

# **Akumin Inc.**

Condensed Interim Consolidated  
Financial Statements  
(Unaudited)

**September 30, 2018**

(expressed in US dollars unless otherwise stated)

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**Akumin Inc.**  
**Condensed Interim Consolidated Balance Sheets**  
**(Unaudited)**

(expressed in US dollars unless otherwise stated)

	September 30, 2018 \$	December 31, 2017 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash	20,370,228	12,145,481
Accounts receivable (note 5)	26,094,634	12,968,010
Prepaid expenses	469,048	381,144
	<hr/>	<hr/>
	46,933,910	25,494,635
<b>Security deposits and other assets</b>	810,044	209,335
<b>Property and equipment</b> (note 6)	51,200,237	42,002,927
<b>Goodwill</b>	118,663,175	100,777,451
<b>Intangible assets</b>	3,175,019	2,264,041
	<hr/>	<hr/>
	220,782,385	170,748,389
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	14,123,277	14,578,538
Finance leases (note 7)	493,764	528,895
Senior loans payable (notes 8 and 9)	1,612,615	3,016,958
	<hr/>	<hr/>
	16,229,656	18,124,391
<b>Finance leases</b> (note 7)	1,725,774	2,062,103
<b>Senior loans payable</b> (notes 8 and 9)	98,129,774	70,156,708
<b>Subordinated note payable</b> (note 10)	1,491,716	-
<b>Subordinated note - Earn-out</b> (note 10)	166,121	-
	<hr/>	<hr/>
	117,743,041	90,343,202
<b>Shareholders' Equity</b>		
Common shares (note 11)	120,926,620	83,771,904
Warrants (note 11)	1,742,910	1,310,661
Contributed surplus	6,670,349	2,205,784
<b>Deficit</b>	<hr/>	<hr/>
	(28,849,284)	(13,223,745)
<b>Equity attributable to shareholders of Akumin Inc.</b>	100,490,595	74,064,604
<b>Non-controlling interests</b>	2,548,749	6,340,583
	<hr/>	<hr/>
	103,039,344	80,405,187
	<hr/>	<hr/>
	220,782,385	170,748,389
<b>Commitments and contingencies</b> (note 12)		
<b>Subsequent events</b> (note 17)		

**Approved by the Board of Directors**

(signed) "*Riadh Zine*" Director

(signed) "*Tom Davies*" Director

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

# Akumin Inc.

## Condensed Interim Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss) (Unaudited)

(expressed in US dollars unless otherwise stated)

	Three-month period ended September 30, 2018 \$	Three-month period ended September 30, 2017 \$	Nine-month period ended September 30, 2018 \$	Nine-month period ended September 30, 2017 \$
<b>Revenue</b>				
Service fees - net of allowances and discounts	38,316,457	23,488,721	107,243,804	54,139,063
Other revenue	814,139	618,363	2,086,732	1,441,950
	<u>39,130,596</u>	<u>24,107,084</u>	<u>109,330,536</u>	<u>55,581,013</u>
<b>Expenses</b>				
Employee compensation	14,733,517	9,529,177	38,387,117	21,439,479
Reading fees	5,142,654	3,994,614	14,795,857	8,744,433
Rent and utilities	4,292,354	3,018,759	11,461,327	7,688,979
Third party services and professional fees	3,003,890	2,339,452	8,706,414	4,569,338
Administrative	1,778,987	1,391,350	6,360,998	2,942,472
Medical supplies and other expenses	1,383,446	1,095,726	4,104,805	3,037,536
Depreciation and amortization	2,576,851	1,623,417	6,848,850	3,564,185
Stock-based compensation	1,423,998	1,980,713	4,464,565	2,442,140
Interest expense	1,482,079	1,291,371	4,200,877	3,102,402
Impairment of property and equipment	-	130,086	638,336	130,086
Settlement costs (recoveries)	(99,100)	21,000	29,494	29,500
Provisions	-	(30,000)	-	700,000
Acquisition related costs	255,954	3,412,557	919,602	3,542,117
Public offering costs	-	498,857	813,545	498,857
Financial instruments revaluation, unrealized foreign exchange loss and other (gains) losses	2,425,933	3,242,555	2,318,994	3,324,490
	<u>38,400,563</u>	<u>33,539,634</u>	<u>104,050,781</u>	<u>65,756,014</u>
<b>Income (loss) before income taxes</b>	730,033	(9,432,550)	5,279,755	(10,175,001)
<b>Income tax provision</b>	23,648	1,639	327,038	11,497
<b>Net income (loss) and comprehensive income (loss) for the period</b>	706,385	(9,434,189)	4,952,717	(10,186,498)
<b>Non-controlling interests</b>	511,389	555,217	2,162,027	555,217
<b>Net income (loss) attributable to common shareholders</b>	<u>194,996</u>	<u>(9,989,406)</u>	<u>2,790,690</u>	<u>(10,741,715)</u>
<b>Net income (loss) per share</b>				
Basic and diluted (note 16)	0.00	(0.29)	0.05	(0.35)

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

## Akumin Inc.

### Condensed Interim Consolidated Statements of Changes in Equity (Unaudited)

(expressed in US dollars unless otherwise stated)

	Common shares \$	Warrants \$	Contributed surplus \$	Deficit \$	Non- controlling interests \$	Total equity \$
<b>Balance - September 30, 2016</b>	11,004,683	475,180	713,560	(4,719,751)	-	7,473,672
Net loss and comprehensive loss	-	-	-	(341,666)	-	(341,666)
Stock-based compensation expense	-	-	230,713	-	-	230,713
<b>Balance - December 31, 2016</b>	11,004,683	475,180	944,273	(5,061,417)	-	7,362,719
Acquisition of non-controlling interests	-	-	-	-	7,718,242	7,718,242
Net loss and comprehensive loss	-	-	-	(10,741,715)	555,217	(10,186,498)
Issuance of common shares - net of issuance costs	25,099,570	-	1,750,000	-	-	26,849,570
RSUs and warrants exercised	4,472,936	(292,936)	(3,500,000)	-	-	680,000
Issuance of warrants	-	33,229,285	-	-	-	33,229,285
Stock-based compensation expense	-	-	2,442,140	-	-	2,442,140
Payment to non-controlling interests	-	-	-	-	(1,678,054)	(1,678,054)
<b>Balance - September 30, 2017</b>	40,577,189	33,411,529	1,636,413	(15,803,132)	6,595,405	66,417,404
<b>Balance - December 31, 2017</b>	83,771,904	1,310,661	2,205,784	(13,223,745)	6,340,583	80,405,187
Acquisition of non-controlling interests	-	-	-	(18,416,229)	(3,074,268)	(21,490,497)
Net income and comprehensive income	-	-	-	2,790,690	2,162,027	4,952,717
Issuance of common shares - net of issuance costs						
Acquisition consideration	3,709,588	-	-	-	-	3,709,588
Public offering	32,444,362	-	-	-	-	32,444,362
Warrants exercised	1,000,766	(302,130)	-	-	-	698,636
Issuance of warrants	-	734,379	-	-	-	734,379
Stock-based compensation expense	-	-	4,464,565	-	-	4,464,565
Payment to non-controlling interests	-	-	-	-	(2,879,593)	(2,879,593)
<b>Balance - September 30, 2018</b>	120,926,620	1,742,910	6,670,349	(28,849,284)	2,548,749	103,039,344

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

# Akumin Inc.

## Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

(expressed in US dollars unless otherwise stated)

	Nine-month period ended September 30, 2018 \$	Nine-month period ended September 30, 2017 \$
<b>Cash flows provided by (used in)</b>		
<b>Operating activities</b>		
Net income (loss) for the period	4,952,717	(10,186,498)
Add		
Depreciation and amortization	6,848,850	3,564,185
Stock-based compensation	4,464,565	2,442,140
Impairment of property and equipment	638,336	130,086
Interest expense accretion of debt	475,500	720,005
Financial instruments revaluation, unrealized foreign exchange loss and other (gains) losses	2,318,994	3,324,490
Changes in non-cash working capital		
Accounts receivable	(11,807,476)	1,611,130
Prepaid expenses and security deposits and other assets	(500,821)	52,099
Accounts payable and accrued liabilities	(4,545,786)	2,077,584
	<u>2,844,879</u>	<u>3,735,221</u>
<b>Investing activities</b>		
Property and equipment and intangible assets	(5,891,514)	(3,454,443)
Business acquisitions - net of cash acquired (note 4)	(23,315,703)	(76,146,906)
Acquisition of non-controlling interests (note 11)	(17,780,909)	-
	<u>(46,988,126)</u>	<u>(79,601,349)</u>
<b>Financing activities</b>		
Loans proceeds	100,000,000	46,759,883
Loans repayments	(76,029,409)	(326,651)
Issuance costs - loans	(2,211,914)	(3,033,591)
Finance leases - net	(388,467)	(86,846)
Capital stock - special warrants	-	32,929,579
Capital stock - common shares	35,698,637	11,176,600
Equity issuance costs	(1,821,260)	(3,347,322)
Payment to non-controlling interests	(2,879,593)	(1,678,054)
	<u>52,367,994</u>	<u>82,393,598</u>
<b>Increase in cash during the period</b>	<b>8,224,747</b>	<b>6,527,470</b>
<b>Cash - Beginning of period</b>	<b>12,145,481</b>	<b>4,628,616</b>
<b>Cash - End of period</b>	<b>20,370,228</b>	<b>11,156,086</b>
<b>Supplemental information</b>		
Interest paid	3,727,548	2,387,317
Income taxes paid	424,653	21,497

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

# Akumin Inc.

## Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

September 30, 2018

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(expressed in US dollars unless otherwise stated)

### 1 Presentation of consolidated financial statements and nature of operations

The operations of Akumin Inc. (Akumin or the Company) and its Subsidiaries (defined below) primarily consist of operating 90 outpatient diagnostic imaging centres located in Florida, Delaware, Pennsylvania, Texas, Illinois and Kansas. Thirteen of the current 40 Florida imaging centres were acquired from Tri-State Imaging Group, LP (TSIG) on October 1, 2014. The 26 Delaware and Pennsylvania imaging centres were acquired from Siemens Financial Services, Inc. (Siemens), in its capacity as the secured party with respect to the acquired assets (the NE Acquisition), following a foreclosure auction of certain assets of TSIG on April 21, 2016. On April 1, 2017, the Company acquired seven imaging centres in Florida: six from Altamonte Springs Diagnostic Imaging Inc. and one from Hatz, LLC and its affiliates. On August 9, 2017, the Company acquired a 100% equity interest in Preferred Medical Imaging, LLC (PMI, the Texas Acquisition), a Texas LLC, from certain selling security holders. PMI, through its subsidiaries, operates 24 diagnostic imaging centres in the Dallas-Fort Worth, Texas area, Chicago, Illinois and Wichita, Kansas. In connection with that acquisition, the Company also acquired a 100% equity interest in: (a) certain general partners of limited partnerships in which PMI has a direct or indirect ownership interest; (b) SyncMed, LLC (SyncMed), a Texas LLC, which provides maintenance services to PMI and its subsidiaries; and (c) Lonestar RCM, LLC (Lonestar), a Texas LLC that provides revenue and billing services to PMI and its subsidiaries in a manner similar to the services provided by Rev Flo (defined below) to Akumin and the Subsidiaries. On May 11, 2018, the Company acquired certain assets of four imaging centres in Florida and commenced operations at those centres through its wholly owned subsidiary, Akumin FL, LLC (Akumin FL). On August 15, 2018, the Company acquired 11 outpatient diagnostic imaging centres in the Tampa Bay Area through one of its wholly owned subsidiaries. The Company also owns Rev Flo, Inc. (Rev Flo), a New York company providing medical billing services in the United States. Rev Flo and Lonestar were amalgamated on September 30, 2017.

The services offered by the Company (through the Subsidiaries) include magnetic resonance imaging (MRI), computed tomography (CT), positron emission tomography (PET), nuclear medicine, mammography, ultrasound, digital radiography (X-ray), fluoroscopy and other related procedures.

The Company has a diverse mix of payers, including private, managed care capitated and government payers.

The registered and head office of Akumin is located at 151 Bloor Street West, Suite 603, Toronto, Ontario, M5S 1S4. All operating activities are conducted through its wholly owned US subsidiary, Akumin Holdings Corp. and the wholly owned subsidiaries of Akumin Holdings Corp., namely, Akumin Corp., Tri-State Imaging FL Holdings, LLC (FL Holdings), Rev Flo, PMI, SyncMed and Akumin FL (collectively, the Subsidiaries), all of which are located in the United States.

### 2 Basis of preparation

These condensed interim consolidated financial statements for the three and nine months ended September 30, 2018 have been prepared in accordance with International Accounting Standard (IAS) 34 - Interim Financial Reporting. The disclosures contained in these condensed interim consolidated financial statements do not include all of the requirements of International Financial Reporting Standards (IFRS) for annual financial statements. The condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the fifteen months ended December 31, 2017 and for the year

# **Akumin Inc.**

## **Notes to Condensed Interim Consolidated Financial Statements**

(Unaudited)

**September 30, 2018**

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(expressed in US dollars unless otherwise stated)

ended September 30, 2016, which have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board (IASB). The condensed interim consolidated financial statements are based on accounting policies as described in the December 31, 2017 consolidated financial statements, except for changes to the accounting policies described in note 3.

Certain comparative information has been reclassified to conform with the presentation adopted in the current fiscal period.

The condensed interim consolidated financial statements include all of the accounts of the Company and the Subsidiaries. All intercompany transactions and balances have been eliminated on consolidation.

On November 13, 2018, the Board of Directors (the Board) authorized the condensed interim consolidated financial statements for issuance.

### **3 Summary of significant accounting policies**

These condensed interim consolidated financial statements have been prepared using the significant accounting policies consistent with those applied in the Company's December 31, 2017 consolidated financial statements, except as described below relating to the adoption of IFRS 15, Revenue from Contracts with Customers (IFRS 15), IFRS 9, Financial Instruments (IFRS 9) and International Financial Reporting Interpretations Committee (IFRIC) 22.

The Company adopted IFRS 15 as at January 1, 2018, with full retrospective application. Other new standards were also adopted as at January 1, 2018, including IFRS 9 and IFRIC 22, Foreign Currency Transactions and Advance Consideration, but they do not have a material effect on the Company's condensed interim consolidated financial statements.

#### **Adoption of IFRS 15**

Service fee revenue, net of contractual allowances and discounts, consists of net patient fees received from various payers and patients based mainly on established contractual billing rates, less allowances for contractual adjustments and discounts and allowances. This service fee revenue is primarily comprised of fees for the use of the Company's diagnostic imaging equipment and provision of medical supplies. Service fee revenue is recorded during the period in which the Company's performance obligations are satisfied, based on the estimated collectible amounts from the patients and third party payers. Third party payers include federal and state agencies (under the Medicare and Medicaid programs), managed care health plans, commercial insurance companies and employers. Estimates of contractual allowances are based on the payment terms specified in the related contractual agreements. Contractual payment terms in managed care agreements are based on predetermined rates per discounted fee-for-service rates. A provision for credit losses is also recorded, based partly on historical collection experience. The Company regularly attempts to estimate its expected reimbursement for patients based on the applicable contract terms. The Company believes its review process enables it to identify instances on a timely basis where such estimates need to be revised.



# Akumin Inc.

## Notes to Condensed Interim Consolidated Financial Statements

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(expressed in US dollars unless otherwise stated)

Other revenue consists of miscellaneous fees under contractual arrangements, including service fee revenue under capitation arrangements with third party payers, management fees and fees for other services provided to third parties. Revenue is recorded during the period in which the Company's performance obligations under the contract are satisfied by the Company. There was no material impact to other revenue as a result of adopting IFRS 15.

IFRS 15 applies a single model for recognizing revenue from contracts with customers. It requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps:

- i) identify the contract with a customer;
- ii) identify the performance obligation in the contract;
- iii) determine the transaction price;
- iv) allocate the transaction price to the performance obligations in the contract; and
- v) recognize revenue when (or as) the entity satisfies a performance obligation.

The principal change affecting the Company results from the presentation of variable consideration that under the accounting standard is included in the transaction price up to an amount that is probable that a significant reversal will not occur. The most common form of variable consideration the Company experiences relates to amounts for services provided that are ultimately not realizable from a payer. Under the previous standard, the Company's estimate for unrealized amounts was recorded in expenses as a provision for credit losses. Under IFRS 15, the Company's estimate for unrealizable amounts is recognized as an adjustment to the transaction price at the inception of the contract. The net impact of adoption of IFRS 15 for the three and nine months ended September 30, 2017 is a reduction in service fee revenue of \$1,075,455 and \$2,352,552, respectively, and a corresponding reduction in operating expenses of \$1,075,455 and \$2,352,552, respectively, with no impact to net income. Due to the nature of these adjustments, there was no impact to the opening retained earnings, condensed interim consolidated balance sheets, condensed interim consolidated statements of changes in equity or condensed interim consolidated statements of cash flows.

The Company has elected to use the following practical expedients in adopting IFRS 15:

- i) the amount of consideration over the contract term has not been adjusted for the effects of a significant financing component, since at contract inception, the period between when the Company transfers a promised service to a customer and when the customer pays for that service will be one year or less; and
- ii) incremental costs associated with obtaining a contract are recognized as an expense when incurred because the amortization period of the asset that the Company would have otherwise recognized is one year or less.

# **Akumin Inc.**

## **Notes to Condensed Interim Consolidated Financial Statements**

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### **Adoption of IFRS 9**

IFRS 9 addresses the classification, measurement and recognition of financial assets and liabilities. It establishes three measurement categories for financial assets: amortized cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. A new expected credit losses model replaces the incurred loss impairment model previously used in IAS 39, Financial Instruments - Recognition and Measurement (IAS 39).

The classification of financial liabilities under IFRS 9 remains broadly the same as under IAS 39. Financial liabilities are measured at amortized cost unless they are required to be measured at FVTPL or the Company has opted to measure them at FVTPL.

The Company completed an assessment of its financial assets (cash, accounts receivable and derivative financial instruments) and financial liabilities (accounts payable and accrued liabilities, loans and finance leases) as at January 1, 2018. All financial assets or liabilities were classified at amortized cost under IAS 39 and IFRS 9 except for derivative financial instruments, which were classified at FVTPL under IAS 39 and IFRS 9. There has been no significant impact for the Company from the adoption of IFRS 9 on the carrying amounts of financial assets or liabilities as at January 1, 2018. Also, there was no material impact from the transition to IFRS 9 on the condensed interim consolidated statements of net income (loss) and comprehensive income (loss).

### **Measurement of financial assets and liabilities**

Financial assets and liabilities at amortized cost are initially recognized at fair value, and subsequently are carried at amortized cost less any impairment. Derivative financial instruments are recognized at FVTPL.

### **Impairment of financial assets**

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt instruments measured at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are generally recognized earlier than under IAS 39. On adoption of IFRS 9, the financial assets of the Company measured at amortized cost consisted of cash, accounts receivable and loans to related parties.

Under IFRS 9, expected credit losses are measured as follows:

- 12-month ECL - ECLs that result from possible default events within 12 months after the reporting date; and
- lifetime ECLs - ECLs that result from all possible default events over the expected life of a financial instrument.

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The Company measures provision for credit losses at an amount equal to lifetime ECLs, except for the following, which are measured based on 12-month ECLs:

- cash and loans to related parties for which the risk of default occurring over the expected life of the financial instrument has not increased significantly since initial recognition.

In applying the IFRS 9 impairment requirements, the Company has applied the general approach for cash and loans to related parties, while the Company has elected to measure provision for credit losses for accounts receivable at an amount equal to lifetime ECLs using the simplified approach.

In order to assess whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes information based on the Company's historical experience and other forward-looking information. The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

### Measurement of ECLs

ECLs are a probability weighted estimate of provision for credit losses. Provision for credit losses is measured as the present value of the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive. ECLs are discounted at the effective interest rate of the financial asset; however, due to the short-term nature of most of the Company's financial assets measured at amortized cost, the time value of money is not expected to be significant in the calculation of the ECL.

### Impact of the new impairment model

The Company has determined that the application of IFRS 9's impairment requirements as at January 1, 2018 does not result in a significant change in the allowance for credit losses recognized by the Company. For accounts receivable, the Company uses a provision matrix to determine the ECLs based on actual credit loss experience with consideration of forward-looking information including changes to economic conditions that would impact its customers.

The Company applied the general approach for loans to related parties, considering any significant increases in credit risk for such receivables since inception. In determining the ECLs for such receivables, the Company considered actual credit loss experience with consideration of forward-looking information including changes to economic conditions that would impact the payers.

## 4 Business combinations

- a) On April 5, 2018, the Company announced that, through a subsidiary, it had entered into a management agreement with the owners of four centres located in one of Akumin's core geographic markets (the Managed Centres, and the period from April 5 to May 11, 2018, the Management Period). On May 11, 2018, the Company announced that it had acquired, through a subsidiary (Akumin FL), certain assets of the

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Managed Centres in Florida (the Tampa Acquisition). The sellers were paid cash consideration of \$50,000. The Company also assumed certain priority ranked accounts payable of \$1,553,290 (including \$727,826 related to working capital loans advanced from the Company to the Managed Centres during the Management Period) and a 6% third party subordinated note with a principal balance of \$1.5 million (face value) and a term of four years. The principal balance of the third party loan is subject to an earn-out of up to an additional \$4.0 million, subject to the satisfaction of certain revenue-based milestones (described in note 10). The Company has made a preliminary fair value determination of the acquired assets and assumed liabilities as follows:

	\$
Assets acquired	
Non-current assets	
Property and equipment	<u>1,719,000</u>
Liabilities assumed	
Current liabilities	
Accounts payable and accrued liabilities	1,553,290
Non-current liabilities	
Subordinated note	1,490,932
Subordinated note - Earn-out	<u>160,790</u>
	<u>3,205,012</u>
Net liabilities acquired	1,486,012
Goodwill	<u>1,536,012</u>
Purchase price	<u>50,000</u>

The goodwill assessed on acquisition reflects the Company's expectation of future benefits from the acquired business and workforce, and potential synergies from cost savings. The results of operations of the Tampa Acquisition have been included in the Company's condensed interim consolidated statements of net income (loss) and comprehensive income (loss) from the acquisition date. Since the acquisition date, the Tampa Acquisition contributed revenue of \$2,748,149 and net income before tax of \$299,331 to the Company's consolidated results for the nine months ended September 30, 2018.

The Company has estimated the contribution to the Company's consolidated results from this acquisition had the business combination occurred at the beginning of the year. Had the business combination occurred at the beginning of fiscal 2018, this business combination would have contributed approximately \$5,260,880 in revenue and \$573,020 in net income before tax for the nine months ended September 30, 2018, and consolidated pro forma revenue and net income before tax for the same period would have been \$111,843,267 and \$5,553,444, respectively. These estimates should not be used as an indicator of past or future performance of the Company or the acquisition.

- b) On August 15, 2018, the Company announced that, through a subsidiary, it had acquired 11 outpatient diagnostic imaging centres in the Tampa Bay Area (the Rose Acquisition) for a cash consideration of

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approximately \$25 million, which was financed through the Syndicated Term Loan (described in note 8). The Company has made a preliminary fair value determination of the acquired assets and assumed liabilities as follows. The intangible assets consist of the trade name and covenants not to compete.

	\$
Assets acquired	
Current assets	
Cash	1,344,280
Accounts receivable	1,319,148
Prepaid expenses	74,582
	<u>2,738,010</u>
Non-current assets	
Property and equipment	8,637,953
Intangible assets	1,330,000
	<u>9,967,953</u>
	<u>12,705,963</u>
Liabilities assumed	
Current liabilities	
Accounts payable and accrued liabilities	2,537,235
Non-current liabilities	
Wesley Chapel Loan (note 9)	1,908,456
	<u>4,445,691</u>
Net assets acquired	8,260,272
Goodwill	<u>16,349,711</u>
Purchase price	<u>24,609,983</u>

The goodwill assessed on the Rose Acquisition reflects the Company's expectation of future benefits from the acquired business and workforce, and potential synergies from cost savings. The results of operations of the Rose Acquisition have been included in the Company's condensed interim consolidated statements of net income (loss) and comprehensive income (loss) from the acquisition date. Since the acquisition date, the Rose Acquisition contributed revenue of \$3,069,251 and net income before tax of \$73,325 to the Company's consolidated results for the three months ended September 30, 2018.

# Akumin Inc.

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(expressed in US dollars unless otherwise stated)

The Company has estimated the contribution to the Company's consolidated results from this acquisition as though the business combination occurred at the beginning of fiscal 2018. Had the business combination occurred at the beginning of fiscal 2018, this business combination would have contributed approximately \$17,876,754 in revenue and \$427,078 in net income before tax for the nine months ended September 30, 2018, and consolidated pro forma revenue and net income before tax for the same period would have been \$124,138,039 and \$5,633,508, respectively. These estimates should not be used as an indicator of past or future performance of the Company or the business acquired in the Rose Acquisition.

### 5 Accounts receivable

	September 30, 2018 \$	December 31, 2017 \$
Accounts receivable	33,703,021	17,521,104
Less: Allowance for credit losses	7,608,387	4,553,094
	<u>26,094,634</u>	<u>12,968,010</u>

The allowance for credit losses includes a provision for credit losses expense for the three and nine months ended September 30, 2018 of \$1,648,313 and \$4,815,334, respectively (2017 - \$1,075,455 and \$2,352,552).

# Akumin Inc.

## Notes to Condensed Interim Consolidated Financial Statements

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### 6 Property and equipment

	Furniture and fixtures \$	Office equipment \$	Leasehold improvements \$	Medical equipment \$	Equipment under finance leases \$	Computer equipment \$	Total \$
<b>Cost</b>							
Balance - September 30, 2016	340,286	167,059	2,683,813	15,890,840	5,153,012	71,958	24,306,968
Additions	193,148	19,038	47,515	4,651,753	2,580,268	14,207	7,505,929
Business acquisitions	-	-	6,149,005	17,387,000	-	-	23,536,005
Disposals	-	-	-	-	(101,588)	-	(101,588)
Impairment	-	-	-	(885,740)	(150,500)	-	(1,036,240)
Balance - December 31, 2017	533,434	186,097	8,880,333	37,043,853	7,481,192	86,165	54,211,074
Additions	115,733	2,140	347,516	5,335,464	50,000	23,161	5,874,014
Business acquisition	-	-	682,635	9,674,318	-	-	10,356,953
Impairment	-	-	-	(1,001,864)	-	-	(1,001,864)
Balance - September 30, 2018	649,167	188,237	9,910,484	51,051,771	7,531,192	109,326	69,440,177
<b>Accumulated depreciation</b>							
Balance - September 30, 2016	36,148	40,156	452,052	4,228,670	1,578,352	29,106	6,364,484
Depreciation	68,880	46,114	516,311	4,773,951	877,398	17,658	6,300,312
Disposals	-	-	-	-	(21,299)	-	(21,299)
Impairment	-	-	-	(414,224)	(21,126)	-	(435,350)
Balance - December 31, 2017	105,028	86,270	968,363	8,588,397	2,413,325	46,764	12,208,147
Depreciation	53,195	23,193	620,734	4,922,400	764,496	11,303	6,395,321
Impairment	-	-	-	(363,528)	-	-	(363,528)
Balance - September 30, 2018	158,223	109,463	1,589,097	13,147,269	3,177,821	58,067	18,239,940
<b>Net book value</b>							
September 30, 2016	304,138	126,903	2,231,761	11,662,170	3,574,660	42,852	17,942,484
December 31, 2017	428,406	99,827	7,911,970	28,455,456	5,067,867	39,401	42,002,927
September 30, 2018	490,944	78,774	8,321,387	37,904,502	4,353,371	51,259	51,200,237

# Akumin Inc.

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(expressed in US dollars unless otherwise stated)

During the nine months ended September 30, 2018, the Company had impairment of medical equipment of \$638,336 (2017 - \$130,086). The recoverable amount of this non-operational equipment determined by management based on a consultation with a third party was \$nil and the carrying value of this equipment was written off.

### 7 Finance lease obligations

As at September 30, 2018, the Company's finance lease obligations were \$2,219,538 (December 31, 2017 - \$2,590,998). The reduction in these obligations is due to regular payments by the Company.

### 8 Bank loans payable

The Syndicated Loans, Siemens & Compass (S&C) Loans and WSFS Note noted herein are collectively referred to as the Bank Loans. The Bank Loans and Wesley Chapel Loan (note 9) are collectively referred to as the Senior Loans.

#### i) Syndicated Loans

The Company entered into a credit agreement dated August 15, 2018 (the Syndicated Credit Agreement) with a syndicate of five financial institutions. Under the terms of the Syndicated Credit Agreement, the Company received a term loan (Syndicated Term Loan) of \$100,000,000 (face value) and a revolving credit facility of \$30,000,000, unutilized as of September 30, 2018 (the Syndicated Revolving Facility, and together with the Syndicated Term Loan, the Syndicated Loans). The Syndicated Loans can be increased by an additional \$40,000,000 subject to certain conditions. The proceeds of the Syndicated Term Loan were used to completely settle the S&C Loans for \$74,634,848, finance the Rose Acquisition (described in note 4) and pay related debt issuance costs. Management determined the fair value of the Syndicated Term Loan to be its face value of \$100,000,000, net of debt issuance costs of approximately \$2.2 million. The fair value was determined based on management's estimation of assumptions that market participants would use in pricing similar liabilities (it is considered a Level 3 liability as described in note 14).

	September 30, 2018 \$	December 31, 2017 \$
Syndicated Loans	97,861,816	-
Less: Current portion	1,250,000	-
	<hr/> 96,611,816	<hr/> -



# Akumin Inc.

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Subject to the provisions described below, the minimum annual principal payments with respect to the Syndicated Loans (face value) are as follows:

	\$
October 1, 2018 to December 31, 2018	-
2019	2,500,000
2020	5,000,000
2021	5,000,000
2022	5,000,000
2023	82,500,000
	<u>100,000,000</u>

Effective November 9, 2017, the Company entered into a derivative financial instrument contract with a financial institution in order to mitigate interest rate risk under the variable interest rate S&C Loans. The derivative financial instrument is an interest rate cap rate of 2.5% (LIBOR) on a notional amount of \$37,500,000, being 50% of the S&C Term Loan (as defined below). The termination date of the arrangement is October 31, 2019. The cost of this derivative financial instrument was \$49,500. The Company has not designated this interest rate cap agreement as a cash flow hedge for accounting purposes. The fair value of this derivative as determined by the financial institution as at September 30, 2018 represented an asset for the Company of \$79,569. Changes in the fair value of this derivative are recognized in the condensed interim consolidated statements of net income (loss) and comprehensive income (loss).

The Syndicated Credit Agreement provides for the following (capitalized terms used below in this note and not defined elsewhere in these notes have the respective meanings given to them in the Syndicated Credit Agreement):

### Interest

The interest rates payable on the Syndicated Loans are as follows: (i) each Eurodollar Rate Loan shall bear interest on the outstanding principal amount at one-month LIBOR plus Applicable Rate; and (ii) each Base Rate Loan shall bear interest on the outstanding principal amount at the Base Rate (the highest of (a) the Federal Funds Rate plus 0.5%, (b) the prime rate and (c) Eurodollar Rate plus 1.0%) plus Applicable Rate. All advances under the Syndicated Loans are currently classified as Eurodollar Rate Loans. The interest rate paid under the Syndicated Credit Agreement as at September 30, 2018 was approximately 5.3% per annum (September 30, 2017 - nil%). With respect to interest rate sensitivity at September 30, 2018, a 1% increase in variable interest rates would have increased interest expense for the nine-month period ended September 30, 2018 by approximately \$92,000 (September 30, 2017 - \$nil).

### Payments

The minimum principal payment schedule for the Syndicated Loans is noted herein.

# **Akumin Inc.**

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(expressed in US dollars unless otherwise stated)

### **Termination**

The termination date of the Syndicated Loans is the earliest of (a) August 15, 2023 and (b) the date on which the Obligations become due and payable pursuant to Section 8.02 of the Syndicated Credit Agreement.

### **Restrictive covenants**

In addition to certain covenants, the Syndicated Credit Agreement places limits on the Company's ability to declare dividends or redeem or repurchase capital stock (including options or warrants), prepay, redeem or purchase debt, incur liens and engage in sale-leaseback transactions, make loans and investments, incur additional indebtedness, amend or otherwise alter debt and other material agreements, engage in mergers, acquisitions, capital expenditures and asset sales, enter into transactions with affiliates and alter the business the Company and the Subsidiaries currently conduct.

### **Financial covenants**

The Syndicated Credit Agreement contains financial covenants including certain leverage ratios.

The Company is in compliance with the financial covenants and has no events of default under the Syndicated Credit Agreement as at September 30, 2018.

### **Events of default**

In addition to the above financial covenants, events of default under the Syndicated Credit Agreement include, among others, failure to pay principal of or interest on any Syndicated Loan when due, failure to pay any fee or other amount due within two days after the same comes due, failure of any loan party to comply with any covenants or agreements in the loan documents (subject to applicable grace periods and/or notice requirements), a representation or warranty contained in the loan documents is incorrect or misleading when made, events of bankruptcy and a change of control. The occurrence of an event of default would permit the lenders under the Syndicated Credit Agreement to declare all amounts borrowed, together with accrued interest and fees, to be immediately due and payable and to exercise other default remedies.

### **Security**

The Company has, subject to limited exceptions, granted general security over all assets of the Company and the Subsidiaries in connection with the Syndicated Loans.

## **ii) Siemens & Compass Loans**

As part of the Texas Acquisition, the Company entered into a third amended and restated credit agreement dated August 9, 2017 (the S&C Credit Agreement) with Siemens as administrative agent and Compass Bank as co-lead arranger. Under the terms of the S&C Credit Agreement, the previous loan from Siemens

# Akumin Inc.

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increased by \$2,000,000 to \$27,740,117 (face value) and was assumed under this credit agreement and an additional term loan of \$47,259,883 was advanced to the Company, resulting in \$75,000,000 (face value) of term loan (the S&C Term Loan) being outstanding. The net proceeds of the additional term loan were used to repay in full the previous revolving facility from Siemens of \$2,500,000 and finance \$44.7 million of the Texas Acquisition. The S&C Credit Agreement also made available to the Company a revolving facility of up to \$5,000,000 (the S&C Revolving Facility, and together with the S&C Term Loan, the S&C Loans). Management determined the fair value of the S&C Term Loan to be its face value, net of debt issuance costs of approximately \$3.0 million. The fair value was determined based on management's estimation of assumptions that market participants would use in pricing similar liabilities (it is considered a Level 3 liability as described in note 14). The S&C Revolving Facility was unutilized during the quarter ended September 30, 2018. The S&C Loans had an amortized cost balance of \$72,219,208 at December 31, 2017 (face value - \$75,000,000).

In accordance with the terms of the S&C Loans, the Company used part of the proceeds of the Syndicated Term Loan to completely settle the S&C Term Loan on August 15, 2018 for \$74,634,848 (face value of \$74,437,500 and accrued interest and related fees of \$197,348). The Company also recorded a fair value loss of \$2,426,873 on the extinguishment of the S&C Loans, which was reflected in the consolidated statements of net income (loss) and comprehensive income (loss).

### iii) WSFS Note

As part of the NE Acquisition, the Company entered into a secured 5% promissory note with WSFS Bank on April 21, 2016 (the WSFS Note). The WSFS Note with a face value of \$2,000,000 was recognized at fair value on April 21, 2016 using an effective interest rate. The total estimated fair value of the WSFS Note was \$1,817,372 as at April 21, 2016. The fair value was determined based on management's estimation of assumptions that market participants would use in pricing similar liabilities (it is considered a Level 3 liability as described in note 14). A principal payment of \$1,000,000 was made on October 31, 2017 in accordance with the terms of the WSFS Note. The WSFS Note had an amortized cost balance of \$954,458 at December 31, 2017 (face value - \$1,000,000).

In accordance with the terms of the WSFS Note, the Company completely settled this loan on April 30, 2018 with a cash payment of \$1,000,000.

## 9 Wesley Chapel Loan

As part of the Rose Acquisition the Company, through a subsidiary, assumed a senior secured loan (Wesley Chapel Loan, and collectively with the Bank Loans, the Senior Loans) of \$2,000,000 (face value) as of August 15, 2018 to finance the purchase of equipment and related development for a new clinic location around Tampa Bay, Florida. It has an annual interest rate of 5.0%, matures on August 15, 2023 and has monthly repayments of \$37,742. The Wesley Chapel Loan was recognized at fair value of \$1,908,457 on August 15, 2018 using an effective interest rate. The fair value was determined based on management's estimation of assumptions that market participants would use in pricing similar liabilities (it is considered a Level 3 liability as described in note 14).

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	September 30, 2018 \$	December 31, 2017 \$
Wesley Chapel Loan	1,880,573	-
Less: Current portion	362,615	-
	<hr/> 1,517,958	<hr/> -

Subject to the provisions described below, the minimum annual principal payments with respect to the Wesley Chapel Loan (face value) are as follows:

	\$
October 1, 2018 to December 31, 2018	88,965
2019	367,167
2020	385,952
2021	405,698
2022	426,454
2023	296,356
	<hr/> 1,970,592

The Wesley Chapel Loan provides for the following terms:

### Interest

5.0%.

### Payments

Monthly payments (principal and interest) of \$37,742. The minimum principal payment schedule for the Wesley Chapel Loan is noted herein.

### Termination

August 15, 2023.

### Restrictive covenants

In addition to certain covenants, the Wesley Chapel Loan limits the Company's ability to dispose of the assets of Akumin Corp., which is the guarantor to the Wesley Chapel Loan.

### Financial covenants

None.

# Akumin Inc.

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### Events of default

Events of default under the Wesley Chapel Loan include among others, failure to repay the Wesley Chapel Loan in full at maturity, or to pay any other sum due hereunder within ten days of the date when the payment is due, events of insolvency or disposition of all or substantially all of the assets related to Rose Acquisition. The occurrence of an event of default would permit the lender to declare all amounts borrowed, together with accrued interest and fees, to be immediately due and payable and to exercise other default remedies.

The Company has no events of default under the Wesley Chapel Loan as at September 30, 2018.

### Security

The Company has granted first security interest to the lender over the equipment and leasehold improvements acquired using the proceeds of the Wesley Chapel Loan.

## 10 Subordinated notes payable

	September 30, 2018 \$	December 31, 2017 \$
Subordinated Note	1,491,716	-
Subordinated Note - Earn-out	166,121	-
	<hr/> 1,657,837	<hr/> -

As part of the Tampa Acquisition, Akumin FL entered into a subordinated 6% note and security agreement with the seller's secured lender on May 11, 2018 (the Subordinated Note and Subordinated Note Lender, respectively) with a face value of \$1,500,000 and a term of four years. The Subordinated Note was recognized at fair value of \$1,490,932 on May 11, 2018 using an effective interest rate. The fair value was determined based on management's estimation of assumptions that market participants would use in pricing similar liabilities (it is considered a Level 3 liability as described in note 14).

The principal balance of the Subordinated Note is subject to increase by an earn-out (Subordinated Note - Earn-out) of up to an additional \$4.0 million during the three calendar year period beginning on January 1, 2019 and ending on December 31, 2021 (the Subordinated Note - Earn-out Period), subject to the satisfaction of certain revenue-based milestones, as follows.

- a) The Subordinated Note - Earn-out for any given calendar year during the Subordinated Note - Earn-out Period shall be equal to 50% of any positive difference calculated by subtracting the Base Revenue (\$16,000,000) for such calendar year from the Subordinated Note - Earn-out Revenue (defined below) for such calendar year.

# Akumin Inc.

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(expressed in US dollars unless otherwise stated)

- b) The Subordinated Note - Earn-out Revenue for any calendar year during the Subordinated Note - Earn-out Period shall be the gross revenue generated by the centres related to the Tampa Acquisition during such calendar year.
- c) If Subordinated Note - Earn-out Revenue for any calendar year of the Subordinated Note - Earn-out Period is less than or equal to \$16,000,000, no Subordinated Note - Earn-out shall be payable for such calendar year.
- d) The maximum aggregate amount of the Subordinated Note - Earn-out that may be earned over the Subordinated Note - Earn-out Period is \$4,000,000.

The value of Subordinated Note - Earn-out has been estimated by management using a probability-weighted valuation technique; changes in the fair value of this liability are recognized in the condensed interim consolidated statements of net income (loss) and comprehensive income (loss). Management estimated the fair value of Subordinated Note - Earn-out as at May 11, 2018 of \$160,790 based on a discount rate of 8.75% and management's estimated probability-weighted range of Subordinated Note - Earn-out Revenue during the Subordinated Note - Earn-out Period (it is considered a Level 3 liability as described in note 14). The Subordinated Note - Earn-out was revalued at \$166,121 as at September 30, 2018 and the change in fair value was recognized in financial instruments revaluation in the condensed interim consolidated statements of net income (loss) and comprehensive income (loss). As at September 30, 2018, the range of estimated undiscounted Subordinated Note - Earn-out payable is between \$nil and \$218,183.

### **Payments and termination**

Under the Subordinated Note, the principal amount of \$1,500,000 and accrued but unpaid interest is due in full on May 11, 2022 (the Maturity Date). Prior to the Maturity Date, the Company may repay, without penalty, all or any portion of the Subordinated Note, including the Subordinated Note - Earn-out, and accrued but unpaid interest.

### **Restrictive covenants**

The Subordinated Note places certain limits on Akumin FL's ability to declare dividends or other distributions, incur liens or indebtedness, make investments, undertake mergers or reorganizations or dispose of assets outside the ordinary course of business.

### **Financial covenants**

None.

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### **Events of default**

Events of default under the Subordinated Note include failure to pay principal balance or interest when due, defaults in complying with terms of the Subordinated Note, and the occurrence of bankruptcy events relating to Akumin FL. The occurrence of an event of default would permit the Subordinated Note Lender to declare all amounts borrowed (and any Subordinated Note - Earn-out, once earned), together with accrued interest and fees, to be immediately due and payable and to exercise other default remedies.

### **Security**

The Company has granted a security interest over all assets of Akumin FL as security for its obligations under the Subordinated Note. The Subordinated Note is subordinate to the intercompany loan from the Company to Akumin FL.

The Company is in compliance with the terms of the Subordinated Note as at September 30, 2018.

# Akumin Inc.

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### 11 Capital stock and warrants

The authorized share capital of the Company consists of an unlimited number of voting common shares, with no par value.

	Common shares		Warrants		RSUs		Total	
	Number	Amount \$	Number	Amount \$	Number	Amount \$	Number	Amount \$
September 30, 2016	24,914,271	11,004,683	1,711,565	475,180	-	-	26,625,836	11,479,863
Issuance <sup>(1)</sup>	10,978,024	24,925,041	10,785,615	35,096,710	2,611,316	3,969,967	24,374,955	63,991,718
RSUs and warrants exercised	12,300,773	38,441,229	(11,300,773)	(34,261,229)	(1,000,000)	(3,500,000)	-	680,000
Conversion of subordinated notes	3,223,255	9,400,951	-	-	-	-	3,223,255	9,400,951
December 31, 2017	51,416,323	83,771,904	1,196,407	1,310,661	1,611,316	469,967	54,224,046	85,552,532
Issuance <sup>(1)</sup>	9,677,397	36,153,950	525,000	734,379	315,000	4,166,356	10,517,397	41,054,685
Warrants exercised	471,895	1,000,766	(471,895)	(302,130)	-	-	-	698,636
September 30, 2018	61,565,615	120,926,620	1,249,512	1,742,910	1,926,316	4,636,323	64,741,443	127,305,853

1) RSU issuance amount includes stock-based compensation and costs related to RSUs during the period of the condensed interim consolidated financial statements.

During the nine months ended September 30, 2017, the following equity issuances occurred at the Company:

- a) During the six months ended June 30, 2017, the Company issued \$10.5 million in common shares and warrants and incurred issuance costs of approximately \$1.1 million. This equity issuance included 300,825 warrants to purchase common shares on a 1:1 basis at an exercise price of \$2.30 per common share. These warrants expire on March 10 and 17, 2019. The fair value of these warrants, recognized as a deduction of issued capital, was determined to be \$0.996 per warrant using the Black-Scholes option pricing model based on the following assumptions: historical common share price volatility of 80%; remaining life of two years; price per common share on grant of warrants of \$2.30; expected dividend yield of zero; and annual risk-free interest rate of 0.84%.



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- b) During the three months ended September 30, 2017, the following equity issuances occurred at the Company:
- i) In order to partly finance the Texas Acquisition, the Company undertook: (i) a subscription receipts offering, which generated gross proceeds of approximately \$33 million (9,407,223 special warrants were issued on the automatic conversion of 9,407,223 subscription receipts into special warrants in accordance with the subscription receipt agreement; a total of 512,004 broker warrants were issued to the agents in connection therewith), and (ii) \$20 million in equity was issued (5,714,285 common shares at \$3.50 per share) to certain sellers in connection with the Texas Acquisition. Each special warrant was exercised to acquire one common share on December 1, 2017.

Special warrants were issued on automatic conversion of such subscription receipts in accordance with the subscription receipts agreement. Such special warrants were classified as part of the Company's equity. They were converted into common shares of the Company in accordance with the terms of the agreement in December 2017. On conversion into common shares, the amount of special warrants was transferred to the common shares account of the Company's equity. The associated broker warrants issued as part of the subscription receipts offering are assigned an estimated value using the Black-Scholes analysis and netted against the value of special warrants. They are transferred to common shares on exercise of such broker warrants.

Each of the 512,004 broker warrants is exercisable to acquire one common share of the Company, at an exercise price of \$3.50 per common share, until August 8, 2019. The fair value of these warrants, recognized as a deduction of issued capital, was determined to be \$1.523 per warrant using the Black-Scholes option pricing model based on the following assumptions: historical common share price volatility of 80%; remaining life of two years; expected dividend yield of zero; and annual risk-free interest rate of 1.24%.

The Company incurred equity issuance costs of approximately \$2.2 million in connection with this offering.

- ii) On August 9, 2017, the Company issued 500,000 restricted stock units to an agent that had worked with the Company with respect to its private placement offerings and 500,000 restricted stock units to the President and Chief Executive Officer of the Company, each pursuant to a restricted share unit plan adopted by the Company on March 8, 2017 and approved at the annual and special meeting of shareholders of the Company held on March 20, 2017. On August 9, 2017, the total of 1,000,000 restricted share units vested and were exercised in accordance with the restricted share unit plan on the Texas Acquisition, resulting in the issuance of 1,000,000 common shares. The value of 500,000 RSUs (\$1,750,000) awarded to the President and Chief Executive Officer of the Company was classified as stock-based compensation cost during the three months ended September 30, 2017. The value of the 500,000 RSUs (\$1,750,000) awarded to the agent was classified as equity issuance cost on vesting of these RSUs during the three months ended September 30, 2017.

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- iii) The Company had 1,360,000 warrants expiring on August 12, 2017, that allowed warrant holders to purchase common shares on a 1:1 basis at an exercise price of \$0.50 per common share. These warrants were exercised into common shares prior to expiry.

During the nine months ended September 30, 2018, the following equity issuances occurred at the Company:

- a) During the three months ended March 31, 2018, the following equity issuances occurred at the Company:

On November 14, 2017, the Board had authorized issuance of 1,841,316 RSUs to the officers of the Company and the Board. 1,611,316 of these RSUs were granted on November 15, 2017 and 230,000 RSUs were granted on January 1, 2018. Subsequently, on March 1, 2018, the Board authorized issuance of 35,000 RSUs on March 1, 2018 and 50,000 RSUs on March 12, 2018 to certain officers of the Company. Each granted RSU entitles the holder to one common share of the Company. These RSUs will vest as follows: 50% on the first anniversary of the date of grant and 50% on the second anniversary of the date of grant. RSUs are valued based on the market value of the common shares of the Company on the grant date (or the nearest working day prior to the grant date). Such value is classified as stock-based compensation over the vesting period for all RSUs awarded to employees or the Board.

- b) During the three months ended June 30, 2018, the following equity issuances occurred at the Company:

- i) The Company had 238,859 warrants that were due to expire on April 21, 2018 and 112,706 warrants that were due to expire on May 31, 2018. These warrants allowed warrant holders to purchase common shares of the Company on a 1:1 basis at an exercise price of \$1.20 per common share of the Company. These warrants were exercised into common shares prior to expiry.

- ii) On May 2, 2018, the Company completed a bought deal offering of its common shares by way of short form prospectus sale in each of the provinces of Canada, other than Quebec. A total of 8,750,000 common shares of the Company were sold at a price of \$4.00 per common share, for gross proceeds of \$35,000,000 (Offering). The related issuance costs were approximately \$1.8 million, which were deducted from common equity. The Offering was underwritten by a syndicate of underwriters (Underwriters). The Underwriters were granted 525,000 broker warrants (Broker Warrants) in connection with the Offering, each such Broker Warrant entitling the holder to acquire one common share of the Company at a price of \$4.00 per common share for a 24-month period following the closing of the Offering. The fair value of these warrants, recognized as a deduction of issued capital, was determined to be \$1.3988 per warrant using the Black-Scholes option pricing model based on the following assumptions: historical common share price volatility of approximately 62%; remaining life of two years; price per common share on grant of warrants of \$4.00; expected dividend yield of zero; and annual risk-free interest rate of 1.93%.

- iii) On May 24, 2018, the Company announced that PMI completed its previously announced acquisitions of all of the outstanding non-controlling interests in seven of its existing Texas-based diagnostic imaging centres (the Acquisitions). The Acquisitions related to certain operations carried on in Austin, Fort Worth, Frisco, Grapevine/Colleyville, Irving, Plano and Round Rock. The aggregate consideration paid for the Acquisitions was approximately \$21.6 million, comprised of an aggregate cash payment of

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approximately \$17.9 million and the issuance of approximately \$3.7 million in common shares of the Company (927,397 shares at \$4.00 per share). The cash consideration included approximately \$0.2 million paid to a non-wholly owned subsidiary, Preferred Imaging of Tarrant County, LLC, that was consolidated in the Company's results.

- c) During the three months ended September 30, 2018, the following equity issuances occurred at the Company:

During March 2017 the Company had issued 300,825 warrants to purchase common shares on a 1:1 basis at an exercise price of \$2.30 per common share. These warrants expire on March 10 and 17, 2019. During the three months ended September 30, 2018, 120,330 of these warrants were exercised into common shares.

The stock-based compensation related to RSUs, recognized in the condensed interim consolidated statements of net income (loss) and comprehensive income (loss) for the three and nine months ended September 30, 2018 was \$1,324,595 and \$4,166,356, respectively (2017 - \$1,750,000).

The stock-based compensation related to options, recognized in the condensed interim consolidated statements of net income (loss) and comprehensive income (loss) for the three and nine months ended September 30, 2018, was \$99,403 and \$298,209, respectively (2017 - \$230,713 and \$692,140).

### 12 Commitments and contingencies

The Company is involved in certain legal matters arising from time to time in the normal course of business. The Company records provisions that reflect management's best estimate of any potential liability relating to these matters. The resolution of these matters is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

As at September 30, 2018, the Company's future obligations for minimum annual payments under operating leases for equipment and facilities, for the next five years and thereafter, were approximately \$155.9 million (December 31, 2017 - \$70.4 million).

### 13 Segmented financial information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer. The Company has one reportable segment, which is outpatient diagnostic imaging services.

### 14 Risk management arising from financial instruments

The carrying value of cash, accounts receivable and accounts payable and accrued liabilities approximates their fair value given their short-term nature.

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(expressed in US dollars unless otherwise stated)

The carrying value of the non-current portion of finance leases approximates their fair value given the difference between the discount rates used to recognize the liabilities in the condensed interim consolidated balance sheets and the market rates of interest is insignificant. The estimated fair values of other non-current assets and liabilities were as follows:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
	<b>\$</b>	<b>\$</b>
Loans to related parties	497,200	-
Bank Loans payable	99,243,000	75,025,000
Wesley Chapel Loan payable	1,917,000	-
Subordinated Note payable	1,487,000	-
Subordinated Note - Earn-out	166,121	-
Derivative financial instruments	(79,569)	(21,619)
	<u>102,733,552</u>	<u>75,003,381</u>

Financial instruments recorded at fair value on the condensed interim consolidated balance sheets are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The loans to related parties, the Syndicated Loans, S&C Loans, WSFS Note, Wesley Chapel Loan, Subordinated Note and Subordinated Note - Earn-out were measured at fair value under the Level 3 category on recognition. The Subordinated Note - Earn-out is subsequently remeasured at fair value under the Level 3 category. The derivative financial instruments were measured at fair value under the Level 2 category on recognition. The derivative financial instruments are subsequently remeasured at fair value under the Level 2 category.

There were no significant transfers between levels during the nine months ended September 30, 2018 and the fifteen months ended December 31, 2017.

Financial instruments are classified into one of the following categories: amortized cost, fair value through profit or loss and fair value through other comprehensive income.

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The following table summarizes information regarding the carrying value of the Company's financial instruments:

	September 30, 2018 \$	December 31, 2017 \$
Cash	20,370,228	12,145,481
Accounts receivable	26,094,634	12,968,010
Loans to related parties	500,000	-
	<hr/>	<hr/>
Financial assets measured at amortized cost	46,964,862	25,113,491
	<hr/>	<hr/>
Accounts payable and accrued liabilities	14,123,277	14,578,538
Short-term portion of Senior Loans payable	1,612,615	3,016,958
Short-term portion of finance leases	493,764	528,895
Long-term portion of Senior Loans payable	98,129,774	70,156,708
Long-term portion of finance leases	1,725,774	2,062,103
Subordinated Note payable	1,491,716	-
	<hr/>	<hr/>
Financial liabilities measured at amortized cost	117,576,920	90,343,202
	<hr/>	<hr/>
Subordinated Note - Earn-out	166,121	-
Derivative financial instruments	(79,569)	(21,619)
	<hr/>	<hr/>
Measured at fair value through profit or loss	86,552	(21,619)
	<hr/>	<hr/>

### 15 New accounting standards

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's condensed interim consolidated financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

#### IFRS 16, Leases

In January 2016, the IASB released IFRS 16, Leases, replacing IAS 17, Leases, and related interpretations. The new standard eliminates the classification of leases as either operating or finance leases and requires the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has a low value. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted. The Company is currently evaluating the impact the standard is expected to have on its condensed interim consolidated financial statements.

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### IFRIC 23, Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC 23, Uncertainty over Income Tax Treatments (IFRIC 23), with a mandatory effective date of January 1, 2019. The interpretations provide guidance on how to value uncertain income tax positions based on the probability of whether the relevant tax authorities will accept the Company's tax treatments. A company is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. IFRIC 23 is to be applied by recognizing the cumulative effect of initially applying these guidelines in opening retained earnings without adjusting comparative information. The extent of the impact of the adoption of IFRIC 23 has not yet been determined.

### 16 Basic and diluted income (loss) per share

	Three-month period ended September 30, 2018 \$	Three-month period ended September 30, 2017 \$	Nine-month period ended September 30, 2018 \$	Nine-month period ended September 30, 2017 \$
Net income (loss) attributable to common shareholders	194,996	(9,989,406)	2,790,690	(10,741,715)
Weighted average common shares outstanding				
Basic	61,449,209	34,799,935	56,925,714	30,425,484
Diluted	62,827,298	34,799,935	58,303,803	30,425,484
Income (loss) per share				
Basic	0.00	(0.29)	0.05	(0.35)
Diluted	0.00	(0.29)	0.05	(0.35)

### 17 Subsequent events

On November 1, 2018, the Company acquired a single outpatient diagnostic imaging centre in Kissimmee, Florida. The purchase price was approximately \$1.2 million. The Company is in the process of determining the preliminary purchase price allocation.

On November 9, 2018, the Company acquired four outpatient diagnostic imaging centres in Broward County, Florida from Diagnostic Professionals, Inc. and related parties. The purchase price was approximately \$12.1 million, which included assumed finance leases of approximately \$1.4 million. The Company is in the process of determining the preliminary purchase price allocation.

The five centres produced combined revenue of approximately \$19.2 million on a last twelve months basis as at June 30, 2018. The purchase price due at closing in both transactions was paid using proceeds drawn from the Company's Syndicated Revolving Facility.