Consolidated Financial Statements
(Expressed in U.S. dollars)

# GREENBROOK TMS INC.

Years ended December 31, 2018 and December 31, 2017

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# INDEPENDENT AUDITORS' REPORT

To Shareholders of Greenbrook TMS Inc.

## *Opinion*

We have audited the consolidated financial statements of Greenbrook TMS Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017
- the consolidated statements of net loss and comprehensive loss for the years then ended
- the consolidated statements of changes in equity (deficit) for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated / non-consolidated / separate / combined financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at year December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

## *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indicators that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis, filed with the relevant Canadian Securities Commissions, as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

## Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

## Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Lesley Bridget Luk.

Toronto, Canada

March 27, 2019

# GREENBROOK TMS INC.

Consolidated Statements of Financial Position
(Expressed in U.S. dollars, unless otherwise stated)

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 9,381,600 | $ 1,532,580 |
| Accounts receivable, net | 7,131,661 | 2,104,746 |
| Prepaid expenses and other | 1,637,736 | 881,068 |
| | 18,150,997 | 4,518,394 |
| Property, plant and equipment (note 5) | 911,466 | 176,270 |
| | $ 19,062,463 | $ 4,694,664 |
| **Liabilities and Shareholders' Equity (Deficit)** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities (note 6) | $ 4,059,398 | $ 2,196,381 |
| Short-term portion of loans payable (note 7(a)) | 97,858 | 13,771 |
| Non-controlling interest loans (note 7(c)) | 81,170 | 40,943 |
| Shareholder's loan payable (note 7(b)) | – | 3,101,342 |
| | 4,238,426 | 5,352,437 |
| Long-term portion of loans payable (note 7(a)) | 183,272 | – |
| | 4,421,698 | 5,352,437 |
| Shareholders' equity (deficit): | | |
| Common shares (note 8) | 26,882,622 | 8,208,448 |
| Contributed surplus (note 11) | 1,745,079 | 976,228 |
| Deficit | (14,531,401) | (9,443,345) |
| | 14,096,300 | (258,669) |
| Non-controlling interest (note 17) | 544,465 | (399,104) |
| | 14,640,765 | (657,773) |
| Commitments (note 9) | | |
| Contingencies (note 10) | | |
| Subsequent events (note 19) | | |
| | $ 19,062,463 | $ 4,694,664 |

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Sasha Cucuz" Director

"Bill Leonard" Director

# GREENBROOK TMS INC.

Consolidated Statements of Net Loss and Comprehensive Loss
(Expressed in U.S. dollars, unless otherwise stated)

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Revenue: | | |
| Service revenue | $ 21,259,015 | $ 13,776,929 |
| Expenses: | | |
| Direct center and patient care costs | 13,348,011 | 8,948,442 |
| Other regional and center support costs | 5,022,305 | 3,077,671 |
| Depreciation | 76,902 | 25,212 |
| | 18,447,218 | 12,051,325 |
| Regional operating income | 2,811,797 | 1,725,604 |
| Center development costs | 530,068 | 274,881 |
| Corporate, general and administrative expenses (note 18) | 6,523,126 | 2,974,023 |
| Share-based compensation | 467,627 | 400,390 |
| Interest expense | 81,725 | 250,805 |
| Interest income | (81,462) | – |
| Loss before income taxes | (4,709,287) | (2,174,495) |
| Income tax expense (note 12) | – | – |
| Loss for the year and comprehensive loss | $ (4,709,287) | $ (2,174,495) |
| Income (loss) for the year attributable to: | | |
| Non-controlling interest (note 17) | $ 248,756 | $ 198,650 |
| Common shareholders of Greenbrook TMS (note 16) | (4,958,043) | (2,373,145) |
| | $ (4,709,287) | $ (2,174,495) |
| Net loss per share (note 16): | | |
| Basic | $ (0.12) | $ (0.06) |
| Diluted | (0.12) | (0.06) |

See accompanying notes to consolidated financial statements.

# GREENBROOK TMS INC.

Consolidated Statements of Changes in Equity (Deficit)
(Expressed in U.S. dollars, unless otherwise stated)

| Year ended December 31, 2017 | Common shares Number | Common shares Amount | Contributed surplus | Deficit | Non-controlling interest (note 17) | Total equity (deficit) |
|---|---|---|---|---|---|---|
| Balance, December 31, 2016 | 35,204,500 | $ 5,950,100 | $ 575,838 | $ (7,070,200) | $ (446,394) | $ (990,656) |
| Net comprehensive loss for the year | – | – | – | (2,373,145) | 198,650 | (2,174,495) |
| Issuance of capital stock (note 8) | 2,319,875 | 2,258,348 | – | – | – | 2,258,348 |
| Share-based compensation (note 11(a) and (b)) | – | – | 400,390 | – | – | 400,390 |
| Payments to non-controlling interest | – | – | – | – | (151,550) | (151,550) |
| Non-controlling interest subsidiary investment (note 17) | – | – | – | – | 190 | 190 |
| Balance, December 31, 2017 | 37,524,375 | $ 8,208,448 | $ 976,228 | $ (9,443,345) | $ (399,104) | $ (657,773) |

| Year ended December 31, 2018 | Common shares Number | Common shares Amount | Contributed surplus | Deficit | Non-controlling interest (note 17) | Total equity (deficit) |
|---|---|---|---|---|---|---|
| Balance, December 31, 2017 | 37,524,375 | $ 8,208,448 | $ 976,228 | $ (9,443,345) | $ (399,104) | $ (657,773) |
| Net comprehensive loss for the year | – | – | – | (4,958,043) | 248,756 | (4,709,287) |
| Issuance of common shares (note 8) | 10,000,000 | 18,674,174 | 215,724 | – | – | 18,889,898 |
| Share-based compensation (note 11(a) and (b)) | – | – | 553,127 | – | – | 553,127 |
| Payments to non-controlling interest | – | – | – | – | (35,300) | (35,300) |
| Acquisition of subsidiary non-controlling interest (note 17) | – | – | – | (130,013) | 130,013 | – |
| Non-controlling interest subsidiary investment (note 17) | – | – | – | – | 600,100 | 600,100 |
| Balance, December 31, 2018 | 47,524,375 | $ 26,882,622 | $ 1,745,079 | $ (14,531,401) | $ 544,465 | $ 14,640,765 |

See accompanying notes to consolidated financial statements.

# GREENBROOK TMS INC.

Consolidated Statements of Cash Flows
(Expressed in U.S. dollars, unless otherwise stated)

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Cash provided by (used in) | | |
| Operating activities: | | |
| Loss for the year | $ (4,709,287) | $ (2,174,495) |
| Adjusted for: | | |
| Depreciation | 76,902 | 25,212 |
| Interest expense | 81,725 | 250,805 |
| Interest income | (81,462) | 400,390 |
| Share-based compensation | 467,627 | – |
| Non-cash transaction costs | 85,500 | – |
| Change in non-cash operating working capital: | | |
| Accounts receivable | (5,026,915) | (1,305,523) |
| Prepaid expenses and other | (156,568) | (215,359) |
| Accounts payable and accrued liabilities | 1,863,017 | 959,638 |
| | (7,399,461) | (2,059,332) |
| Financing activities: | | |
| Net proceeds on issuance of common shares (note 8) | 18,889,898 | 2,258,348 |
| Net shareholder loans advanced (repaid) (note 7) | (3,101,605) | 412,408 |
| Net non-controlling interest loans advanced | 40,227 | 40,943 |
| Bank loans advanced | 273,779 | – |
| Bank loans repaid | (6,420) | (21,506) |
| Distribution to non-controlling interest | (35,300) | (151,550) |
| | 16,060,579 | 2,538,643 |
| Investing activities: | | |
| Purchase of property, plant and equipment | (812,098) | (120,921) |
| Increase in cash | 7,849,020 | 358,390 |
| Cash, beginning of year | 1,532,580 | 1,174,190 |
| Cash, end of year | $ 9,381,600 | $ 1,532,580 |

See accompanying notes to consolidated financial statements.

## 1. Reporting entity:

Greenbrook TMS Inc. (the "Company"), an Ontario corporation along with its subsidiaries, controls and operates a network of outpatient mental health services centers that specialize in the provision of Transcranial Magnetic Stimulation ("TMS") therapy for the treatment of depression and related psychiatric services.

Greenbrook TMS Inc. was incorporated under the *Business Corporations Act (Ontario)* on February 9, 2018 as a wholly-owned subsidiary of TMS NeuroHealth Centers, Inc. ("TMS US"). On March 29, 2018, each shareholder of TMS US exchanged its shares of common stock of TMS US for common shares of Greenbrook TMS Inc. on a one-for-one basis. As a result of this exchange, the shareholders of TMS US became the shareholders of Greenbrook TMS Inc. in the same proportions as their previous shareholdings in TMS US and TMS US became a wholly-owned subsidiary of Greenbrook TMS Inc., carrying on business through its operating subsidiaries (the "Reorganization"). The Reorganization did not result in any changes in the management, operations or assets of TMS NeuroHealth Centers Inc. or its operating subsidiaries.

Financial information presented within the consolidated financial statements reflects the consolidated financial condition, performance and cash flows of the operating business of which TMS US was the holding company up to March 29, 2018 and of which Greenbrook TMS Inc. was the holding company for the remaining period.

## 2. Basis of preparation:

(a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The significant accounting policies described below have been applied consistently to all periods presented.

These consolidated financial statements were approved by the Board of Directors (the "Board") and authorized for issue by the Board on March 27, 2019.

**2. Basis of preparation (continued):**

(b) Basis of measurement:

These consolidated financial statements have been prepared on a historic cost basis except for financial instruments classified as fair value through profit or loss, which are stated at their fair value. Other measurement bases are described in the applicable notes.

Presentation of the consolidated statements of financial position differentiates between current and non-current assets and liabilities. The consolidated statements of net loss and comprehensive loss is presented using the function classification of expense.

(c) Basis of consolidation:

The consolidated financial statements comprise the accounts of Greenbrook TMS, the parent company, and its subsidiaries. The Company accounts for its controlled subsidiaries using the consolidation method of accounting from the date that control commences and is deconsolidated from the date control ceases. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has all of the following:

(i) power over the investee;

(ii) exposure, or rights, to variable returns from its involvement with the investee; and

(iii) the ability to use its power over the investee to affect the amount of the investor's returns.

All transactions and balances between the Company and its subsidiaries are eliminated on consolidation, including unrealized gains and losses on transactions between companies.

**2. Basis of preparation (continued):**

When the Company has control over a subsidiary but does not own 100%, this gives rise to non-controlling interest. Non-controlling interest arises from partnerships with local physicians, behavioural health groups or other strategic investors, which own minority interests in certain center subsidiaries.

Changes in the Company's interest in a subsidiary that does not result in a loss of control are accounted for as equity transactions.

(d) Use of estimates and judgments:

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates. As additional information becomes available or actual amounts are determinable, the recorded estimates are revised and reflected in operating results in the period in which they are determined.

Significant estimates in connection with these consolidated financial statements includes the measurement and determination of the transaction price in the estimation of revenue, estimated useful life of property, plan and equipment; amounts recorded as accrued liabilities, deferred income taxes and provisions; and inputs used in the valuation of options granted.

Significant judgments in connection with these consolidated financial statements include assessment of control of subsidiaries, determination of functional currency; determination of lease classification between finance and operating.

(e) Functional and reporting currency:

The functional and reporting currency of the Company and its subsidiaries is the U.S. dollar. Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the rates of exchange prevailing at the consolidated statement of financial position dates. Non-monetary assets and liabilities are translated at rates prevailing at the dates of acquisition. Expenses are translated at the average rate of exchange in effect during the month the transaction occurred.

3. **Significant accounting policies:**

(a) Cash:

Cash includes cash on hand and cash held with banks.

(b) Property, plant and equipment:

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recognized over the estimated useful lives of the assets on a straight-line basis, unless stated otherwise, as follows:

| | |
|---|---|
| Computer equipment | 5 years |
| Furniture and equipment | 5 years |
| Leasehold improvements | Lesser of 5 years or remaining lease term |
| TMS devices | 10 years |

The estimated useful lives of the assets and their terminal values are assessed on an annual basis based on historical experience, industry practice and management's expectations.

Expenditures for maintenance and repairs are charged to operations as incurred.

(c) Impairment of non-financial assets:

The Company assesses, at each reporting date, whether there is an indication that a non-financial asset may be impaired. If any indication exists, the Company estimates the recoverable amount. The recoverable amount of an asset is the higher of its fair value, less costs to sell, and its value in use.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's-length transaction between knowledgeable, willing parties, less the costs to sell. Costs of disposal are incremental costs directly attributable to the disposal of an asset and income tax expense.

**3. Significant accounting policies (continued):**

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in the consolidated statements of net loss and comprehensive loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of the recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

(d) Operating segments:

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive committee consisting of the President and Chief Executive Officer, the Chief Financial Officer and Chief Operating Officer. The Company has one reportable segment, which is outpatient mental health service centers.

(e) Revenue recognition and accounts receivable:

On January 1, 2018, the Company adopted IFRS 15, Revenue from Contracts with Customers ("IFRS 15") (see note 4(a)).

Service fee revenue is recognized upon the performance of services under contracts with customers and represents the consideration the Company expects to receive. Service fee revenue is measured at the net patient fees received or receivable which includes contractual allowances and discounts. In circumstances where the net patient fees have not yet been received, the amount of revenue recognized is estimated based on an expected value approach where management considers such variables as the average of previous net patient fees received by the applicable payor and fees received by other patients for similar services and management's best estimate leveraging industry knowledge and expectations of third-party payors' fee schedules. Third-party payors include federal and state agencies (under the Medicare programs), managed care health plans and commercial insurance companies.

**3. Significant accounting policies (continued):**

A key determinant of IFRS 15 is estimating the transaction price when variable consideration may arise. IFRS 15 allows for the transaction price with variable consideration to be estimated using either the expected value method or the most-likely value method. An estimate is calculated using the expected value method when using the sum of probability-weighted amounts in a range of possible consideration amounts. Conversely, the most-likely amount method is calculated using the most likely estimate in a range of possible consideration amounts.

(f) Accounts receivable:

On January 1, 2018, the Company adopted IFRS 9, Financial Instruments ("IFRS 9") (see note 4(b).

Accounts receivable are non-interest bearing, unsecured obligations due from patients and third-party payors. The Company makes an implicit allowance for potentially uncollectible amounts to arrive at net receivables through its revenue recognition policy. In accordance with IFRS 9, the Company evaluates the credit risk on accounts receivable and measures a loss allowance at an amount equal to the expected credit losses for the subsequent 12-month period.

The methodology to arrive at net receivables is reviewed by management periodically. The balance of accounts receivable represents management's estimate of the net realizable value of receivables after discounts and contractual adjustments.

The Company performs an estimation and review process periodically to identify instances on a timely basis where such estimates need to be revised to accurately assess the amount of expected revenues.

(g) Earnings per share:

Basic earnings per common share ("EPS") is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated by adjusting the net earnings available to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive instruments.

**3. Significant accounting policies (continued):**

(h) Income taxes:

Income tax expense comprises current and deferred tax. Income tax expense (recovery) is recognized in the consolidated statements of net loss and comprehensive loss. Current income tax expense represents the amount of income taxes payable based on tax law that is enacted or substantively enacted at the reporting date and is adjusted for changes in estimates of tax expense recognized in prior periods. A current tax liability or asset is recognized for income taxes payable, or paid but recoverable, in respect of all years to date.

The Company uses the deferred tax method of accounting for income taxes. Accordingly, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the consolidated financial statements' carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the periods in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the consolidated statements of net loss and comprehensive loss in the year in which the enactment or substantive enactment occurs. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is more likely than not that future taxable income will be available to utilize such amounts. Deferred tax assets are reviewed at each reporting date and are adjusted to the extent that it is no longer probable that the related tax benefits will be realized. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same tax authority and the Company intends to settle its current tax assets and liabilities on a net basis.

In determining the amount of current and deferred taxes, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its tax liabilities for uncertain tax positions are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. The assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

**3. Significant accounting policies (continued):**

(i) Financial instruments:

The Company initially measures its financial assets and financial liabilities at fair value and classifies them as financial assets or liabilities at fair value through profit or loss. After initial measurement, financial assets (which include cash and accounts receivable) and liabilities (which include accounts payable and accrued liabilities, lease obligations, shareholder's loans payable and bank loans payable) are subsequently measured at amortized cost using the effective interest rate method, with any resulting premium or discount from the face value being amortized to the consolidated statements of net loss and comprehensive loss. Amortization is recorded using the effective interest rate method.

The Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost. Loss allowances for accounts receivables are always measured at an amount equal to the expected credit losses for the subsequent 12-month period. A financial asset carried at amortized cost is considered credit-impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Individually significant financial assets are tested for credit-impairment on an individual basis.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Losses are recognized in the statements of net loss and comprehensive loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statements of comprehensive loss.

(j) Leases:

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a finance lease.

**3. Significant accounting policies (continued):**

Finance leases are capitalized at the commencement of the lease at the fair value of the leased property as at the inception date or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated statements of net loss and comprehensive loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the consolidated statements of net loss and comprehensive loss on a straight-line basis over the lease term.

Lease inducements are amortized on a straight-line basis over the term of the lease or useful life of the asset, whichever is shorter. The term of the lease used includes certain option periods considered in the lease term and any period during which the Company has use of the asset but is not charged by the lessor.

(k) Share capital:

Common shares are classified as shareholders' equity (deficit). Incremental transaction costs directly attributable to the issue of common shares and share purchase options are recognized as a deduction from shareholders equity (deficit), net any of tax effects.

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from total equity (deficit).

Dividends are discretionary and are recognized as distributions within equity upon approval by the Board.

**3. Significant accounting policies (continued):**

(l) Stock-based compensation:

The Company offers a share option plan. The plan is open to employees, directors, officers and consultants of the Company and its affiliates. For employees, the value of equity settled options is measured by reference to the fair value of the equity instrument on the date which they are granted. The fair value is recognized as an expense with a corresponding increase in contributed surplus over the vesting period. The Board shall have the discretion to establish the vesting period for share options granted.

Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Fair value is calculated using the Black Scholes option pricing model, which requires the input of highly subjective assumptions, including the volatility of share prices, forfeiture rate and expected life and changes in subjective input assumptions that can materially affect the fair value estimate. Separate from the fair value calculation, the Company estimates the expected forfeiture rate of equity-settled share-based compensation based on historical experience and management's expectation.

Consideration received upon the exercise of stock options is credited to share capital, at which time the related contributed surplus is transferred to share capital.

(m) Provisions:

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured based on management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to their present value where the effect is material.

**3. Significant accounting policies (continued):**

(n) Finance income and finance costs:

Finance income comprises interest income on cash equivalents recognized in the consolidated statements of net loss and comprehensive loss as it accrues, using the effective interest method. Finance costs comprise interest expense on borrowings that are recognized in the consolidated statements of net loss and comprehensive loss.

(o) Contingencies:

Contingent liabilities are possible obligations whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Company's control, or present obligations that are not recognized because it is not probable that an outflow of economic benefit would be required to settle the obligation or the amount cannot be measured reliably.

Contingent liabilities are not recognized but are disclosed in the notes to the consolidated financial statements, including an estimate of their potential financial effect and uncertainties relating to the amount or timing of any outflow, unless the possibility of settlement is remote. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company, with assistance from its legal counsel, evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought.

(p) Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

## 3. Significant accounting policies (continued):

The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

- Level 1 - This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

- Level 2 - This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other standard valuation techniques derived from observable market inputs.

- Level 3 - This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

## 4. Recent accounting pronouncements:

(a) Adoption of IFRS 15:

Effective January 1, 2018, the Company adopted IFRS 15, which has replaced the following standards: International Accounting Standard ("IAS") 11, Construction Contracts, IAS 18, Revenue, International Financial Reporting Interpretations Committee ("IFRIC") 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and Standard Interpretations Committee ("SIC") 31, Revenue-Barter Transactions Involving Advertising Services, using the full retrospective method.

IFRS 15 has a single model of recognizing revenue from contracts with customers, except leases, financial instruments and insurance contracts. Revenue is now recognized on a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. The five-step analysis is as follows: (i) Identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction prices; (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.

**4. Recent accounting pronouncements:**

There was no material impact as a result of the adoption of IFRS 15 on the Company's audited consolidated financial statements, with exception of updating the significant accounting policy notes to be more consistent with the terminology used in IFRS 15.

(b) Adoption of IFRS 9:

Effective January 1, 2018, the Company adopted IFRS 9, which replaced IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"), and sets out requirements for recognition and measurement, impairment, derecognition and general hedge accounting. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications that were permitted under IAS 39. This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39. A new hedge accounting model is also introduced and represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements.

The Company adopted this standard with an initial adoption date of January 1, 2018, using the full retrospective method. There was no material impact as a result of the adoption of IFRS 9, including the new expected credit loss model, on the Company's audited consolidated financial statements. Accounts receivable that were previously classified as loans and receivables under IAS 39 are now classified as financial assets measured at amortized cost. There were no changes to the classification of the Company's financial liabilities, nor were there any changes to the initial measurement of the Company's financial assets or liabilities. The Company does not have any hedging activity.

(c) Recent accounting pronouncements not yet adopted

Certain pronouncements were issued by the IASB that are mandatory for accounting years after December 31, 2018. Many are not applicable or do not have a significant impact on the Company and have been excluded from the list below. The following accounting pronouncement is being evaluated to determine the impact on the Company.

## 4. Recent accounting pronouncements:

IFRS 16, Leases ("IFRS 16") will replace IAS 17, Leases ("IAS 17"). IFRS 16 introduces a single accounting model for lessees and for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognize a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. The accounting treatment for lessors will remain largely the same as under IAS 17. Earlier application is permitted. The standard will be effective for the Company on January 1, 2019.

The Company is assessing the impact of this standard on its financial statements and expects that on adoption of the standard there will be an increase to assets and liabilities, as the Company will be required to record a right-of-use asset and a corresponding lease liability on the statements of financial position. In addition, the Company expects a decrease to operating costs, an increase to finance costs (due to accretion of the lease liability) and an increase to depreciation and amortization (due to the amortization of the right-of-use asset).

(Expressed in U.S. dollars, unless otherwise stated)

### 5. Property, plant and equipment:

| | Computer equipment | Furniture and equipment | Leasehold improvements | TMS devices | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance, December 31, 2016 | $ 11,491 | $ 48,702 | $ 52,534 | $ 225,728 | $ 338,455 |
| Additions | – | 250 | 605 | 120,066 | 120,921 |
| Balance, December 31, 2017 | 11,491 | 48,952 | 53,139 | 345,794 | 459,376 |
| Additions | – | 154,366 | 3,100 | 654,632 | 812,098 |
| Asset disposal | (11,491) | – | (52,535) | – | (64,026) |
| Balance, December 31, 2018 | $ – | $ 203,318 | $ 3,704 | $ 1,000,426 | $ 1,207,448 |
| **Accumulated depreciation** | | | | | |
| Balance, December 31, 2016 | $ 11,491 | $ 33,897 | $ 51,659 | $ 160,847 | $ 257,894 |
| Additions | – | 4,935 | 876 | 19,401 | 25,212 |
| Balance, December 31, 2017 | 11,491 | 38,832 | 52,535 | 180,248 | 283,106 |
| Depreciation | – | 15,853 | 604 | 60,445 | 76,902 |
| Asset disposal | (11,491) | – | (52,535) | – | (64,026) |
| Balance, December 31, 2018 | $ – | $ 54,685 | $ 604 | $ 240,693 | $ 295,982 |
| **Net book value** | | | | | |
| Balance, December 31, 2017 | $ – | $ 10,120 | $ 604 | $ 165,546 | $ 176,270 |
| Balance, December 31, 2018 | – | 148,633 | 3,100 | 759,733 | 911,466 |

### 6. Accounts payable and accrued liabilities:

The accounts payable and accrued liabilities are as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Accounts payable | $ 1,865,296 | $ 1,057,831 |
| Accrued other expenses | 2,194,102 | 1,138,550 |
| Total | $ 4,059,398 | $ 2,196,381 |

(Expressed in U.S. dollars, unless otherwise stated)

## 7. Loans payable:

(a) Bank loans:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Bank loans | $ 281,130 | $ 13,771 |
| Short-term portion of loans payable | 97,858 | 13,771 |
| Long-term portion of loans payable | $ 183,272 | $ – |

During the year ended December 31, 2014, a banking institution extended a loan for the purchase of TMS devices. This loan bore interest at 11% with monthly blended interest and capital payments of $1,955 and matured during the year ended December 31, 2018.

During the year ended December 31, 2018, the Company assumed loans from four separate banking institutions that were previously extended for the purchase of TMS devices to non-controlling interest holder partners. The device loans were assumed as part of partnerships with local physicians, behavioural health groups or other strategic investors, which own minority interests in certain center subsidiaries. These device loans bear an average interest rate of 10% with average monthly blended interest and capital payments of $1,575 and mature during the years ended December 31, 2019 - December 31, 2023. There are no covenants associated with these loans.

| | Interest rate | Blended interest/ capital payments | Maturity year |
|---|---|---|---|
| Device loan | 14% | $ 1,638 | 2019 |
| Device loan | 13% | 1,610 | 2020 |
| Device loan | 8% | 1,400 | 2019 |
| Device loan | 11% | 1,896 | 2023 |
| Device loan | 7% | 1,422 | 2023 |
| Device loan | 7% | 1,484 | 2022 |

(Expressed in U.S. dollars, unless otherwise stated)

**7. Loans payable (continued):**

(b) Shareholder loan - Greybrook Health Inc.:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Shareholder loan | $ – | $ 3,101,342 |

A significant shareholder of the Company, Greybrook Health Inc., extended loans to the Company from time to time in order to fund ongoing expansion activities and operating losses. The unsecured loan carried interest at a rate of 10%, compounded on a monthly basis and was repayable on demand. The loan was repaid in full during the year ended December 31, 2018.

(c) Non-controlling interest loans:

| | December 31, 2018 | December 31 2017 |
|---|---|---|
| Non-controlling interest loans | $ 81,170 | $ 40,943 |

The non-controlling interest holder partners of the Company, from time to time, provide additional capital contributions in the form of capital loans to the Company's subsidiaries. These loans bear interest at a rate of 10%, compounded on a monthly basis. The loans are unsecured and are repayable subject to certain liquidity and solvency requirements and are classified as current liabilities.

(Expressed in U.S. dollars, unless otherwise stated)

## 8. Common shares:

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. As at December 31, 2018 and 2017, there were nil preferred shares issued and outstanding.

| | Number | Total amount |
|---|---|---|
| December 31, 2016 | 35,204,500 | $ 5,950,100 |
| Common shares issuance | 2,319,875 | 2,258,348 |
| December 31, 2017 | 37,524,375 | 8,208,448 |
| Common shares issuance | 10,000,000 | 18,674,174 |
| December 31, 2018 | 47,524,375 | $ 26,882,622 |

During the year ended December 31, 2017, the Company issued a total 2,319,875 common shares for consideration of $2,258,348.

On March 16, 2018 and June 7, 2018, the Company issued a total of 9,271,000 and 729,000 special warrants respectively, for gross proceeds of $20,000,000 and incurred transaction costs of $1,325,826, of which $215,724 relate to broker warrant issuance costs (see note 11(b)). The special warrants automatically converted on a one-for-one basis into common shares of the Company on October 2, 2018.

## 9. Commitments:

The majority of the Company's center space and devices are leased under non-cancelable operating leases ranging in terms from three to seven years. The Company's center space leases are generally subject to periodic consumer price index increases or contain fixed escalation clauses.

(Expressed in U.S. dollars, unless otherwise stated)

**9. Commitments (continued):**

The Company's future obligations for minimum annual payments under operating leases for center space and devices for the next five years and thereafter are as follows:

| | Devices | Center | Total |
|---|---|---|---|
| 2019 | $ 2,003,945 | $ 2,101,189 | $ 4,105,134 |
| 2020 | 1,612,445 | 1,979,822 | 3,592,267 |
| 2021 | 1,128,817 | 1,839,482 | 2,968,299 |
| 2022 | 491,749 | 1,472,084 | 1,963,833 |
| 2023 | – | 1,111,362 | 1,111,362 |
| Thereafter | – | 863,603 | 863,603 |

Rent expense under all operating leases for the year ended December 31, 2018 were $3,232,271 (December 31, 2017 - $2,091,528). Rent expense is recorded on a straight-line basis over the term of the lease for leases that contain fixed escalation clauses or include abatement provisions.

**10. Contingencies:**

The Company may be 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.

**11. Contributed surplus:**

Contributed surplus is comprised of share-based compensation and broker warrants.

(a) Share-based compensation - options:

The Company operates an equity-settled, stock options-based payment compensation plan, under which the Company pays equity instruments of the Company as consideration in exchange for employee and similar services. The plan is open to employees, directors, officers and consultants of the Company and its affiliates.

(Expressed in U.S. dollars, unless otherwise stated)

## 11. Contributed surplus (continued):

The fair value of the grant of the options is recognized in the consolidated statements of net loss and comprehensive loss as an expense. The total amount to be expensed is determined by the fair value of the options granted. The total expense is recognized over the vesting period which is the period over which all of the service vesting conditions are satisfied. The vesting period is determined at the discretion of the Board and has ranged from immediate vesting to over three years. The maximum number of common shares reserved for issuance, in the aggregate, under the Company's option plan (and under any other share compensation arrangements of the Company) is 10% of the aggregate number of common shares which are outstanding from time to time. As at December 31, 2018, this represented 4,752,438 common shares.

The options have an expiry date of ten years from the date of issue.

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Number of stock options | Weighted and actual average exercise price | Number of stock options | Weighted and actual average exercise price |
| Outstanding, beginning of year | 2,219,500 | $ 1.00 | 1,087,500 | $ 1.00 |
| Granted March 31 | 80,500 | 1.50 | 1,132,000 | 1.00 |
| Granted October 3 | 315,500 | 2.00 | – | – |
| Granted November 12 | 54,500 | 2.46 | – | – |
| Outstanding, end of year | 2,670,000 | 1.17 | 2,219,500 | 1.00 |

The weighted average contractual life of the outstanding options as at December 31, 2018 was 7.5 years (December 31, 2017 - 8.4 years).

The total number of stock options exercisable as at December 31, 2018 was 1,382,667 (December 31, 2017 - 201,333).

During the year ended December 31, 2018, the Company recorded a total share-based options compensation expense of $467,627 (December 31, 2017 - $400,390).

## 11. Contributed surplus (continued):

The fair value of the stock options granted on March 31, 2018, was estimated to be $0.95 per option using the Black-Scholes option pricing model based on the following assumptions: volatility of 52.47% calculated based on a comparable company; remaining life of ten years; expected dividend yield of 0%; forfeiture rate of 0% and an annual risk-free interest rate of 2.09%.

The fair value of the stock options granted on October 3, 2018, was estimated to be $1.26 per option using the Black-Scholes option pricing model based on the following assumptions: volatility of 51.86% calculated based on a comparable company; remaining life of ten years; expected dividend yield of 0%; forfeiture rate of 0% and an annual risk-free interest rate of 2.09%.

The fair value of the stock options granted on November 12, 2018, was estimated to be $1.60 per option using the Black-Scholes option pricing model based on the following assumptions: volatility of 52.27% calculated based on a comparable company; remaining life of ten years; expected dividend yield of 0%; forfeiture rate of 0% and an annual risk-free interest rate of 2.09%.

The fair value of the stock options granted during the year ended December 31, 2017 was estimated to be $0.62 per option using the Black-Scholes option pricing model based on the following assumptions: volatility of 52.06% calculated based on a comparable company; remaining life of ten years; expected dividend yield of 0%; forfeiture rate of 0% and an annual risk-free interest rate of 1.63%.

As at December 31, 2018, the total compensation cost not yet recognized related to options granted is approximately $503,400 (December 31, 2017 - $409,823) and will be recognized over the remaining average vesting period of 0.8 years (December 31, 2017 - 1.3 years).

## 11. Contributed surplus (continued):

(b) Broker warrants:

In connection with the special warrant offering, on March 16, 2018 and June 7, 2018, the Company issued 313,920 and 39,726 broker warrants, respectively, that vested immediately to the agent. Each broker warrant entitles the agent to acquire one common share of the Company at an exercise price of $2.00 and expires two years from the date of issue.

The fair value of the broker warrants granted on March 16, 2018 was estimated to be $0.61 per warrant using the Black-Scholes option pricing model based on the following assumptions: volatility of 52.46% calculated based on a comparable company; remaining life of 2.0 years; expected dividend yield of 0%; forfeiture rate of 0% and an annual risk-free interest rate of 2.14%.

The fair value of the broker warrants granted on June 7, 2018 was estimated to be $0.61 per warrant using the Black-Scholes option pricing model based on the following assumptions: volatility of 52.16% calculated based on a comparable company; remaining life of 2.0 years; expected dividend yield of 0%; forfeiture rate of 0% and an annual risk-free interest rate of 2.27%

The aggregate fair value of the issued broker warrants granted of $215,724 is recognized as part of the transaction costs of the special warrant offering which is reflected in the common shares equity reserve. The vesting period for the broker warrant is immediate.

In addition, on June 29, 2018, the Company issued 150,000 broker warrants, that vested immediately, to the agent of the special warrants offering in connection with certain advisory services provided to the Company. Each broker warrant entitles the agent to acquire one common share of the Company at an exercise price of $2.00 per broker warrant until March 16, 2020. The fair value of issued broker warrants recorded as a corporate, general and administrative expense during the year ended December 31, 2018 was $85,500.

The fair value of the broker warrants granted on June 29, 2018 was estimated to be $0.57 per warrant using the Black-Scholes option pricing model based on the following assumptions: volatility of 52.66% calculated based on a comparable company; remaining life of 1.7 years; expected dividend yield of 0%; forfeiture rate of 0% and an annual risk-free interest rate of 2.17%.

(Expressed in U.S. dollars, unless otherwise stated)

## 11. Contributed surplus (continued):

There were no broker warrants granted during the year ended December 31, 2017.

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Number of broker warrants | Weighted and actual average exercise price | Number of broker warrants | Weighted and actual average exercise price |
| Outstanding, beginning of year | – | $ – | – | $ – |
| Granted | 503,646 | 2.00 | – | – |
| Outstanding, end of year | 503,646 | 2.00 | – | – |

The weighted average contractual life of the outstanding broker warrants as at December 31, 2018 was 1.2 years (December 31, 2017 - 0 years).

The total number of broker warrants exercisable as at December 31, 2018 was 503,646 (December 31, 2017 - nil).

The aggregate fair value of the broker warrants granted during the year ended December 31, 2018 was $301,224 (December 31, 2017 - nil).

## 12. Income taxes:

(a) Numerical reconciliation of income tax expense:

At December 31, 2017, the Company has approximately $10,188,850 of U.S. non-capital loss carry-forward available to reduce future years' taxable income which will expire between 2033 and 2039.

(Expressed in U.S. dollars, unless otherwise stated)

### 12. Income taxes (continued):

The Company's provision for income taxes is reconciled as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Accounting net loss before income tax | $ (4,709,287) | $ (2,174,495) |
| Income tax provision at statutory rate - 39% (December 31, 201 - 39%) | $ (1,222,060) | $ (848,053) |
| Non-controlling interest | (64,552) | (77,474) |
| Non-deductible expenses and other permanent differences | 26,041 | 17,971 |
| Future rate differential | (48,275) | 723,540 |
| Change in unrecognized deferred tax assets | 1,308,846 | 184,016 |
| Income tax expense at effective rate | $ – | $ – |

(b) Deferred tax asset/liability:

Deferred tax assets and liabilities recognized in the statements of financial position relate to the following:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Book value in excess of tax costs | $ (151,918) | $ – |
| Property, plant and equipment | 151,918 | – |
| Unrecognized total deferred tax assets | $ – | $ – |

(Expressed in U.S. dollars, unless otherwise stated)

## 12. Income taxes (continued):

The following temporary differences have not been recognized in the Company's consolidated financial statements:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Property, plant and equipment | $ – | $ 82,181 |
| Non-capital loss carry-forward | 9,572,112 | 5,333,031 |
| Other, including stock-based compensation | 1,214,881 | 513,727 |
| Unrecognized total deferred tax assets | $ 10,786,993 | $ 5,928,939 |

## 13. Financial instruments:

In the normal course of business, the Company is exposed to risks related to financial instruments that can affect its operating performance. These risks, and the actions taken to manage them, are as follows:

(a) Fair value:

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

The carrying value of the non-current portion of loans payable and finance lease obligations approximates their fair value given the difference between the discount rates used to recognize the liabilities in the consolidated balance sheets and the market rates of interest is insignificant.

Financial instruments are classified into one of the following categories: financial assets or financial liabilities.

(Expressed in U.S. dollars, unless otherwise stated)

**13. Financial instruments (continued):**

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

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Cash | $ 9,381,600 | $ 1,532,580 |
| Accounts receivable | 7,131,661 | 2,104,746 |
| Items classified as financial assets | $ 16,513,261 | $ 3,637,326 |
| Accounts payable and accrued liabilities | $ 4,059,398 | $ 2,196,381 |
| Short-term portion of loans payable | 97,858 | 13,771 |
| Shareholder's loan payable | – | 3,101,342 |
| Non-controlling interest loans | 81,170 | 40,943 |
| Long-term portion of loans payable | 183,272 | – |
| Items classified as financial liabilities | $ 4,421,698 | $ 5,352,437 |

(b) Credit risk:

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Company is exposed to credit risk from patients and third-party payors including federal and state agencies (under the Medicare programs), managed care health plans and commercial insurance companies. The Company's exposure to credit risk is mitigated in large part due to the majority of the accounts receivable balance being receivable from large, creditworthy medical insurance companies and government-backed health plans. The Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost when necessary. Loss allowances for accounts receivables are always measured at an amount equal to the expected credit losses for the subsequent 12-month period.

**13. Financial instruments (continued):**

(c) Liquidity risk:

Liquidity risk is the risk that the Company may encounter difficulty in raising funds to meet its financial commitments or can only do so at excessive cost. The Company ensures there is sufficient liquidity to meet its short-term business requirements, taking into account its anticipated cash flows from operations, its holdings of cash and its ability to draw on committed funds from its existing shareholders or to raise funds from external shareholders.

(d) Currency risk:

Currency risk is the risk to the Company's earnings that arises from fluctuations in foreign exchange rates and the degree of volatility of those rates. The Company has minimal exposure to currency risk as substantially all of the Company's revenue, expenses, assets and liabilities are denominated in U.S. dollars. The Company pays certain vendors in Canadian dollars from time to time, but due to the limited size and nature of these payments it does not give rise to significant currency risk.

(e) Interest rate risk:

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not have financial instruments that result in material exposure.

(Expressed in U.S. dollars, unless otherwise stated)

## 14. Capital management:

The Company's objective is to maintain a capital structure that supports its long-term growth strategy, maintains creditor and customer confidence, and maximizes shareholder value.

The capital structure of the Company consists of its shareholders' equity (deficit), including contributed surplus and deficit, as well as loans payable.

The Company's primary uses of capital are to finance operations, finance new center start-up costs, increase non-cash working capital and capital expenditures. The Company's objectives when managing capital are to ensure the Company will continue to have enough liquidity so it can provide its services to its customers and returns to its shareholders. The Company, as part of its annual budgeting process, evaluates its estimated annual cash requirements to fund planned expansion activities and working capital requirements of existing operations. Based on this cash budget and taking into account its anticipated cash flows from operations and its holdings of cash, the Company validates that it has the sufficient capital or the ability to draw the required funds from shareholder commitments.

## 15. Related party transactions:

(a) Compensation of key management personnel:

The Company transacts with key individuals from management who have authority and responsibility to plan, direct, and control the activities of the Company. Key management personnel are defined as the executive officers of the Company and the Board, including the President and Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer and the Chief Medical Director.

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Salaries and bonuses | $ 990,720 | $ 840,836 |
| Stock-based compensation | 158,538 | 209,830 |
| Total | $ 1,149,258 | $ 1,050,666 |

(Expressed in U.S. dollars, unless otherwise stated)

## 15. Related party transactions (continued):

(b) Transactions with significant shareholder - Greybrook Health Inc.:

As at December 31, 2018, $96,144 is included in accounts payable and accrued liabilities related to payables for management services rendered and other overhead costs incurred by Greybrook Health Inc. in the ordinary course of business (December 31, 2017 - $433,342).

(c) Loan from significant shareholder - Greybrook Health Inc.:

The controlling shareholder Greybrook Health Inc. extended loans to the Company from time to time in order to fund ongoing expansion activities and operating losses (see note 7(b)).

## 16. Basic and diluted loss per share:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Net loss attributable to the shareholders of: Greenbrook TMS | $ (4,958,043) | $ (2,373,145) |
| Weighted average common shares outstanding: | | |
| Basic and diluted | 40,209,697 | 36,815,267 |
| Loss per share: | | |
| Basic and diluted | $ (0.12) | $ (0.06) |

For the year ended December 31, 2018, the effect of 2,670,000 (December 31, 2017 - 2,219,500) options have been excluded from the diluted calculation because this effect would be anti-dilutive.

(Expressed in U.S. dollars, unless otherwise stated)

## 17. Non-controlling interest:

As a result of operating agreements with each of the following non-wholly owned entities, the Company has control over these entities under IFRS and thus 100% of the financial results of these subsidiaries are included in the Company's consolidated financial results. The Company has control over these entities as the Company has power over all significant decisions made by these entities.

| Name | Year incorporated | Ownership interest |
|---|---|---|
| Greenbrook TMS Arlington LLC | 2018 | 70% |
| Greenbrook TMS Austin Central LLC | 2018 | 80% |
| Greenbrook TMS Cary LLC | 2016 | 75% |
| Greenbrook TMS Chapel Hill LLC | 2017 | 90% |
| Greenbrook TMS Christiansburg LLC | 2018 | 70% |
| Greenbrook TMS Cleveland LLC | 2018 | 80% |
| Greenbrook TMS Connecticut LLC | 2018 | 80% |
| Greenbrook TMS Easton LLC | 2017 | 80% |
| Greenbrook TMS Fairfax LLC | 2016 | 60% |
| Greenbrook TMS Greensboro LLC | 2017 | 70% |
| Greenbrook TMS Houston LLC | 2018 | 80% |
| Greenbrook TMS Lynchburg LLC | 2017 | 70% |
| Greenbrook TMS Midlothian LLC | 2016 | 80% |
| Greenbrook TMS Mooresville LLC | 2018 | 80% |
| Greenbrook TMS Newport News, LLC | 2016 | 75% |
| Greenbrook TMS North Raleigh LLC | 2016 | 75% |
| Greenbrook TMS Roanoke LLC | 2017 | 70% |
| Greenbrook TMS St. Louis LLC | 2018 | 60% |
| Greenbrook TMS West Hartford LLC | 2018 | 80% |
| Greenbrook TMS Wilmington LLC | 2017 | 70% |
| Greenbrook TMS Winston-Salem LLC | 2018 | 80% |
| TMS NeuroHealth Centers Ashburn, LLC | 2015 | 51% |
| TMS NeuroHealth Centers Charlottesville, LLC | 2014 | 65% |
| TMS NeuroHealth Centers Frederick, LLC | 2015 | 75% |
| TMS NeuroHealth Centers Glen Burnie, LLC | 2015 | 70% |
| TMS NeuroHealth Centers Greenbelt, LLC | 2014 | 75% |
| TMS NeuroHealth Centers Reston, LLC | 2014 | 51% |
| TMS NeuroHealth Centers Richmond, LLC | 2014 | 65% |
| TMS NeuroHealth Centers Rockville, LLC | 2014 | 51% |
| TMS NeuroHealth Centers Virginia Beach, LLC | 2015 | 70% |
| TMS NeuroHealth Centers Woodbridge, LLC | 2016 | 70% |

(Expressed in U.S. dollars, unless otherwise stated)

## 17. Non-controlling interest (continued):

On May 5, 2018, the Company acquired a non-controlling ownership interest in TMS NeuroHealth Centers Kensington, LLC for $130,013. As a result, as at December 31, 2018, TMS NeuroHealth Centers Kensington, LLC is a wholly-owned subsidiary of the Company.

The following table summarizes the aggregate financial information for the above-noted entities, as at December 31, 2018 and December 31, 2017:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Cash | $ 1,367,644 | $ 665,140 |
| Accounts receivable | 5,281,387 | 1,707,501 |
| Prepaid expenses and other | 773,987 | 403,045 |
| Property, plant and equipment | 775.857 | 104,988 |
| Account payable and accrued liabilities | 1,035,544 | 421,193 |
| Loans payable | 5,304,284 | 3,578,076 |
| Profit (deficit) attributable to the shareholders of Greenbrook TMS | 1,314,582 | (719,491) |
| Profit/(deficit) attributable to non-controlling interest | 247,654 | (130,614) |
| Distributions paid to non-controlling interest | (303,980) | (268,680) |
| Subsidiary investment by non-controlling interest | 600,100 | 190 |
| Historical subsidiary investment by non-controlling interest | 691 | 501 |

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Revenue | $ 14,579,995 | $ 10,067,183 |
| Net income attributable to the shareholders of Greenbrook TMS | 438,753 | 379,427 |
| Net income attributable to non-controlling interest | 248,756 | 198,650 |

(Expressed in U.S. dollars, unless otherwise stated)

## 18. Expenses by nature:

The components of the Company's other regional and center support costs include the following:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Salaries and bonuses | $ 3,075,724 | $ 1,736,278 |
| Marketing expenses | 1,946,581 | 1,341,393 |
| Total | $ 5,022,305 | $ 3,077,671 |

The components of the Company's corporate, general and administrative expenses include the following:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Salaries and bonuses | $ 2,607,823 | $ 1,632,077 |
| Marketing expenses | 961,094 | 381,683 |
| Professional and legal fees | 744,917 | 209,223 |
| Computer supplies and software | 720,665 | 412,916 |
| Transaction costs | 467,375 | – |
| Travel, meals and entertainment | 267,533 | 102,530 |
| Corporate rent | 135,432 | 53,641 |
| Other | 618,287 | 181,953 |
| Total | $ 6,523,126 | $ 2,974,023 |

## 19. Subsequent event:

Stock option grant:

On March 27, 2019, 165,000 stock options were granted to key employees and consultants of the Company. The stock options granted have an exercise price of $3.29, a remaining life of 10 years from the grant date and are subject to the terms and conditions of the stock option plan of the Company.