Theralase Technologies Inc.

Audited Consolidated Financial Statements

As at December 31, 2014 and 2013

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, 2014, 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, 2014 and December 31, 2013, and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2014, December 31, 2013 and December 31, 2012 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 as issued by the International Accounting Standards Board, 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 audit in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). 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, 2014 and December 31, 2013, and its financial performance and its cash flows for the years ended December 31, 2014, December 31, 2013 and December 31, 2012 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Collins Barrow Toronto LLP

Collins Barrow Toronto LLP
Licensed Public Accountants
Chartered Professional Accountants
April 30, 2015

THERALASE® TECHNOLOGIES INC.

Consolidated Balance Sheets
As at December 31, 2014 and December 31, 2013
Stated in Canadian Dollars

	Note		2014		2013
Assets					
Current assets					
Cash		$	1,922,454	$	1,768,329
Trade and other receivables	4		630,106		310,737
Inventories	5		295,620		190,395
Prepaid expenses and other assets			574,861		58,072
Total current assets			3,423,041		2,327,533
Non-Current assets					
Finance receivable			29,020		23,546
Property and equipment	6		270,758		221,495
Intangible assets	7		94,265		112,303
Total non-current assets			394,043		357,344
Total Assets		**$**	**3,817,084**	**$**	**2,684,877**
Liabilities					
Current liabilities					
Payables and accruals	8	$	511,750	$	892,871
Due to officer	20		-		28,118
Total liabilities			511,750		920,989
Equity attributable to shareholders					
Share capital	13		14,436,356		9,492,432
Common share purchase warrants	12		214,624		1,223,149
Contributed surplus			4,312,729		4,119,138
Deficit			(15,658,375)		(13,070,831)
Total Equity			3,305,334		1,763,888
Total Shareholders' Equity and Liabilities		**$**	**3,817,084**	**$**	**2,684,877**

Commitments (Note 23)
Subsequent events (Note 24)

Approved on Behalf of the Board

[Roger Dumoulin-White] Director

[Randy Bruder] Director

THERALASE® TECHNOLOGIES INC.

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

	Note	2014	2013	2012
Sales		$ 1,380,604	$ 1,203,620	1,824,313
Cost of Sales		459,323	404,540	575,163
Gross Margin		921,281	799,080	1,249,150
Operating Expenses				
Selling expenses	15	598,178	433,622	626,380
Administrative expenses	16	1,448,781	942,069	1,238,900
Research and development expenses	17	1,455,301	527,233	873,335
(Gain) Loss on foreign exchange		(4,550)	14,081	10,225
Interest expense		19,538	42,765	22,998
Interest income		$ (8,424)	(8,481)	(13,119)
		$ 3,508,823	1,951,289	2,758,719
Loss and comprehensive loss for the year		$ (2,587,542)	$ (1,152,209)	$ (1,509,569)
Basic and diluted loss and comprehensive loss per common share	14	$ (0.03)	$ (0.02)	$ (0.03)
Weighted average number of common shares outstanding (basic and diluted)	14	74,979,539	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	2014	2013	2012
Cash flows from operating activities				
Net loss for the year		$ (2,587,542)	$ (1,152,209)	$ (1,509,569)
Items not involving cash				
Amortization of property and equipment	6	64,852	59,413	30,347
Amortization of intangibles	7	18,038	18,039	18,450
Stock-based compensation expense	11	206,894	150,972	279,182
Gain (loss) on foreign exchange		4,550	(14,081)	(10,225)
Write-off of property and equipment		-	-	994
Lease inducements		(2,800)	(2,800)	4,167
		(2,296,008)	(940,666)	(1,186,654)
Change in operating assets and liabilities other than cash				
Trade and other receivables		(323,921)	203,180	158,192
Finance receivables		(5,474)	25,684	43,525
Inventories		(105,225)	25,709	133,334
Prepaid expenses and other assets		(516,789)	(31,358)	12,322
Payables and accruals		(372,540)	(183,745)	254,609
Deferred revenue		(5,274)	(15,479)	(22,043)
		(3,625,231)	(916,675)	(606,715)
Cash flows from investing activities				
Purchase of property and equipment	6	(114,115)	(93,290)	(129,808)
Proceeds on disposal of property and equipment	6		836	-
		(114,115)	(92,454)	(129,808)
Cash flows from financing activities				
Repayment of capital lease obligation		(507)	(657)	(4,329)
(Repayment) Proceeds from officer loan	20	(28,118)	(73,714)	9,267
Proceeds from private placement (net of issue costs of $320,145)		-	2,829,855	710,500
Proceeds from the exercising of stock options		15,000	-	-
Proceeds from the exercising of share warrants		3,907,097	-	-
		3,893,472	2,755,484	715,438
Increase in cash during the year		$ 154,125	$ 1,746,354	$ (21,085)
Cash, beginning of year		$ 1,768,329	$ 21,975	$ 43,060
Cash, end of year		$ 1,922,454	$ 1,768,329	$ 21,975
Supplementary Information				
Interest Paid		$ 19,538	$ 42,765	$ 22,998
Interest Received		$ 8,424	$ 8,481	$ 13,119

THERALASE® TECHNOLOGIES INC.

Consolidated Statements 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	11	-	-	279,182	-	-	279,182
Issued pursuant to private placement (net of share issue costs)	10	3,000,000	668,277	-	42,223	-	710,500
Loss for the period		-	-	-	-	(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	11	-	-	150,972	-	-	150,972
Expired share purchase warrants	12	-	-	247,115	(247,115)		-
Issued pursuant to private placement (net of share issue costs)	10	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
Balance, December 31, 2013		65,726,309	9,492,432	4,119,138	1,223,149	(13,070,831)	1,763,888
Stock-based compensation expense	11	-	-	206,894	-	-	206,894
Exercised share purchase warrants	12	19,494,984	4,915,621	-	(1,008,525)		3,907,096
Exercised stock options	11	100,000	28,303	(13,303)		-	15,000
Loss for the period		-	-	-	-	(2,587,542)	(2,587,542)
Balance, December 31, 2014		85,321,293	14,436,356	4,312,729	214,624	(15,658,373)	3,305,334

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

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

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 IFRS Interpretations Committee ("IFRIC").

The consolidated financial statements for the year ended December 31, 2014 (including comparatives) were approved and authorized for issue by the board of directors on April 30, 2015

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:

- <u>Allowance for doubtful accounts</u> - 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.

- <u>Measurement of impairment in assets</u> – 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.

- <u>Valuation of deferred income tax assets</u> – 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.

- <u>Allowance for inventory obsolescence</u> – 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.

- <u>Warrants and share-based payments</u> – 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 the statement of operations.

Revenues and expenses are converted at average rates prevailing during the year, except for amortization, which is converted at historical rates.

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)

Accounting estimates and judgments (continued)

3. 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.

4. 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 and work in process 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.

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 and government assistance

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.

For equity-settled share-based payment transactions with non-employees, 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 and warrants 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 But Not Yet Applied

The IASB has issued the following standards which have not yet been adopted by the Company. The Company has not yet begun the process of assessing the impact that the new 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 final form in July 2014 by the IASB and will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. 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. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 also includes requirements relating to a new hedge accounting model, which represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

IFRS 15, Revenue from contract with customers *("IFRS 15")* was issued in May 2014 and specifies how and when revenue is recognised as well as provides users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

IFRS 15 is effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

Stated in Canadian Dollars

4. Trade and Other Receivables

	2014	2013
Trade Accounts Receivable (net amount)	$ 393,823	$ 237,318
Government Tax Credits Receivable	234,475	73,419
Interest Receivable	1,808	-
Total	**$ 630,106**	**$ 310,737**

Write offs of trade receivables for the year ending December 31, 2014 amounted to $14,678 which was previously provided for (2013 - $8,031, 2012 - $22,883). In addition a direct write-off of $18,486 was made during the year (2013 - $6,926, 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

	2014	2013
Raw materials	$ 164,074	$ 101,424
Work-in-process	31,254	5,338
Finished goods	100,292	83,633
Total	**$ 295,620**	**$ 190,395**

During the year, inventories amounting to $147,594 (2013: $131,828, 2012 - $260,809) were incurred as expense in cost of sales in the Statement of Operations and Comprehensive Loss. In 2014, there were inventories written-off amounting to $17,736 (2013 – 21,526, 2012 – $11,084).

Stated in Canadian Dollars

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
Balance at January 1, 2014	$ 39,653	$ 2,595	$ 91,741	$ 95,735	$ 25,248	$ 62,717	$ 212,335	$ 530,023
Additions	-	-	27,004	1,372	-	80,306	5,432	114,115
Disposals	-	-	-	-	-	-	-	-
Balance at December 31, 2014	$ 39,653	$ 2,595	$ 118,745	$ 97,107	$ 25,248	$ 143,023	$ 217,767	$ 644,138

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 period	158	4,376	7,037	5,919	6,414	3,852	2,591	30,347
Disposals			(530)				(23,082)	(23,612)
Disposals	$ 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 period	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
Balance at January 1, 2014	$ 39,297	$ 1,872	$ 78,243	$ 76,087	$ 17,932	$ 52,920	$ 42,176	$ 308,528
Depreciation for the period	88	532	5,678	4,002	3,089	4,943	46,523	64,852
Disposals	-	-	-	-	-	-	-	-
Balance at December 31, 2014	$ 39,385	$ 2,404	$ 83,921	$ 80,089	$ 21,022	$ 57,862	$ 88,699	$ 373,382

Carrying Amounts

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	13,498	19,648	7,315	9,797	170,159	221,495
At December 31, 2014	268	191	34,825	17,019	4,226	85,161	129,068	270,758

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

In 2014, there was amortization included in cost of sales amounting to $980 (2013 - $1,307, 2012 - $724).

Stated in Canadian Dollars

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
Balance at December 31, 2012	$ 199,622	$ 58,346	$ 344,093	$ 509,649	$ 1,111,710
Balance at December 31, 2013	$ 199,622	$ 58,346	$ 344,093	$ 509,649	$ 1,111,710
Balance at December 31, 2014	$ 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 period	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 period	14,606	3,433	-	-	18,039
Balance at December 31, 2013	$ 104,721	$ 40,944	$ 344,093	$ 509,649	$ 999,407
Balance at January 1, 2014	$ 104,721	$ 40,944	$ 344,093	$ 509,649	$ 999,407
Amortization for the period	14,606	3,432	-	-	18,038
Balance at December 31, 2014	$ 119,327	$ 44,376	$ 344,093	$ 509,649	$ 1,017,445

Carrying Amounts

At December 31, 2012	109,507	20,835	-	-	130,342
At December 31, 2013	94,901	17,402	-	-	112,303
At December 31, 2014	80,295	13,970	-	-	94,265

(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

	2014	2013
Trade payables	$ 289,312	$ 572,408
Salaries, employment taxes, and benefits	27,218	23,553
Current portion of warranty liability	1,100	1,100
Audit fees, salaries and reimbursements	194,120	295,810
Total	**$ 511,750**	**$ 892,871**

Stated in Canadian Dollars

9. Income Taxes

Provision for income taxes

Current income tax	**2014**	**2013**	**2012**
Loss before income taxes	$ (2,587,542)	$ (1,152,209)	$ (1,509,569)
Combined Federal and Provincial tax rate	26.50%	26.50%	26.50%
Provision for tax at statutory tax rate	$ (685,699)	$ (305,335)	$ (400,036)
Permanent differences	62,132	44,067	76,931
Share issue costs	-	(5,425)	(9,275)
Federal and provincial investment tax credits	(223,090)	(106,642)	(215,225)
Effect of higher tax rates in foreign jurisdiction	(564)	(348)	(760)
Expiry of non-capital losses	38,935		
Change in tax rate and other	1,640	2,451	(92,011)
Change in deferred income taxes not recognized	806,646	371,232	640,376
Deferred income tax recovery	$ -	$ -	$ -

	2013	**2013**	**2012**
Deferred income tax assets:			
Non-capital loss carry forwards	$ 1,036,774	$ 845,389	$ 729,618
Property and equipment	102,125	84,940	73,920
Share issue costs and others	9,216	14,407	15,488
Patents and trademarks	38,699	33,535	25,468
Development costs	1,264,967	894,969	771,401
Federal and provincial investment tax credits	999,032	769,136	650,973
Reserves	3,964	5,484	9,463
Cumulative eligible capital	3,667	3,943	4,240
Deferred income tax assets	$ 3,458,444	$ 2,651,803	$ 2,280,571
Net deferred income tax asset	3,458,444	2,651,803	2,280,571
Less: temporary differences not recognized	(3,458,444)	(2,651,803)	(2,280,571)
Deferred income tax assets	$ -	$ -	$ -

Stated in Canadian Dollars

9. Income Taxes (continued)

Non-capital loss carry-forwards

The company has non-capital losses available for carry forward of approximately $3,870,077 (2013 - $3,161,043). The income tax benefit of this income tax recovery has not been recorded. These non-capital losses will expire as follows:

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
2044	867,021
	$ 3,870,077

Stated in Canadian Dollars

10. Private Placement

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) and issued an aggregate of 43,334 (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:

	November 7, 2013
Expected volatility (based on historical share prices)	90.10%
Risk-free interest rate	1.10%
Expected life	2 Years
Expected dividends	$nil
Strike price	$0.20
Share price	$0.345

Stated in Canadian Dollars

11. Stock Options

The Company has a rolling stock option plan reserving for issue under this plan 10% (8,532,129 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, 2014 and 2013 is provided below.

	Common shares under option	Weighted average exercised price $
Outstanding, January 1, 2013	2,556,666	0.44
Forfeited (1)	(170,000)	0.50
Expired (2)	(166,666)	0.45
Outstanding, December 31, 2013	2,220,000	0.46
Granted (3)	3,320,000	0.50
Forfeited (4)	(45,000)	0.50
Exercised (5)	(100,000)	0.15
Expired (6)	(300,000)	0.35
Outstanding, December 31, 2014	5,095,000	0.50

1) 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.

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

3) On July 1, 2014 and November 11, 2014 options were granted to certain employees, board members, medical scientific and advisory board members and consultants of the Company totaling 2,650,000 and 670,000 for $0.50 vesting in three tranches with tranches vesting in one year, two years and three years respectively and expiring five years from date of issue.

4) During 2014 certain employees were terminated and/or resigned from the employment of the Company and forfeited all non-vested options totaling 45,000 in which $1,982 of stock based compensation recognized in prior years was reversed.

5) On January 5, 2014 a board member exercised their options. The share price at exercise date was $0.45

6) On August 11, 2014 certain stock options expired.

Stated in Canadian Dollars

11. Stock Options (continued)

The following table summarizes information on the stock options outstanding as at December 31, 2014:

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 $
1,775,000	2.0	$ 0.50	1,775,000	$ 0.50
2,650,000	4.5	$ 0.50	-	-
670,000	4.8	$ 0.50	-	-
5,095,000		$ 0.50	1,775,000	$ 0.50

Under the stock option plan, the stock options vest over a three year period, commencing one year after the grant. As at December 31, 2014, 1,775,000 of the stock options were vested. All outstanding stock options as at December 31, 2014 will be fully vested by November 11, 2017.

Options to employees and non-employees are measured at the fair value of the equity instruments granted on the grant date, using the following weighted average assumptions:

	2014
Risk-free interest rate	1.16%
Expected volatility*	81.79%
Expected life	5 Years
Expected dividends	Nil
Weighted average grant date fair value	$0.19
Weighted average exercise price	$0.50
Forfeiture rate	28%

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 non-employee stock options was recalculated on December 31, 2014 using the following assumptions:

	2014	2013
Risk-free interest rate	1.06%	1.21%
Expected volatility*	83.70%	75.14%
Expected life	5 Years	3 years
Expected dividends	Nil	Nil
Weighted average grant date fair value	$0.38	$0.35
Weighted average exercise price	$0.50	$0.45
Forfeiture rate	18%	18%

For the year ended December 31, 2014, the Company recognized stock-based compensation expense of $206,894 (2013 - $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, of which $129,645 is included in administrative expenses, $1,938 in selling expenses and $75,311 is included in research and development expenses.

*Based on historical volatility

Stated in Canadian Dollars

12. 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, 2013	2,615,000	0.68	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
Exercised	(19,494,984)	0.20	(1,008,525)
Outstanding, December 31, 2014	4,990,916	0.25	214,624

The following table summarizes information on the common share purchase warrants outstanding as of December 31, 2014

Exercise Price	Outstanding Beginning of the year	Expired During the year	Exercised During the year	Granted During the year	Outstanding End of Year	Weighted Average Remaining Contractual Life (years)
$0.38	1,500,000	-	45,000	-	1,455,000	2.29
$0.20	22,985,900	-	19,449,984	-	3,535,916	0.85
	24,485,900	-	19,494,984	-	4,990,916	0.94

13. Share Capital

Authorized

Unlimited number of common shares

Issued

	2014		2013	
	Number	Amount	Number	Amount
Balance, beginning of year	65,726,309	$ 9,492,432	44,682,975	$ 7,843,502
Issued during year	19,594,984	4,943,924	21,043,334	1,648,930
Balance, ending of year	**85,321,293**	**$ 14,436,356**	**65,726,309**	**$ 9,492,432**

1) The common shares issued during 2014 upon conversion of warrants were issued for gross proceeds of $0.20 and $0.38 (2013 - $0.15) per common share for cash (see note 12).
2) The common shares issued during 2014 upon conversion of options were issued for gross proceeds of $0.15 (2013 – Nil) per common share for cash (see note 11).

Stated in Canadian Dollars

14. 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:

	2014	2013	2012
Loss for the year	$ (2,587,542)	$ (1,152,209)	$ (1,509,569)
Weighted average number of common shares	74,979,539	47,853,882	43,819,961
Basic and diluted loss and comprehensive loss per share	**$ (0.03)**	**$ (0.02)**	**$ (0.03)**

Stock options to purchase 5,095,000 (2013 – 2,220,000) common shares and common share purchase warrants totaling 4,990,916 (2013 – 24,485,900) were not included in the computation of diluted loss and comprehensive loss per common share due to their anti-dilutive nature.

15. Selling Expenses

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

	2014	2013	2012
Sales salaries	$ 298,252	$ 291,734	$ 382,279
Advertising	99,532	15,775	58,556
Commission	51,325	55,459	75,445
Travel	120,993	45,072	93,421
Amortization and depreciation allocation	28,076	25,582	16,679
Total selling expenses	**$598,178**	**$433,622**	**$626,380**

Stated in Canadian Dollars

16. Administrative Expenses

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

	2014	2013	2012
Insurance	53,461	51,519	52,091
Professional fees	137,109	90,866	68,275
Rent	87,541	85,601	136,336
General and administrative expenses	491,950	105,767	122,460
Administrative salaries	478,570	486,024	540,876
Director and advisory fees	50,401	(46,400)	30,212
Stock based compensation	129,645	150,972	279,183
Amortization and depreciation allocation	20,104	17,720	9,467
Total administrative expenses	**1,448,781**	**942,069**	**1,238,900**

17. Research and Development Expenses

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

	2014	2013	2012
Research and development (net of investment tax credit)	1,420,592	493,084	852,132
Amortization and depreciation allocation	34,709	34,149	21,203
Total research and development expenses	**$1,455,301**	**$527,233**	**$873,335**

18. 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 2014, an amount of $173,041 (2013 - $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.

19. 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

Stated in Canadian Dollars

19. Financial Instruments (continued)

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, 2014 and 2013, the Company's cash is categorized as Level 1. There were no financial instruments categorised as Level 2 or 3.

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:

	2014	2013
Trade and other receivables and finance receivables	$ 395,542	$ 334,283
Percentage outstanding more than 30 days	57%	33%
Percentage outstanding more than 120 days	26%	12%

The remaining balance of $234,564 pertains to government receivables and does not present a significant credit risk.

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

	2014	2013
Allowance for trade receivables - beginning of year	$ 25,001	$ 11,558
Allowance recorded against current year's sales		150
Adjustment based on collection experience	6,093	21,324
Amounts written off	(14,678)	(8,031)
Allowance for trade receivables - end of year	**$ 16,416**	**$ 25,001**

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.

19. 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**	**2015**	**2016**
Payables and accruals	$ 511,750	$ 511,750	$ -
Total contractual obligations	**$ 511,750**	**$ 511,750**	**$ -**

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:

	2014	**2013**
Cash	$ (3,966)	$ 2,082
Trade and other receivables	288,489	170,227
Payables and accruals	(77,452)	(314,509)
Total	**$ 207,071**	**$ (142,200)**

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

Stated in Canadian Dollars

19. 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.

		2014		2013
Cash	$	(397)	$	208
Trade and other receivables		28,849		17,023
Payables and accruals		(7,745)		(31,451)
Total	**$**	**20,707**	**$**	**(14,220)**

20. Related Party Disclosure

In 2014, the Company owed $nil to the President/CEO and CFO of the Company (2013 - $28,118 at an interest rate of 8%).

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

	2014	2013	2012
Short-term compensation	$300,417	$265,000	$ 265,000
Stock-based compensation	125,284	84,493	70,021
Total	$425,701	$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, 2014, 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.

Stated in Canadian Dollars

21. 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, 2014, the Company reported a loss of $2,587,542, and an accumulated deficit of $15,658,375 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 similar 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.

22. 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:

	2014			2013			2012		
	TLT	**PDT**	**Total**	**TLT**	**PDT**	**Total**	**TLT**	**PDT**	**Total**
Sales	$ 1,380,604	$ -	$ 1,380,604	$ 1,203,620	$ -	$ 1,203,620	$ 1,824,313	$ -	$ 1,824,313
Cost of Sales	459,323	-	459,323	404,540	-	404,540	575,163	-	575,163
Gross Margin	921,281	-	921,281	799,080	-	799,080	1,249,150	-	1,249,150
Operating Expenses									
Selling expenses	598,178	-	598,178	433,622	-	433,622	626,380	-	626,380
Administrative expenses	908,597	540,184	1,448,781	798,710	143,360	942,070	1,080,482	158,418	1,238,900
Research and development expenses	472,451	982,850	1,455,301	47,196	480,037	527,233	130,902	742,433	873,335
(Gain) loss on foreign exchange	(4,550)	-	(4,550)	14,081	-	14,081	10,225	-	10,225
Interest expense	9,769	9,769	19,538	21,383	21,382	42,765	11,499	11,499	22,998
Interest income	(8,424)	-	(8,424)	(8,481)	-	(8,481)	(13,119)	-	(13,119)
	1,976,020	1,532,804	3,508,824	1,306,511	644,779	1,951,290	1,846,369	912,350	2,758,719
Loss and comprehensive loss for the year	$ (1,054,739)	$ (1,532,804)	$ (2,587,542)	$ (507,431)	$ (644,779)	$ (1,152,210)	$ (597,219)	$ (912,350)	$ (1,509,569)
Total Assets	$ 3,208,401	$ 608,683	$ 3,817,084	$ 2,601,278	$ 83,599	$ 2,684,877	$ 1,036,264	$ 96,390	$ 1,132,654
Total Liabilities	341,225	170,525	511,750	920,989	-	920,989	1,197,384	-	1,197,384

Stated in Canadian Dollars

22. 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:

	2014			**2013**			**2012**		
	Canada	**USA**	**International**	**Canada**	**USA**	**International**	**Canada**	**USA**	**International**
Sales	857,723	283,784	239,097	805,152	279,608	118,860	1,240,222	434,360	149,731
Cost of Sales	266,148	87,973	105,203	261,447	90,794	52,299	377,182	132,100	65,881
Selling Expenses	466,236	127,771	4,171	268,076	157,161	8,386	358,544	249,634	18,202
	125,338	68,040	129,723	275,628	31,653	58,176	504,496	52,626	65,647

As at December 31, 2014 2013 and 2012, the company's long-lived assets used in operations are all located in Canada.

23. Commitments

The Company's commitments consist of the following:

	Total	**2015**	**2016**	**2017**	**2018**
Lease obligations (a)	$ 217,000	$ 84,000	$ 84,000	$ 49,000	
Lease obligations (b)	6,513	2,004	2,004	2,004	501
Research Agreement (c)	105,000	105,000	-	-	-
Research Agreement (d)	373,116	298,493	74,623	-	-
Research Agreement (e)	608,472	608,472	-	-	-
Total	$ 1,310,101	$ 1,097,969	$ 160,627	$ 51,004	$ -

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.

b) Lease obligations under a lease agreement related to the Company's office equipment, commenced on April 1, 2014 and expires on May 1, 2018. Under the terms of this lease, the Company is required to minimum rental payments of $167 per month. The future minimum lease payments are shown in the table above.

c) Research commitments under a research collaboration agreement with University Health Network for the TLC-3000 cancer therapy project. Under the terms of this agreement, the Company is required to pay $168,000 for the period from May 1, 2014 through May 1, 2015. The Company has paid $63,000 relating to this commitment, in which $105,000 is the remaining commitment for 2015.

d) Research Commitments under a research collaboration agreement with JSS Medical Research Inc. for the TLC-3000 cancer therapy project. Under the terms of this agreement, the Company is required to pay $497,488 for the period from September 9, 2014 through to April 9, 2016. The Company has paid $124,372 relating to this commitment, in which $373,116 is the remaining commitment.

e) Research Commitments under a research collaboration agreement with SAFC for the TLC-3000 cancer therapy project. Under the terms of this agreement, the Company is required to pay USD$895,000 for the period from September 9, 2014 through to May 9, 2015. The Company has paid USD$370,500 relating to this commitment, in which USD$524,500 is the remaining commitment.

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.

24. Subsequent Events

On March 3, 2015, the Company closed a public offering of units. On closing, the Company issued an aggregate of 18,181,817 Units at a price of $0.44 per Unit for aggregate gross proceeds of approximately $8,000,000. Each Unit consists of one common share of the Company and one common share purchase warrant. Each Warrant entitles the holder to acquire an additional Common Share at a price of $0.54 for a period of 60 months following the date of issuance. In connection with the offering, the Company paid agent's fees totaling $626,646 and issued an aggregate of 890,123 finder warrants, each finder warrant is exercisable into one common share at an exercise price of $0.54 per share for a period of 60 months after the closing of the offering.