Theralase Technologies Inc.

Audited Consolidated Financial Statements

As at December 31, 2013 and 2012

Management's Responsibility for Financial Information

The accompanying consolidated financial statements and all information in this report were prepared by and are the responsibility of management. The consolidated financial statements were prepared in conformity with International Financial Reporting Standards and reflect management's best estimates and judgments. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial information presented elsewhere in this report is consistent with that in the consolidated financial statements.

The Company maintains a system of internal controls, which provides management with reasonable assurance that financial information is relevant, reliable and accurate and that the Company's assets are properly accounted for and adequately safeguarded.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee, consisting solely of outside trustees. The Audit Committee reviews the Company's annual consolidated financial statements and has recommended their approval by the Board of Directors. The shareholders' auditors and Audit Committee meet with and without management being present.

The consolidated financial statements have been audited by the independent external auditors appointed by the shareholders, Collins Barrow Toronto LLP. In that capacity they have examined and reported on the consolidated financial statements for the years ending December 31, 2013 and 2012.

[*signed*]
Roger Dumoulin-White
President & CEO
Theralase Technologies Inc.

[*signed*]
Kristina Hachey
Chief Financial Officer
Theralase Technologies Inc.

Collins Barrow
Chartered Accountants

Collins Barrow Toronto LLP
Collins Barrow Place
11 King Street West
Suite 700, Box 27
Toronto, Ontario
M5H 4C7 Canada

T. 416.480.0160
F. 416.480.2646

www.collinsbarrow.com

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Theralase Technologies Inc.

We have audited the accompanying consolidated financial statements of Theralase Technologies Inc. and its subsidiaries, (collectively referred to as the “Company”), which comprise the consolidated balance sheets as at December 31, 2013 and 2012, and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Consolidated Financial Statements

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

Auditors’ Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Theralase Technologies Inc. and its subsidiaries as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Collins Barrow Toronto LLP

Collins Barrow Toronto LLP
Licensed Public Accountants
Chartered Accountants
April 30, 2014

This office is independently owned and operated by Collins Barrow Toronto LLP
The Collins Barrow trademarks are used under License.

an independent member of
BAKER TILLY
INTERNATIONAL

THERALASE® TECHNOLOGIES INC.

Consolidated Balance Sheets
As at December 31,
Stated in Canadian Dollars

	Note	2013	2012
Assets			
Current assets			
Cash		$ 1,768,329	$ 21,975
Trade and other receivables	4	310,737	499,835
Inventories	5	190,395	216,104
Prepaid expenses and other assets		58,072	26,714
Total current assets		2,327,533	764,628
Non-Current assets			
Finance receivable		23,546	49,230
Property and equipment	6	221,495	188,454
Intangible assets	7	112,303	130,342
Total non-current assets		357,344	368,026
Total Assets		**$ 2,684,877**	**$ 1,132,654**
Liabilities			
Current liabilities			
Payables and accruals	8	$ 876,462	$ 1,060,207
Due to officer	21	28,118	101,832
Finance lease obligation, current	10	615	656
Leasehold inducement, current		2,800	2,800
Deferred revenue, current		5,274	15,479
Total current liabilities		913,269	1,180,974
Non-current liabilities			
Finance lease obligation, non-current	10	163	779
Leasehold inducement, non-current		7,233	10,033
Deferred revenue, non-current		324	5,598
Total non-current liabilities		7,720	16,410
Total liabilities		920,989	1,197,384
Equity attributable to shareholders			
Share capital	14	9,492,432	7,843,502
Common share purchase warrants	13	1,223,149	289,339
Contributed surplus		4,119,138	3,721,051
Deficit		(13,070,831)	(11,918,622)
Total Equity		1,763,888	(64,730)
Total Shareholders' Equity and Liabilities		**$ 2,684,877**	**$ 1,132,654**

Commitments (note 24)

Approved on Behalf of the Board

[Roger Dumoulin-White] Director

[Randy Bruder] Director

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

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Operations and Comprehensive Loss
For the years ended December 31
Stated in Canadian Dollars

	Note		2013		2012
Sales		$	1,203,620	$	1,824,313
Cost of Sales			404,540		575,163
Gross Margin			799,080		1,249,150
Operating Expenses					
Selling expenses	16		433,622		626,380
Administrative expenses	17		942,069		1,238,900
Research and development expenses	18		527,233		873,335
Loss on foreign exchange			14,081		10,225
Interest expense			42,765		22,998
Interest income			(8,481)		(13,119)
			1,951,289		2,758,719
Loss and comprehensive loss for the year		$	(1,152,209)	$	(1,509,569)
Basic and diluted loss and comprehensive loss per common share	15	$	(0.02)	$	(0.03)
Weighted average number of common shares outstanding (basic and diluted)	15		47,853,882		43,819,961

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

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Cash Flows

For the years ended December 31

Stated in Canadian Dollars

	Note		2013		2012
Cash flows from operating activities					
Net loss for the year		$	(1,152,209)	$	(1,509,569)
Items not involving cash					
Amortization of property and equipment	6		59,413		30,347
Amortization of intangibles	7		18,039		18,450
Stock-based compensation expense	12		150,972		279,182
Loss on foreign exchange			(14,081)		(10,225)
Lease inducements			(2,800)		4,167
Write-off of property and equipment			-		994
			(940,666)		(1,186,654)
Change in operating assets and liabilities other than cash					
Trade and other receivables			203,180		158,192
Finance receivables			25,684		43,525
Inventories			25,709		133,334
Prepaid expenses and other assets			(31,358)		12,322
Payables, accruals and provisions			(183,745)		254,609
Deferred revenue			(15,479)		(22,043)
			(916,675)		(606,715)
Cash flows from investing activities					
Purchase of property and equipment	6		(93,290)		(129,808)
Proceeds on disposal of property and equipment	6		836		-
			(92,454)		(129,808)
Cash flows from financing activities					
Repayment of capital lease obligation			(657)		(4,329)
(Repayment) Proceeds from officer loan	21		(73,714)		9,267
Proceeds from private placement unit issuance			2,829,855		710,500
			2,755,484		715,438
Increase (Decrease) in cash during the year		$	1,746,354	$	(21,085)
Cash, beginning of year		$	21,975	$	43,060
Cash, end of year		$	1,768,329	$	21,975
Supplementary Information					
Interest Paid		$	42,765	$	22,998
Interest Received		$	8,481	$	13,119

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

THERALASE® TECHNOLOGIES INC.

Consolidated Statement of Changes in Equity
As at December 31,
Stated in Canadian Dollars

	Note	Number of Shares	Share Capital	Contributed Surplus	Common Share Purchase Warrants	Deficit	Total Shareholders' Equity
		#	$	$	$	$	$
Balance, December 31, 2011		41,682,975	7,175,225	3,441,869	247,116	(10,409,053)	455,157
Stock-based compensation expense	12	-	-	279,182	-	-	279,182
Issued pursuant to private placement (net of share issue costs)	11	3,000,000	668,277	-	42,223	-	710,500
Loss for the year		-	-	-	-	(1,509,569)	(1,509,569)
Balance, December 31, 2012		44,682,975	7,843,502	3,721,051	289,339	(11,918,622)	(64,730)
Balance, December 31, 2012		44,682,975	7,843,502	3,721,051	289,339	(11,918,622)	(64,730)
Stock-based compensation expense	12	-	-	150,972	-	-	150,972
Expired share purchase warrants	13	-	-	247,115	(247,115)		-
Issued pursuant to private placement (net of share issue costs)	11	21,043,334	1,648,930	-	1,180,925	-	2,829,855
Loss for the year		-	-	-	-	(1,152,209)	(1,152,209)
Balance, December 31, 2013		65,726,309	9,492,432	4,119,138	1,223,149	(13,070,831)	1,763,888

The company had a nil balance of accumulated other comprehensive income at each of the dates presented above.

1. Nature of Operations

Theralase Technologies Inc. (the "Company" or "Theralase") designs, develops, manufactures and markets patented, super-pulsed laser technology used in biostimulative and biodestructive clinical applications. The Theralase technology platform targets several health-care sectors: first, for non-invasive pain management and clinical therapy, used in neural muscular skeletal conditions, including arthritis and osteoarthritis; second, wound care and healing (including non-healing fractures and bone fracture regeneration); and third, research and development into combining patented photodynamic compounds with patented, super-pulsed, biofeedback laser technology to attack specifically targeted cancers, bacteria and viruses.

The Company develops products both internally and using the assistance of specialist external resources. Successful financing enables the commercialization of the Company's current and future product offerings, which is further supported through the Company's established network of direct, distribution and strategic alliance sales.

Theralase was incorporated by articles of incorporation in the province of Ontario in September, 2004. The Company's common shares trade on the Toronto Stock Exchange Venture Exchange under the symbol TLT. The registered office is 1945 Queen Street East, Toronto, Ontario M4L 1H7, Canada.

Statement of Compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The consolidated financial statements for the year ended December 31, 2013 (including comparatives) were approved and authorized for issue by the board of directors on April 28, 2014.

2. Summary of Significant Accounting Policies

Basis of presentation

The consolidated financial statements, which are presented in Canadian Dollars (unless otherwise stated), have been prepared under the historical cost convention, as modified by the measurement at fair value of certain financial assets and financial liabilities. Share options and share awards granted to employees and third parties are recognized at fair value at the date of grant.

2. Summary of Significant Accounting Policies (continued)

Accounting estimates and judgments

The preparation of these consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the year. Financial statement items subject to significant management judgment include:

- Allowance for doubtful accounts - The valuation of allowances for uncollectible trade receivables requires assumptions including estimated credit losses based on customer, industry concentrations and the Company's knowledge of the financial conditions of its customers. Uncertainty relates to the actual collectability of customer balances that can vary from management's estimates and judgment.

- Measurement of impairment in assets – The active market or a binding sale agreement provides the best evidence for determination of fair value, but where neither exists, fair value is based on the best information available to reflect the amount the Company could receive for the assets or its value in use which is equal to the present value of future cash flows expected to be derived from the use and sale of the assets. Management exercises judgment to determine whether indicators of impairment exist, and if so, management must estimate the timing and amount of future cash flows from sales.

- Valuation of deferred income tax assets – The valuation of deferred income tax assets requires judgment on their recoverability. Such judgments are made based on management's estimate on the timing and amount of the Company's future taxable earnings.

- Allowance for inventory obsolescence – The Company estimates inventory obsolescence allowances for potential losses resulting from inventory that cannot be processed and/or sold to customers. Additional allowances may be required if the physical condition of inventory deteriorates or customer requirements change.

- Warrants and share-based payments – The Company used the Black-Scholes option pricing model in determining the value of warrants and stock options, which requires a number of assumptions made, including the risk-free interest rate, expected life, forfeiture rate and expected share price volatility. Consequently, the actual share-based compensation expense may vary from the amount estimated (see note 12).

While management believes that the estimates and judgments are reasonable, actual results may differ materially from those estimates.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries; Theralase Inc. and Theralase Biotech Inc., over which the Company exercises control. Inter-company balances and transactions are eliminated in preparing the consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

Foreign currency

The functional and presentation currency of the Company and its subsidiaries is the Canadian dollar. Transactions which are denominated in other currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction date. The carrying values of monetary assets and liabilities denominated in foreign currencies are adjusted at each balance sheet date to reflect exchange rates prevailing at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year adjusted for effective interest and payments during the year, and the amortized cost in the foreign currency translated at the exchange rate at the end of the year. Foreign exchange gains and losses are recognized in earnings.

Revenues and expenses are converted at average rates prevailing during the year, except for amortization, which is converted at historical rates. Conversion gains and losses are reflected in the consolidated statement of operations and comprehensive loss.

Cash

Cash includes cash held in a Canadian Schedule I bank.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

a) Financial assets and liabilities at fair value through profit or loss:

   A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Cash is included in this category. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of operations. Gains and losses arising from changes in fair value are presented in the statement of operations in the year in which they arise.

b) Available-for-sale investments:

   Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company does not have any instruments classified in this category. Available- for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of operations and are included in other gains and losses.

2. Summary of Significant Accounting Policies (continued)

c) Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise of trade and other receivables and finance receivables. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment. Loans and receivables are classified as current assets if payment is due within twelve months. Otherwise, they are presented as non-current assets.

d) Financial liabilities at amortized cost:

Financial liabilities at amortized cost include payables and accruals and due to officer. Financial liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be measured reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise or indicators that a debtor will enter bankruptcy.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management’s judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. 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 assets original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

2. Summary of Significant Accounting Policies (continued)

Inventory

Raw materials are valued at the lower of cost and net realizable value. Finished goods are valued at the lower of cost and net realizable value and consist of the following costs: raw materials, subcontracting, direct and indirect labour and the applicable share of manufacturing overhead. Net realizable value is estimated based on the amount at which inventories are expected to be sold, taking into account estimated costs necessary to make the sale. Finished goods are determined on a first-in, first-out basis. Raw materials are recorded on weighted average basis.

Property and equipment

Property and equipment are recorded at cost net of accumulated depreciation and impairment charges. Depreciation of property and equipment, other than finance lease equipment, leasehold improvements and rental units, is calculated using the declining balance basis to depreciate the cost of the assets over their estimated useful lives using the following annual rates:

Tools and dies	25%
Computer equipment	30%
Furniture and fixtures	20%
Equipment	25%

Finance lease equipment and leasehold improvements are depreciated on a straight-line basis over the shorter of the useful life of the leasehold or the initial lease term.

Property and equipment (continued)

Rental units are depreciated on a straight-line basis over five years based on the estimated useful life.

Intangible assets

Intangible assets are recorded at cost including professional fees incurred in connection with the filing of the patents and the registration of the trademarks for product marketing and manufacturing purposes net of accumulated amortization and impairment charges. Costs incurred to maintain patents and trademarks for intellectual property are expensed in the year incurred. Amortization of intangible assets is recorded on a straight-line basis over the estimated useful lives of the related assets as follows:

Patents	10 to 17 years
Trademarks	17 years
Food and Drug Administration (FDA) clinical study costs	5 years
Development Costs	10 years

2. Summary of Significant Accounting Policies (continued)

Impairment of assets

Items of property and equipment and intangible assets with finite lives subject to depreciation or amortization, respectively, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Management is required to assess at each reporting date whether there is any indication that an asset may be impaired. Where such an indication exists, the asset's recoverable amount is compared to its carrying value, and an impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows, or cash-generating units (CGU). In determining value in use of a given asset or CGU, 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.

Items of property and equipment and amortizable identifiable intangible assets with finite lives that suffered impairment are reviewed for possible reversal of the impairment if there has been a change, since the date of the most recent impairment test, in the estimates used to determine the impaired asset's recoverable amount. However, an asset's carrying amount, increased due to the reversal of a prior impairment loss, must not exceed the carrying amount that would have been determined, net of depreciation or amortization, had the original impairment not occurred.

Lease inducements

Lease inducements received by the Company as free rent periods are deferred and amortized on a straight-line basis over the term of the lease and recorded as a reduction in rental expense within administrative expenses.

Research and development expenditures

Research expenditures are expensed in the year incurred. Product development expenditures are expensed in

the year incurred unless the product candidate meets strict accounting criteria for deferral and amortization. The Company's policy is to amortize deferred product development expenditures over the expected future life of the product once product revenues or royalties are recorded. No product development expenditures have been deferred during the year.

Investment tax credits

The Company is entitled to refundable and non-refundable Canadian federal and provincial investment tax credits, which are earned as a percentage of eligible research and development expenditures incurred in each taxation year.

Investment tax credits are accounted for as a reduction of the related expenditure for items of a current nature and as a reduction of the related asset's cost for items of a long-term nature in the year the expenses are incurred, provided that the Company has reasonable assurance that investment tax credits will be realized.

2. Summary of Significant Accounting Policies (continued)

Revenue recognition

Sales include product sales revenue, product services revenue and clinic services revenue. Product sales revenue is recognized when there is an unconditional sales order, title passes to the customer, the fee is fixed and ultimate collection of the consideration is reasonably assured. Some product sales include an extended warranty. In the case of such sales arrangements, the individual deliverables are accounted for separately based on their relative fair values and are recognized as the product or service is delivered, if all other criteria are met.

Product services and clinic services revenue is recognized when the service is delivered to the customer or patient and collection is reasonably assured.

Deferred revenue consists of unearned revenue from the sale of extended warranty plans. Deferred revenue is recognized as revenue evenly over the term of the extended warranty.

Share-based payment

The share-based payment plan, described in note 12, allows Company employees and consultants to acquire shares of the Company. The fair value of share-based payment awards granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The Company uses the fair value based method of accounting for employee stock options. Under the fair value based method, compensation costs are measured at fair value at the date of grant and are expensed using the graded vesting method over the stock options' vesting periods. The fair value of granted stock options is determined using the Black-Scholes valuation model. Any consideration received by the Company in connection with the exercise of stock options is credited to capital stock.

Share-based payment (continued)

For equity-settled share-based payment transactions, the Company measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which cases, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

Loss per share

Loss per common share is calculated by dividing the net loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share amounts do not differ from basic share amounts in these consolidated financial statements as the effect of outstanding options is anti-dilutive for all years presented.

2. Summary of Significant Accounting Policies (continued)

Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases ("temporary differences") and loss carry forwards. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is generally recognized in income in the year that includes the date of enactment or substantive enactment. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Accounting Standards Issued

The IASB has issued the following standards which have not yet been adopted by the Corporation. Each of the new standards is effective for annual years beginning on or after January 1, 2014 with the exception of IFRS 9. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements.

The following is a description of the new standards:

IFRS 9, Financial Instruments *("IFRS 9")* was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments, with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss). Where such equity instruments are measured at fair value through other comprehensive income (loss), dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income (loss) indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement*,* except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income (loss).

IFRS 9 is available for application, however, previous mandatory effective date of January 1, 2015 has been removed as the IASB decided that this date would not allow sufficient time for entities to apply the new standard because the impairment phase of the IFRS 9 has not yet been completed. The IASB will decide upon a new date when the entire IFRS 9 project is closer to completion.

IAS 32 Financial Instruments Presentation was amended by the IASB in December 2011. Offsetting Financial Assets and Financial Liabilities amendment addresses inconsistencies identified in applying some of the offsetting criteria.

3. Accounting Standards Issued (continued)

IAS 36 Impairment of Assets was amended by the IASB in June 2013. Recoverable Amount Disclosures for Non-Financial Assets amendment modifies certain disclosure requirements about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

IAS 39 Financial Instruments Recognition and Measurement was amended by the IASB in June 2013. Novation of Derivatives and Continuation of Hedge Accounting amendment will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one).

IFRIC Interpretation 21 Levies was issued by the IFRIC in May 2013. The Interpretation on the accounting for levies imposed by governments clarifies the obligating event that gives rise to a liability to pay a levy.

As the following standards came into effect during 2013 and are applicable to the Company, these were adopted during the year, however they do not result in material impact to the financial statements.

IFRS 10 – Consolidation *("IFRS 10")* requires an entity to consolidate an investee when it 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. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation—Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*.

IFRS 12 – *Disclosure of Interests in Other Entities* *("IFRS 12")* establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 - *Fair Value Measurement* *("IFRS 13")* is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that 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. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

4. Trade and Other Receivables

	2013	2012
Trade Accounts Receivable (net amount)	$ 237,318	$ 373,198
Government Tax Credits Receivable	73,419	124,527
Other	-	2,110
	$ 310,737	**$ 499,835**

4. Trade and Other Receivables (continued)

Write offs of trade receivables for the year ending December 31, 2013 amounted to $8,031 which was previously provided for (2012 - $22,883). In addition a direct write-off of $6,926 was made during the year (2012 - $9,300). Refer to note 20 (i) for the continuity schedule of allowance for trade receivables.

Government tax credits receivable comprise research and development investment tax credits receivable from the federal government which relate to qualifiable research and development expenditures under the applicable tax laws.

The Company's exposure to credit and currency risks related to trade and other receivables is presented in note 20.

5. Inventories

	2013	2012
Raw materials	$ 101,424	$ 125,373
Work-in-process	5,338	6,599
Finished goods	83,633	84,132
Total	**$ 190,395**	**$ 216,104**

During the year, inventories amounting to $131,828 (2012: $260,809) were incurred as expense in cost of sales in the Statement of Comprehensive Income. In 2013, there were inventories written-off amounting to $21,526 (2012 - 11,084).

6. Property and Equipment

Cost

	Tools and Dies	Finance Lease Equipment	Computer Equipment	Furniture and Fixtures	Rental units [1]	Equipment	Leasehold Improvements	Total
Balance at January 1, 2012	$ 39,653	$ 32,351	$ 92,498	$ 94,825	$ 40,794	$ 61,529	$ 23,082	$ 384,732
Additions			168	196		1,188	128,256	129,808
Disposals			(1,526)				(23,082)	(24,608)
Balance at December 31, 2012	$ 39,653	$ 32,351	$ 91,141	$ 95,021	$ 40,794	$ 62,717	$ 128,256	$ 489,932
Balance at January 1, 2013	$ 39,653	$ 32,351	$ 91,141	$ 95,021	$ 40,794	$ 62,717	$ 128,256	$ 489,932
Additions			2,607	714	5,890		84,079	93,290
Disposals		(29,756)	(2,007)		(21,436)			(53,199)
Balance at December 31, 2013	$ 39,653	$ 2,595	$ 91,741	$ 95,735	$ 25,248	$ 62,717	$ 212,335	$ 530,023

Depreciation

	Tools and Dies	Finance Lease Equipment	Computer Equipment	Furniture and Fixtures	Rental units [1]	Equipment	Leasehold Improvements	Total
Balance at January 1, 2012	$ 39,021	26,685	$ 67,996	$ 65,198	$ 29,413	$ 45,939	$ 20,491	$ 294,743
Depreciation for the year	158	4,376	7,037	5,919	6,414	3,852	2,591	30,347
Disposals			(530)				(23,082)	(23,612)
Balance at December 31, 2012	$ 39,179	$ 31,061	$ 74,503	$ 71,117	$ 35,827	$ 49,791	$ -	$ 301,478
Balance at January 1, 2013	$ 39,179	$ 31,061	$ 74,503	$ 71,117	$ 35,827	$ 49,791	$ -	$ 301,478
Depreciation for the year	118	567	4,911	4,970	3,541	3,129	42,176	59,413
Disposals		(29,756)	(1,171)		(21,436)		-	(52,363)
Balance at December 31, 2013	$ 39,297	$ 1,872	$ 78,243	$ 76,087	$ 17,932	$ 52,920	$ 42,176	$ 308,528

Carrying Amounts

	Tools and Dies	Finance Lease Equipment	Computer Equipment	Furniture and Fixtures	Rental units [1]	Equipment	Leasehold Improvements	Total
At December 31, 2012	474	1,290	16,638	23,904	4,967	12,926	128,256	188,454
At December 31, 2013	356	723	13,499	19,649	7,315	9,797	170,159	221,495

(1) Rental units consist of TLC-1000 systems used in customer rentals, demonstrations and service loaners

In 2013, there was amortization included in cost of sales amounting to $1,307 (2012 - $724).

7. Intangible Assets

Cost

	Patents	Trademarks	Development Costs	FDA Clinical Study Costs[1]	Total
Balance at January 1, 2012	$ 199,622	$ 58,346	$ 344,093	$ 509,649	$ 1,111,710
Additions	-	-	-	-	-
Balance at December 31, 2012	$ 199,622	$ 58,346	$ 344,093	$ 509,649	$ 1,111,710
Balance at January 1, 2013	$ 199,622	$ 58,346	$ 344,093	$ 509,649	$ 1,111,710
Additions	-	-	-	-	-
Balance at December 31, 2013	$ 199,622	$ 58,346	$ 344,093	$ 509,649	$ 1,111,710

Amortization

	Patents	Trademarks	Development Costs	FDA Clinical Study Costs[1]	Total
Balance at January 1, 2012	$ 75,098	$ 34,078	$ 344,093	$ 509,649	$ 962,918
Amortization for the year	15,017	3,433	-	-	18,450
Balance at December 31, 2012	$ 90,115	$ 37,511	$ 344,093	$ 509,649	$ 981,368
Balance at January 1, 2013	$ 90,115	$ 37,511	$ 344,093	$ 509,649	$ 981,368
Amortization for the year	14,606	3,433	-	-	18,039
Balance at December 31, 2013	$ 104,721	$ 40,944	$ 344,093	$ 509,649	$ 999,407

Carrying Amounts

	Patents	Trademarks	Development Costs	FDA Clinical Study Costs[1]	Total
At December 31, 2012	109,507	20,835	-	-	130,342
At December 31, 2013	94,901	17,402	-	-	112,303

(1) FDA clinical study cost consist of expenses incurred in conducting the clinical trial Laser Therapy Applications for Chronic Joint Pain used to obtain the FDA clearance in July 2005, which allows for the marketing and sale of the TLC-1000 product line into the US market.

8. Payables and Accruals

	2013	2012
Trade Payables	$ 572,408	$ 684,848
Salaries, employment taxes, and benefits	23,553	34,762
Current portion of warranty liability	1,100	1,100
Accrued R&D Costs	-	160,786
Other	279,401	178,711
	$ 876,462	**$ 1,060,207**

9. Income Taxes

Provision for income taxes

Current income tax		**2013**		**2012**
Loss before income taxes	$	(1,152,209)	$	(1,509,569)
Combined Federal and Provincial tax rate		26.50%		26.50%
Provision for tax at statutory tax rate	$	(305,335)	$	(400,036)
Permanent differences		44,067		76,931
Share issue costs		(5,425)		(9,275)
Federal and provincial investment tax credits		(106,642)		(215,225)
Effect of higher tax rates in foreign jurisdiction		(348)		(760)
Change in tax rate and other		2,451		(92,011)
Change in deferred income taxes not recognized		371,232		640,376
Deferred income tax recovery	$	-	$	-

		2013		**2012**
Deferred income tax assets:				
Non-capital loss carry forwards	$	845,389	$	729,618
Property and equipment		84,940		73,920
Share issue costs and others		14,407		15,488
Patents and trademarks		33,535		25,468
Development costs		894,969		771,401
Federal and provincial investment tax credits		769,136		650,973
Reserves		5,484		9,463
Cumulative eligible capital		3,943		4,240
Deferred income tax assets	$	2,651,803	$	2,280,571
Net deferred income tax asset		2,651,803		2,280,571
Less: temporary differences not recognized		(2,651,803)		(2,280,571)
Deferred income tax assets	$	-	$	-

9. Income Taxes (continued)

Non-capital loss carry-forwards

The company has non-capital losses available for carry forward of approximately $3,149,979 (2012 - $2,714,421). The income tax benefit of this income tax recovery has not been recorded. These non-capital losses will expire as follows:

2014		146,923
2015		59,062
2026		93,534
2027		145,746
2028		351,013
2029		111,144
2030		630,876
2031		796,377
2032		372,349
2033		442,955
	$	**3,149,979**

10. Obligations Under Finance Leases

In 2013, there were two existing finance lease obligations. The first lease obligation will be paid in full by 2015 and the implicit rate in the lease is 20.31% per annum, compounded monthly. The second lease obligation will be paid in full by 2014 and the implicit rate in the lease is 27.59% per annum, compounded monthly.

	Minimum lease payment		Present value of minimum lease payment	
	2013	**2012**	**2013**	**2012**
Not later than one year	$ 713	$ 915	$ 615	$ 656
Later than one year and not later than five years	170	883	163	779
	$ 883	$ 1,798	$ 778	$ 1,435

Included in the consolidated financial statements as:

	2013	**2012**
Current	615	656
Non-current	163	779
	778	1,435

The total carrying value of the capital lease equipment is $723 as at December 31, 2013 (2012 - $1,291).

11. Private Placement

On April 16, 2012, the Company completed a financing by way of a non-brokered private placement, where 3,000,000 units were issued at a price of $0.25 per unit for gross proceeds of $750,000. Each unit consists of 1 common share and one half of a non-transferable common share purchase warrant with a four-month holding period. Each whole warrant entitled the holder thereof to acquire 1 common share at a price of $0.38, expiring on April 12, 2017.

The Company received net proceeds of $710,500 (gross proceeds of $750,000 less expenses of $39,500). The purchase price of $0.25 per unit was allocated between the common shares ($0.23 per share) and common share purchase warrants ($0.02 per half warrant), based on their relative fair values. Management determined that the allocation of the proceeds was $668,277 for the common shares issued and $42,223 for the common share purchase warrants issued.

On November 7, 2013, the Company completed a financing by way of a non-brokered private placement, where 21,000,000 units were issued at a price of $0.15 per unit for gross proceeds of $3,150,000. Each unit consists of 1 common share and 1 non-transferable common share purchase warrant with a four-month holding period. Each whole warrant entitled the holder thereof to acquire 1 common share at a price of $0.20, expiring on November 7, 2015. In connection with the offering, the Company paid certain finders cash commissions totaling $299,675 (10% of referred business), settled commissions through equity issuance in the amount of 43,334 shares at a price of $0.15 per unit for a total of $6,500 and issued an aggregate of 1,985,900 (10% of referred business) finder warrants, each finder warrant exercisable into one common share at an exercise price of $0.20 per share for a period of 24 months after the closing of the offering. There was a total share issue cost of $20,470.

The Company received net proceeds of $2,829,855 (gross proceeds of $3,150,000 less expenses of $320,145). The purchase price of $0.15 per unit was allocated between the common shares ($0.09 per share) and common share purchase warrants ($0.06 per warrant), based on their relative fair values. Management determined that the allocation of the proceeds was $1,648,930 for the common shares issued and $1,180,925 for the common share purchase warrants issued.

The fair value of each common share purchase warrant granted was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	April 16, 2012	**November 7, 2013**
Expected volatility (based on historical share prices)	65.30%	90.10%
Risk-free interest rate	1.22%	1.10%
Expected life	1 Year	2 Years
Expected dividends	$nil	$nil
Strike price	$0.38	$0.20
Share price	$0.25	$0.345

12. Stock Options

The Company has a rolling stock option plan reserving for issue under this plan 10% (6,572,631 common shares) of the outstanding common shares at a purchase price not less than the fair market value of the Company`s stock at the grant date. Under the company's stock option plan, the board of directors may grant, at its discretion, stock options to purchase common shares to certain employees, officers, directors and consultants of the company. Terms and conditions of the stock option and vesting provisions are at the discretion of the board of directors.

A summary of stock options issued under the stock option plan for years ended December 31 2013 and 2012 is provided below.

	Common shares under option	Weighted average exercised price $
Outstanding, January 1, 2012	2,830,000	0.44
Forfeited (1)	(173,334)	0.42
Expired (2)	(100,000)	0.60
Outstanding, December 31, 2012	2,556,666	0.44
Forfeited (3)	(170,000)	0.50
Expired (4)	(166,666)	0.45
Outstanding, December 31, 2013	2,220,000	0.46

1) On March 19, 2012 a certain board member resigned from the board and forfeited all non-vested options totaling 50,000 in which $1,787 of stock based compensation recognized in prior years was reversed upon expiry. On March 30, 2012 a sales contract was terminated and forfeited all non-vested options totaling 33,334 in which $5,059 of stock based compensation recognized in prior years was reversed upon expiry. During 2012, 90,000 stock options were forfeited to certain employees and board of director's members in which $12,867 was reversed upon expiry.

2) On October 4, 2012, certain employees stock options expired.

3) During 2013 certain employees were terminated and/or resigned from the employment of the Company and forfeited all non-vested options totaling 170,000 in which $31,761 of stock based compensation recognized in prior years was reversed.

4) On November 18, 2013 and December 31, 2013 certain stock options expired.

The following table summarizes information on the stock options outstanding as at December 31, 2013:

Stock Options Outstanding				Stock Options Exercisable		
Stock Options Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price $		Stock Options Exercisable	Weighted Average Exercise Price $	
100,000	0.04	$	0.15	100,000	$	0.15
300,000	0.6	$	0.35	300,000	$	0.35
1,820,000	2.8	$	0.50	1,213,333		0.50
2,220,000		$	0.46	1,613,333	$	0.45

12. Stock Options (continued)

Under the stock option plan, the stock options vest over a three year period, commencing one year after the grant. As at December 31, 2013, 1,613,333 of the stock options were vested. All outstanding stock options as at December 31, 2013 will be fully vested by October 25, 2014.

Options to non-employees are measured at the fair value of the equity instruments granted, as the fair market value of the services received cannot be reliably measured. The fair value of stock options was recalculated on October 24, 2013 using the following assumptions:

	2013	2012
Risk-free interest rate	1.21%	1.21%
Expected volatility*	75.14%	109%
Expected life	3 years	4 years
Expected dividends	Nil	Nil
Weighted average grant date fair value	$0.35	$0.35
Weighted average exercise price	$0.45	$0.44

For the year ended December 31, 2013, the Company recognized stock-based compensation expense of $150,972 (2012 - $279,812) for stock options issued to directors, employees, medical scientific and advisory board, marketing and media relation consultants and business development consultants.

*Based on historical volatility

13. Warrants

As at December 31, common share purchase warrants consisted of the following:

	Number outstanding	Weighted average exercised price $	Fair value at date of grant $
Outstanding, January 1, 2012	1,115,000	0.68	247,116
Issued with private placement shares	1,500,000	0.38	42,223
Outstanding, December 31, 2012	2,615,000	0.51	289,339
Expired	(1,115,000)	0.68	(247,115)
Issued with private placement shares	22,985,900	0.20	1,180,925
Outstanding, December 31, 2013	24,485,900	0.21	1,223,149

The following table summarizes information on the common share purchase warrants outstanding as of December 31, 2013

Exercise Price	Outstanding Beginning of the year	Expired During the year	Granted During the year	Outstanding End of Year	Weighted Average Remaining Contractual Life (years)
$0.38	1,500,000	-	-	-	3.29
$0.68	1,115,000	(1,115,000)	-	-	-
$0.20	-	-	22,985,900	22,985,900	1.85
	2,615,000	(1,115,000)	22,985,900	24,485,900	1.94

14. Share Capital

Authorized

Unlimited number of common shares

Issued

	2013			2012		
	Number		Amount	Number		Amount
Balance, beginning of year	44,682,975	$	7,843,502	41,682,975	$	7,175,225
Issued during year [(1)]	21,043,334		1,648,930	3,000,000		668,277
Balance, ending of year	**65,726,309**	**$**	**9,492,432**	**44,682,975**	**$**	**7,843,502**

1) The common shares issued during 2013 were issued for gross proceeds of $0.15 (2012 - $0.25) per common share for cash (see note 11).

15. Loss and Comprehensive Loss Per Common Share

Basic loss and comprehensive loss per common share has been calculated based on the weighted average number of common shares outstanding during each of the years presented in the consolidated financial statements.

Basic and diluted loss and comprehensive loss per common share for the years ended December 31 are as follows:

		2013		2012
Loss for the year	$	(1,152,209)	$	(1,509,569)
Weighted average number of common shares		47,853,882		43,819,961
Basic and diluted loss and comprehensive loss per share	**$**	**(0.02)**	**$**	**(0.03)**

Stock options to purchase 2,220,000 (2012 – 2,556,666) common shares and common share purchase warrants totaling 24,485,900 (2012 – 2,615,000) were not included in the computation of diluted loss and comprehensive loss per common share due to their anti-dilutive nature.

16. Selling Expenses

The following are expenses classified as selling expenses on the consolidated financial statements:

	2013		2012
Sales salaries	$ 291,734	$	382,279
Advertising	15,775		58,556
Commission	55,459		75,445
Travel	45,072		93,421
Amortization and depreciation allocation	25,582		16,679
Total selling expenses	**$433,622**		**$626,380**

17. Administrative Expenses

The following are expenses classified as administrative expenses on the consolidated financial statements:

	2013	2012
Insurance	51,519	52,091
Professional fees	90,866	68,275
Rent	85,601	136,336
General and administrative expenses	105,767	122,460
Administrative salaries	486,024	540,876
Director and advisory fees	(46,400)	30,212
Stock based compensation	150,972	279,183
Amortization and depreciation allocation	17,720	9,467
Total administrative expenses	**942,069**	**1,238,900**

18. Research and Development Expenses

The following are expenses classified as research and development expenses on the consolidated financial statements:

	2013	2012
Research and development (net)	493,084	852,132
Amortization and depreciation allocation	34,149	21,203
Total research and development expenses	**$527,233**	**$873,335**

19. Government Assistance

The Company is eligible to receive grants and investment tax credits from the federal government related to research and development activities. All such amounts are applied against related research and development expenses when collection is reasonably assured. In 2013, an amount of $73,419 (2012 - $124,527) of investment tax credits was recorded against research and development expense. The amount is included in the trade and other receivables accounts in the consolidated balance sheet.

20. Financial Instruments

IFRS 7 - Financial Instruments: Disclosures establishes a fair value hierarchy that reflects the significance of inputs used in making fair value measurements as follows:

Level 1 quoted prices 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. from derived prices)

Level 3 inputs for the asset or liability that are not based upon observable market data

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As at December 31, 2013 and 2012, the Company’s cash is categorized as Level 1.

20. Financial Instruments (continued)

i Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's accounts receivable. The amounts reported in the consolidated balance sheets are net of allowances for bad debts, estimated by the Company's management based on prior experience and its assessment of the current economic environment. The Company reviews its trade receivable accounts regularly and reduces amounts to their expected realizable values by adjusting the allowance for doubtful accounts when management determines that the account may not be fully collectible. The Company has adopted credit policies in an effort to minimize those risks.

The following table reflects the balance and age of trade receivables as at December 31:

	2013	2012
Trade and other receivables and finance receivables	$ 334,283	$ 549,065
Percentage outstanding more than 30 days	33%	32%
Percentage outstanding more than 120 days	12%	2%

The following table reflects the changes in the allowance for trade receivables during year ended December 31:

	2013	2012
Allowance for trade receivables - beginning of year	$ 11,558	$ 44,311
Allowance recorded against current year's sales	150	2,259
Adjustment based on collection experience	21,324	(12,129)
Amounts written off	(8,031)	(22,883)
Allowance for trade receivables - end of year	**$ 25,001**	**$ 11,558**

ii Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The company manages its liquidity risk by continuously monitoring forecasted and actual cash flows, as well as anticipated investing and financing activities. The company does not have material long-term financial liabilities.

20. Financial Instruments (continued)

ii Liquidity risk (continued)

The table below reflects the contractual obligations of the Company's undiscounted cash flows for its financial liabilities:

	Payments Due by Period		
Contractual Obligations	**Total**	**2014**	**2015**
Payables and accruals	$ 878,555	$ 878,555	$ -
Due to officer	28,118	28,118	-
Finance lease obligations	883	713	170
Total contractual obligations	**$ 907,556**	**$ 907,386**	**$ 170**

The Company also has significant contractual obligations (note 24) in the form of lease obligations related to the company's premises and research and development commitments.

iii Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect the Company's income or the value of the financial instruments held.

The Company is subject to interest rate risk on its cash; however, it does not expect a movement in interest rates to have a significant impact on the Company's financial position. The Company is subject to interest rate risk on its due to officer; however, there is limited exposure due to fixed interest rates.

iv Foreign currency exchange risk

The company is exposed to foreign currency exchange risk. This risk arises from the company's holdings of US dollar denominated cash, trade and other receivables and payables and accrued liabilities. Changes arising from this risk could impact the company's reported foreign currency exchange gains or losses.

Accounts exposed to foreign currency exchange risk as at December 31 are as follows:

	2013	**2012**
Cash	$ 2,082	$ 17,377
Trade and other receivables	170,227	251,373
Payables and accruals	(314,509)	(339,735)
Total	**$ (142,200)**	**$ (70,985)**

The above US dollar balances are shown in Canadian dollar equivalents.

20. Financial Instruments (continued)

v Foreign currency exchange risk sensitivity analysis

The following table details the company's sensitivity analysis to a 10% strengthening in the US dollar on foreign currency denominated monetary items and adjusts its translation at the consolidated balance sheet dates for a 10% change in foreign currency exchange rates. For a 10% weakening of the US dollar against the Canadian dollar, there would be an equal and opposite impact on loss and comprehensive loss for the year.

		2013		2012
Cash	$	208	$	1,738
Trade and other receivables		17,023		25,137
Payables and accruals		(31,451)		(33,974)
Total	**$**	**(14,220)**	**$**	**(7,099)**

21. Related Party Disclosure

In 2013, the President/CEO and CFO of the Company loaned the Company $28,118 (2012 - $101,832) repayable on demand bearing an annual interest rate of 8%.

Key Management Compensation

The compensation of the directors and other key management of the Company are included in the summary table below. Key management is those persons having authority and responsibility for planning, directing and controlling the activities, directly or indirectly, of the Company.

	2013	2012
Short-term compensation	$265,000	$265,000
Stock-based compensation	84,493	70,021
Total	$349,493	$335,021

Key management personnel were not paid post-employment benefits, termination benefits or other long term benefits during the years ended December 31, 2013 and 2012. Fees paid to directors have been disclosed in note 17.

Stock-based compensation made to directors and officers are the fair value of options that vested to key management personnel during the year.

22. Capital Disclosures

The Company's objective is to maintain a sufficient capital base to support future research, development and strategic business initiatives allowing us to invest in our future and maintain investor, creditor and market confidence. The Company makes every attempt to manage its liquidity to minimize shareholder dilution when possible.

The Company's capital is composed of total shareholders' equity. For the year ended December 31, 2013, the Company reported a loss of $1,152,209 and an accumulated deficit of $13,070,831 as at that date. Sales of the TLC-1000, the company's existing product line, have not been sufficient in and of themselves to enable the company to fund all its continuing development and commercialization efforts and, accordingly, management is pursuing alternate financing sources to fund the company's development and commercialization efforts that are ssimilar to the financing secured through the private placement that took place on November 7, 2013 (note 11). Nevertheless, there is no assurance that these initiatives will be successful.

The Company is not subject to any externally imposed capital requirements and the company does not use financial ratios to manage capital. There were no changes in the Company's approach to capital management during the years presented.

23. Segmented Information

For management purposes, the company is organized into two separate reportable operating divisions; (1) Therapeutic Laser Technology (TLT) division and (2) Photo Dynamic Therapy (PDT) division. The TLT division is responsible for all aspects of the Company's therapeutic laser business, which manufactures products used by healthcare practitioners predominantly for the healing of pain. The PDT division is responsible for the research and development of Photo Dynamic Compounds (PDCs) for the destruction of primarily cancer.

The following table displays revenue and direct expenses from the TLT and PDT division for the years ended December 31:

	2013			2012		
	TLT	PDT	Total	TLT	PDT	Total
Sales	$ 1,203,620	$ -	$ 1,203,620	$ 1,824,313	$ -	$ 1,824,313
Cost of Sales	404,540	-	404,540	575,163	-	$ 575,163
Gross Margin	799,080	-	799,080	1,249,150	-	1,249,150
Operating Expenses						
Selling expenses	433,622	-	433,622	626,380	-	626,380
Administrative expenses	798,710	143,360	942,070	1,080,482	158,418	1,238,900
Research and development expenses	47,196	480,037	527,233	130,902	742,433	873,335
(Gain) loss on foreign exchange	14,081	-	14,081	10,225	-	10,225
Interest expense	21,383	21,382	42,764	11,499	11,499	22,998
Interest income	(8,481)	-	(8,481)	(13,119)	-	(13,119)
	1,306,511	644,779	1,951,289	1,846,369	912,350	2,758,719
Loss and comprehensive loss for the period	$ (507,431)	$ (644,779)	$ (1,152,209)	$ (597,219)	$ (912,350)	$ (1,509,569)
Total Assets	$ 2,601,278	$ 83,599	$ 2,684,877	$ 1,036,264	$ 96,390	$ 1,132,654
Total Liabilities	920,989	-	920,989	1,197,384	-	1,197,384

23. Segmented Information (continued)

The following table displays revenue and direct expenses from TLT division product sales by geographic area for the years ended December 31:

	2013			2012		
	Canada	**USA**	**International**	**Canada**	**USA**	**International**
Sales	805,152	279,608	118,860	1,240,222	434,360	149,731
Cost of Sales	261,447	90,794	52,299	377,182	132,100	65,881
Selling Expenses	268,076	157,161	8,386	358,544	249,634	18,202
	275,628	31,653	58,176	504,496	52,626	65,648

As at December 31, 2013 and 2012, the company's long-lived assets used in operations are all located in Canada.

24. Commitments

The Company's commitments consist of the following:

	Total	2014	2015	2016	2017
Lease obligations (a)	$ 301,883	$ 84,713	$ 84,170	$ 84,000	$ 49,000
Total	$ 301,883	$ 84,713	$ 84,170	$ 84,000	$ 49,000

a) Lease obligations under a lease agreement related to the Company's premises, commenced on August 1, 2012 and expires on July 31, 2017. Under the terms of this lease, the Company is required to pay a proportionate share of operating costs, realty taxes and utilities, in addition to the minimum rental payments. The future minimum lease payments are shown in the table above.

The Company indemnifies its directors and officers against any and all costs, charges and expenses, including settlements of claims in respect of any civil, criminal or administrative action incurred in the performance of their service to the company to the extent permitted by law. The Company maintains liability insurance for its officers and directors.