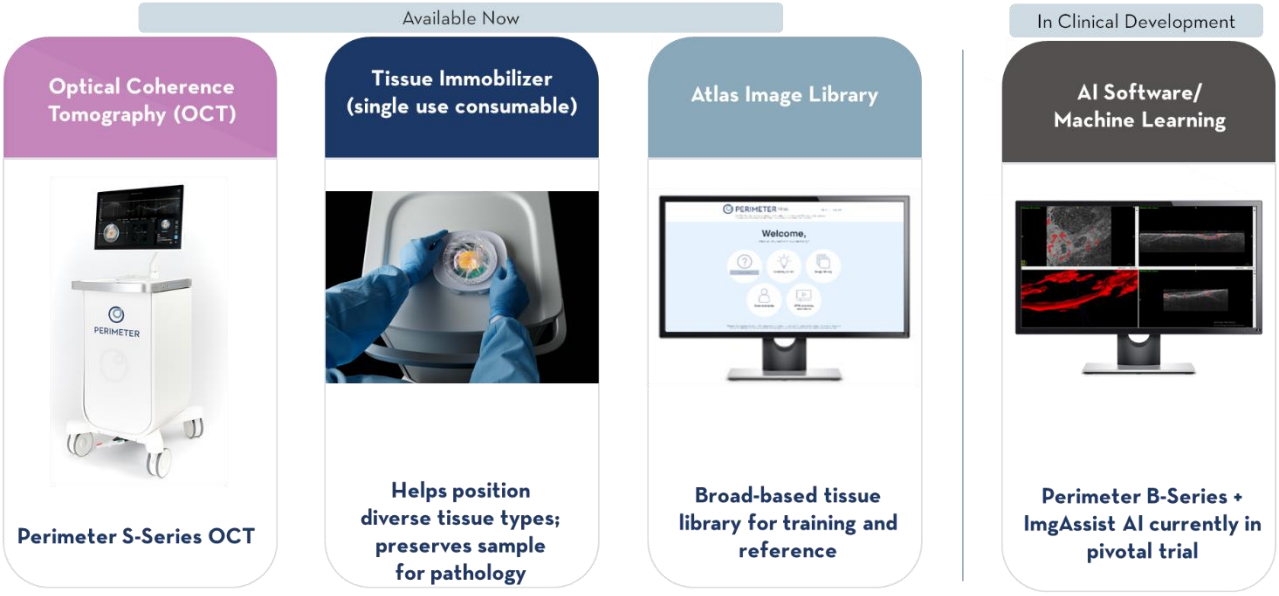
Perimeter's mission, as an innovative medical technology company, is to transform cancer surgery with ultra-high-resolution, real-time, advanced imaging tools to address unmet medical needs. Perimeter's vision is that patients will no longer experience the costly emotional and physical trauma of being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

***Next-Generation Machine Learning and AI Technology***

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. Subsequently, results published in a peer reviewed retrospective study demonstrated that Perimeter's deep learning model showed high levels of sensitivity and specificity, accurately identifying 96.8% of pathology-positive margins.

***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 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. In August 2023, Perimeter reached alignment with the FDA on key elements of the ongoing clinical trial, including clearance to introduce an enhanced AI algorithm, the option to introduce an interim analysis with the study protocol, and permission to enroll additional subjects in order to obtain statistically significant findings based on the use of the new AI algorithm. The new algorithm includes Perimeter's latest AI advancements that demonstrate improved sensitivity, specificity, precision, and recall. It is expected that this updated version of ImgAssist AI will contribute to more accurate classification, as well as fewer false positives and negatives.

**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 provide 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. Perimeter exceeded its goal of reaching sufficient patient enrollment numbers to conduct an interim analysis by the second quarter of this year. With patient enrollment tracking significantly ahead of modeled expectations and now anticipated to be complete in early Q4, the Company has opted to forego an interim analysis, pending regulatory approval, and focus its efforts on expediting full enrollment in the study. The Company has a high degree of confidence that this pathway not only allows for the strongest data package to support regulatory submissions for commercial approval but is the most capital- and resource-efficient option.

**RESULTS OF OPERATIONS**

The following is a discussion of the results for the three months ended March 31, 2024, as compared to the three months ended March 31, 2023:

| | Three months ended | |
|---|---|---|
| | **March 31, 2024** | **March 31, 2023** |
| **Revenue** | $ 98,330 | $ 110,234 |
| **Cost of goods sold** | | |
| Direct costs | 11,990 | 15,488 |
| Depreciation | 38,908 | 26,790 |
| | 50,898 | 42,278 |
| **Gross profit** | 47,432 | 67,956 |
| Grants | 12,259 | 41,441 |
| **Operating expenses** | | |
| Sales and marketing | 1,295,711 | 1,243,897 |
| Research and development | 1,433,646 | 1,366,071 |
| General and administrative | 1,858,473 | 1,095,621 |
| Depreciation | 116,295 | 127,428 |
| **Total operating expenses** | 4,704,125 | 3,833,017 |
| Net foreign exchange gain (loss) | 935,933 | (24,256) |
| Net finance income | 1,586,800 | 488,417 |
| **Loss before income tax** | (2,121,701) | (3,259,459) |
| Income tax expense | - | - |
| **Loss for the period** | (2,121,701) | (3,259,459) |
| **Other comprehensive (loss) income items that may be reclassified subsequently to profit:** | | |
| Foreign currency translation adjustment - net of tax | (904,506) | 26,676 |
| **Comprehensive loss** | $ (3,026,207) | $ (3,232,783) |
| **Basic and diluted loss per common share** | $ (0.03) | $ (0.05) |

**DISCUSSION OF OPERATIONS:**

**Revenue**

Revenue decreased $11,904 to $98,330, for the three months ended March 31, 2024, compared to $110,234 for the three months ended March 31, 2023. The decrease comprised of $6,004 decrease in consumable sales and $5,900 decrease in recurring operating lease revenue on commercial equipment placed at healthcare sites.

**Cost of goods sold**

Cost of goods sold was $50,898 for the three months ended March 31, 2024, compared to $42,278 for the three months ended March 31, 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 decrease in direct costs is in line with the lower revenue from consumable sales. The increase in costs is because of depreciation associated with a larger number of units placed at healthcare sites.

**Grants**

Grant income for the three months ended March 31, 2024 decreased $29,182 to $12,259 compared to $41,441 for the three months ended March 31, 2023. The decrease is due to a lower number of CPRIT funded OCT equipment used in clinical trials.

**Operating expenses**

Operating expenses for the three months ended March 31, 2024 increased $871,108 to $4,704,125 compared to $3,833,017 for the three months ended March 31, 2023. The increase in total operating expenses was largely the result of higher stock-based compensation and employee related expenses.

*Sales and Marketing*

Sales and marketing expenses increased $51,814 to $1,295,711 for the three months ended March 31, 2024, compared to $1,243,897 for the three months ended March 31, 2023. The increase was primarily due to the timing of costs associated with attending trade shows.

*Research & Development*

Research and development expenses increased $67,575 to $1,433,646 for the three months ended March 31, 2024, compared to $1,366,071 for the three months ended March 31, 2023. The increase was primarily from project costs to support additional clinical studies and regulatory activities.

*General and Administrative*

General and Administrative expenses increased $762,852 to $1,858,473 for the three months ended March 31, 2024, compared to $1,095,621 for the three months ended March 31, 2023. The increase was primarily due to an increase in stock-based compensation.

**Net finance income**

Net finance income increased $1,098,383 to $1,586,800, for the three months ended March 31, 2024, compared to $488,417 for the three months ended March 31, 2023. The increase in net finance income was primarily the result of the revaluation of the warrant liability.

**Net loss**

For the three months ended March 31, 2024, net loss decreased to $2,121,701 compared to $3,259,459 for the three months ended March 31, 2023. The decrease in net loss was primarily the result of higher finance income resulting from the revaluation of the warrant liability, partially offset by higher stock-based compensation and expenses related to sales and marketing, higher expenses for research and development, and clinical research activities.

## FINANCIAL POSITION

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

| | March 31, 2024 | December 31, 2023 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash | $ 10,625,034 | $ 13,980,176 |
| Accounts receivable | 63,900 | 36,900 |
| Grants and other receivables | 1,490,967 | 2,312,831 |
| Inventory | 108,673 | 128,999 |
| Prepaid expenses | 1,109,701 | 1,121,369 |
| Total current assets | 13,398,275 | 17,580,275 |
| **Non-current assets** | | |
| Equipment | 2,802,562 | 2,961,096 |
| **Total assets** | $ 16,200,837 | $ 20,541,371 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | $ 1,292,192 | $ 1,682,958 |
| Current portion of deferred grant income | 49,032 | 49,032 |
| Current portion of lease liability | 50,347 | 50,565 |
| Warrant liability | 1,904,118 | 3,455,939 |
| Total current liabilities | 3,295,689 | 5,238,494 |
| **Non-current liabilities** | | |
| Deferred grant income | 83,484 | 95,743 |
| Lease liability | 128,812 | 142,329 |
| Total non-current liabilities | 212,296 | 238,072 |
| **Shareholders' equity** | | |
| Share capital | 81,820,732 | 81,820,732 |
| Contributed surplus | 8,289,910 | 7,635,656 |
| Accumulated deficit | (75,480,676) | (73,358,975) |
| Accumulated currency translation adjustment | (1,937,114) | (1,032,608) |
| **Total shareholders' equity** | 12,692,852 | 15,064,805 |
| **Total liabilities and shareholders' equity** | $ 16,200,837 | $ 20,541,371 |

**Assets**

Cash decreased $3,355,142 to $10,625,034 as at March 31, 2024, compared to $13,980,176 at December 31, 2023, due to cash used to support the Company's operations.

Accounts receivable increased $27,000 to $63,900 as at March 31, 2024, compared to $36,900 at December 31, 2023, resulting from the sale of specimen immobilizers.

Grant and other receivables decreased $821,864 to $1,490,967 as at March 31, 2024, compared to $2,312,831 at December 31, 2023, primarily the result of CPRIT reimbursements received by the Company during the period.

Inventory decreased $20,326 to $108,673 as at March 31, 2024, compared to $128,999 at December 31, 2023, due to lower inventory of the specimen immobilizers.

Prepaid expenses decreased $11,668 to $1,109,701 as at March 31, 2024, compared to $1,121,369 at December 31, 2023, due to the reduction in amortization of trade shows, general insurance and software maintenance offsetting additions in the three months ending March 31, 2024.

Equipment decreased by $158,534 to $2,802,562 as at March 31, 2024, compared to $2,961,096 at December 31, 2023, mainly due to depreciation expense for the three months ended March 31, 2024.

**Liabilities**

Accounts payable and accrued liabilities decreased by $390,766 to $1,292,192 as at March 31, 2024, compared to $1,682,958 at December 31, 2023, primarily due to bonus payments to staff and lower consumable purchases.

Deferred grant income decreased $12,259 to $132,516 as at March 31, 2024, compared to $144,775 at December 31, 2023, due to depreciation of CPRIT OCT equipment placed in clinical trials.

Lease liability decreased by $13,735 to $179,159 as at March 31, 2024, compared to $192,894 at December 31, 2023, due to contractually scheduled repayments.

Warrant liability decreased $1,551,821 to $1,904,118 as at March 31, 2024, compared to $3,455,939 at December 31, 2023, due to fair value revaluation of warrants.

**Shareholders' equity**

Share capital remains unchanged at $81,820,732 as at March 31, 2024, and the end of 2023.

Contributed surplus increased $654,254 to $8,289,910 as at March 31, 2024, compared to $7,635,656 at December 31, 2023, due to stock-based compensation expense.

Accumulated deficit increased $2,121,701 to $75,480,676 as at March 31, 2024, compared to $73,358,975 at December 31, 2023, due to the net loss for the three months ended March 31, 2024.

**SUMMARY OF QUARTERLY RESULTS**

The table below summarizes information regarding Company's loss from operations and other financial information for the quarters presented in accordance with IFRS Accounting Standards:

| Three months ended | March 31, 2024 | December 31, 2023 | September 30, 2023 |
|---|---|---|---|
| Revenue | $ 98,330 | $ 72,665 | $ 86,267 |
| Expenses | 4,704,125 | 4,975,447 | 4,546,255 |
| Other (income) expenses | 2,522,733 | (633,366) | 4,073,602 |
| Net loss for the period | (2,121,701) | (5,526,824) | (344,792) |
| Basic and diluted loss per share | $ (0.03) | $ (0.09) | $ (0.01) |

| Three months ended | June 30, 2023 | March 31, 2023 | December 31, 2022 |
|---|---|---|---|
| Revenue | $ 134,367 | 110,234 | $ 73,226 |
| Expenses | 3,353,060 | 3,833,017 | 3,195,177 |
| Other (income) expenses | (1,680,252) | 464,161 | (749,083) |
| Net loss for the period | (4,904,919) | (3,259,459) | (3,872,122) |
| Basic and diluted loss per share | $ (0.08) | (0.05) | $ (0.06) |

| Three months ended | September 30, 2022 | June 30, 2022 |
|---|---|---|
| Revenue | 42,800 | $ 16,740 |
| Expenses | 4,526,140 | 4,932,561 |
| Other (income) expenses | 3,766,210 | 4,483,218 |
| Net loss for the period | (660,782) | (286,162) |
| Basic and diluted loss per share | (0.01) | $ (0.01) |

## 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 $10,625,034 as of March 31, 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 favorable 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 and cash equivalents:

| | Three months ended | |
|---|---|---|
| | **March 31, 2024** | **March 31, 2023** |
| Operating activities | $ (3,566,489) | $ (4,559,320) |
| Investing activities | 83,525 | (163,690) |
| Financing activities | (17,551) | (28,768) |
| Net increase in cash and cash equivalents | $ (3,500,515) | $ (4,751,778) |

*Operating Activities*

For the three months ended March 31, 2024, cash used in operating activities decreased $992,831 to $3,566,489 compared to $4,559,320 for the three months ended March 31, 2023. Cash used in operating activities was favorably impacted by change in working capital during the period.

*Investing Activities*

For the three months ended March 31, 2024, cash provided investing activities was $83,525 compared to cash used in investing activity of $163,690 for the three months ended March 31, 2023 mainly due lower purchases of equipment and higher interest received on the Company's cash held in interest bearing bank accounts.

*Financing Activities*

For the three months ended March 31, 2024, cash used in financing activities was $17,551 compared to cash used by financing activities of $28,768 for the three months ended March 31, 2023. The decrease in cash used in financing activities was due to the repayment of outstanding government debt obligations in 2023.

*Contractual Obligations*

The table below summarizes the maturity profile of the Company's financial liabilities as at March 31, 2024 based on contractual undiscounted payments:

| | | | | Contractual cash flows | | | |
|---|---|---|---|---|---|---|---|
| **March 31, 2024** | | **Carrying Amount** | **Total** | **2 months or less** | **3-12 months** | **1-2 years** | **Thereafter** |
| Accounts payable and accrued liabilities | $ | 1,292,192 | 1,292,192 | 1,292,192 | - | - | - |
| Lease liabilities | | 179,159 | 235,745 | 12,140 | 60,699 | 73,734 | 89,172 |
| | $ | 1,471,351 | 1,527,937 | 1,304,332 | 60,699 | 73,734 | 89,172 |

**OUTSTANDING SHARES**

As of May 14, 2024, the Company had the following securities outstanding:

| | **Number** |
|---|---|
| Common Shares | 65,058,032 |
| Warrants | 16,434,052 |
| Options | 7,327,621 |

**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 March 31, 2024, the Company received $5,062,106 of the $7,446,844 to fund activities related to the project. At March 31,2024, the Company recorded a receivable of $1,407,398 of which $1,407,398 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.

| | Carrying Amount | | Fair Value | | | |
|---|---|---|---|---|---|---|
| **March 31, 2024** | **Mandatorily at FVTPL** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial liabilities measured at fair value** | | | | | | |
| Warrant liability | 1,904,118 | 1,904,118 | - | 1,904,118 | - | 1,904,118 |
| **$** | **1,904,118** | **1,904,118** | **-** | **1,904,118** | **-** | **1,904,118** |

| | Carrying Amount | | Fair Value | | | |
|---|---|---|---|---|---|---|
| **December 31, 2023** | **Mandatorily at FVTPL** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial assets measured at fair value** | | | | | | |
| Warrant liability | 3,455,939 | 3,455,939 | - | 3,455,939 | - | 3,455,939 |
| **$** | **3,455,939** | **3,455,939** | **-** | **3,455,939** | **-** | **3,455,939** |

**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 March 31, 2024 was the Black-Scholes option pricing model using a weighted average risk-free rate of the bond-equivalent yield of 3.91 percent (March 31, 2023: 3.02 percent), an expected life of the time to maturity of 2.8 years (March 31, 2023: 3.8 years), and an expected volatility of 109 percent (March 31, 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 cash and cash equivalents, 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 at March 31, 2024, the Company's net exposure to currency risk through its current assets and liabilities denominated in US dollars was $8,031,526 (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 $544,141 (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 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 and cash equivalents have 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 realizing security (if any is held). At March 31, 2024, no amounts were owing 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.

## RELATED PARTY TRANSACTIONS

### Transactions with key management personnel

As at March 31, 2024, and 2023, the Company has no receivable or payable amounts with key management personnel or directors.

***Key management personnel compensation***

| | Three months ended March 31, | |
|---|---|---|
| | **2024** | **2023** |
| Short-term employment benefits | $ 247,188 | $ 240,937 |
| Director's fees | 72,324 | 69,619 |
| Share based payments | 387,412 | 30,363 |
| **Total** | 706,924 | 340,919 |

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) and on the Perimeter website at ir.perimetermed.com.