

Theralase Technologies Inc.

Interim Consolidated Financial Statements - Unaudited

As at March 31, 2016 and for the three-month period ended March 31, 2016, 2015 and 2014

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

THERALASE® TECHNOLOGIES INC.

Consolidated Balance Sheets

As at March 31, 2016 and December 31, 2015

Stated in Canadian Dollars

	Note	2016	2015
Assets			
Current assets			
Cash and cash equivalents		\$ 3,609,076	\$ 4,340,856
Trade and other receivables	4	652,080	1,179,844
Inventories	5	1,073,621	913,516
Prepaid expenses and other assets		208,550	159,064
Total current assets		5,543,327	6,593,280
Non-Current assets			
Finance receivable		10,954	30,321
Property and equipment	6	403,528	405,223
Intangible assets	7	68,790	73,299
Total non-current assets		483,272	508,843
Total Assets		\$ 6,026,599	\$ 7,102,123
Liabilities			
Current liabilities			
Payables and accruals	8	\$ 704,445	\$ 785,664
Total liabilities		704,445	785,664
Equity attributable to shareholders			
Share capital	9.10,12	19,967,937	19,967,937
Common share purchase warrants	9.10,12	2,392,342	2,392,342
Contributed surplus	11	4,974,133	4,822,699
Deficit		(22,012,258)	(20,866,519)
Total Equity		5,322,154	6,316,459
Total Shareholders' Equity and Liabilities		\$ 6,026,599	\$ 7,102,123

Commitments (Note 23)

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 three-month period ended March 31

Stated in Canadian Dollars

	Note	2016	2015	2014
Sales	\$	411,448	\$ 368,304	\$ 361,179
Cost of Sales		131,764	135,156	121,546
Gross Margin		279,684	233,148	239,633
Operating Expenses				
Selling expenses	14 \$	316,254	\$ 184,488	\$ 122,278
Administrative expenses	15	623,314	456,123	240,373
Research and development expenses	16	477,588	545,645	197,792
(Gain) Loss on foreign exchange		16,879	(15,228)	14,271
Interest expense		127	67	10,847
Interest income		(8,740)	(4,303)	(1,853)
	\$	1,425,423	\$ 1,166,791	\$ 583,707
Loss and comprehensive loss for the year	\$	(1,145,739)	\$ (933,643)	\$ (344,074)
Basic and diluted loss and comprehensive loss per common share	13 \$	(0.01)	\$ (0.03)	\$ (0.02)
Weighted average number of common shares outstanding (basic and diluted)	13	105,411,280	81,392,501	47,853,882

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Cash Flows

For the three-month period ended March 31

Stated in Canadian Dollars

	Note	2016	2015	2014
Cash flows from operating activities				
Net loss for the period		\$ (1,145,739)	\$ (933,643)	\$ (344,074)
Items not involving cash				
Amortization of property and equipment	6	33,512	25,940	17,172
Amortization of intangibles	7	4,510	4,510	3,228
Stock-based compensation expense	10	151,435	120,553	10,468
Gain(loss) on foreign exchange		(16,879)	15,228	(14,271)
Lease inducements		(700)	(700)	(700)
		(973,860)	(768,112)	(328,177)
Change in operating assets and liabilities other than cash				
Trade and other receivables		544,644	72,193	(134,084)
Finance receivables		19,367	2,906	4,878
Inventories		(160,105)	(61,785)	(2,483)
Prepaid expenses and other assets		(48,786)	295,920	(191,311)
Payables and accruals		(81,219)	(52,113)	(287,840)
		(699,959)	(510,991)	(939,017)
Cash flows from investing activities				
Purchase of property and equipment	6	(31,820)	(76,351)	(9,621)
Proceeds on disposal of property and equipment	6	-	-	-
		(31,820)	(76,351)	(9,621)
Cash flows from financing activities				
Repayment of capital lease obligation		-	-	(189)
(Repayment) Proceeds from officer loan		-	-	(20,924)
Proceeds from public offering (net of issue costs)	9	-	6,990,896	-
Proceeds from the exercising of stock options	10	-	-	15,000
Proceeds from the exercising of share warrants	11	-	210,000	144,467
		-	7,200,896	138,354
Increase in cash during the year		\$ (731,779)	\$ 6,613,553	\$ (810,286)
Cash, beginning of period		\$ 4,340,856	\$ 1,922,454	\$ 1,768,329
Cash, end of period		\$ 3,609,076	\$ 8,536,007	\$ 958,043
Supplementary Information				
Interest Paid		\$ 127	\$ 67	\$ 10,847
Interest Received		\$ 8,740	\$ 4,303	\$ 1,853

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Changes in Equity

As at March 31, 2016 and December 31, 2015 and December 31, 2014

Stated in Canadian Dollars

		Number of Shares	Share Capital	Contributed Surplus	Common Share Purchase Warrants	Deficit	Total Shareholders' Equity
	Note	#	\$	\$	\$	\$	\$
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	10	-	-	10,468	-	-	10,468
Exercised share purchase warrants	11	754,333	180,639	-	(36,173)	-	144,467
Exercised stock options	10	100,000	28,303	(13,303)	-	-	15,000
Loss for the year		-	-	-	-	(344,074)	(344,074)
Balance, March 31, 2014		66,580,642	9,701,374	4,116,303	1,186,976	(13,414,905)	1,589,749
Balance, December 31, 2014		85,321,293	14,436,356	4,312,729	214,624	(15,658,375)	3,305,334
Stock-based compensation expense	10	-	-	120,553	-	-	120,553
Exercised share purchase warrants	11	1,050,000	260,109	-	(50,109)	-	210,000
Issued pursuant to public offering (net of share issue costs)	9	18,181,817	4,639,578	-	2,351,318	-	6,990,896
Loss for the year		-	-	-	-	(933,643)	(933,643)
Balance, March 31, 2015		104,553,110	19,336,043	4,433,282	2,515,833	(16,592,018)	9,693,140
Balance, December 31, 2015		107,047,360	19,967,937	4,822,699	2,392,342	(20,866,519)	6,316,459
Stock-based compensation expense	10	-	-	151,435	-	-	151,435
Loss for the year		-	-	-	-	(1,145,739)	(1,145,739)
Balance, March 31, 2016		107,047,360	19,967,937	4,974,133	2,392,342	(22,012,258)	5,322,154

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

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month Period Ended March 31, 2016, 2015 & 2014

Stated in Canadian Dollars

1. Nature of Operations

Theralase Technologies Inc. (the “**Company**” or “**Theralase**”) has two main divisions.

The Therapeutic Laser Technology (“**TLT**”) division designs, develops, manufactures and markets patented and proprietary super-pulsed laser technology indicated and cleared by Health Canada and the Food and Drug Administration (“**FDA**”) for the healing of chronic knee pain. The technology has been used off-label for healing numerous nerve, muscle and joint conditions, including arthritis, osteoarthritis and wounds. The Photo Dynamic Therapy (“**PDT**”) division develops patented and patent pending drugs, called Photo Dynamic Compounds (“**PDCs**”) and activates them with proprietary and patent pending laser technology to destroy specifically targeted cancers and bacteria.

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 sales and indirect distribution networks.

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.

The consolidated financial statements for the three-month period ended March 31, 2016 (including comparatives) were approved and authorized for issue by the board of directors on March 27, 2016.

2. Summary of Significant Accounting Policies

Basis of presentation

These interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“**IAS**”) 34 “Interim Financial Reporting”. The interim consolidated financial statements do not include all the information and disclosures required in the Company’s annual financial statements and should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2015.

These financial statements have been prepared on a historical basis. In addition, these financial statements have been prepared using the accrual basis of accounting.

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

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month Period Ended March 31, 2016, 2015 & 2014

Stated in Canadian Dollars

judgment and estimates 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 11).
- Research and Development – The Company monitors the progress of internal research and development projects. Research costs are expensed as incurred.

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

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

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month Period Ended March 31, 2016, 2015 & 2014

Stated in Canadian Dollars

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.

The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods and services. IFRS 15 will require enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (particularly, service revenue and contract modifications) and improve guidance for multiple –element arrangements.

IFRS 15 is effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The company has not yet assessed the impacts of adopting this standard on its consolidated financial statements.

IFRS 16, Leases ("IFRS 16") was issued in January 2016 and specifies how to recognize, measure, present and disclose leases. The standard provides a single lease accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting however remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained

IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

IAS 1, Presentation of Financial Statements ("IAS 1") was amended by the IASB in December 2014. The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in the financial statements.

The amendment is effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

4. Trade and Other Receivables

	As at March 31, 2016	As at December 31, 2015
Trade Accounts Receivable (net amount)	\$ 255,272	\$ 493,003
Government Tax Credits Receivable	396,808	686,841
Total	\$ 652,080	\$ 1,179,844

Write offs of trade receivables for the three-month period ending March 31, 2016 amounted to \$nil (2015 - \$nil). Refer to note 18 (i) for the continuity schedule of allowance for trade receivables.

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month Period Ended March 31, 2016, 2015 & 2014

Stated in Canadian Dollars

Government tax credits receivable comprise research and development investment tax credits receivable from the federal government which relate to qualifying 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 18.

5. Inventories

	As at March 31, 2016	As at December 31, 2015
Raw materials	\$ 768,828	\$ 656,892
Work-in-process	40,465	52,427
Finished goods	264,328	204,197
Total	\$ 1,073,621	\$ 913,516

6. Property and Equipment

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month Period Ended March 31, 2016, 2015 & 2014

Stated in Canadian Dollars

Cost

	Tools and Dies	Finance Lease Equipment	Computer Equipment	Furniture and Fixtures	Rental units ⁽¹⁾	Equipment	Leasehold Improvements	Total
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
Balance at December 31, 2014	\$ 39,653	2,595	\$ 118,745	\$ 97,107	\$ 25,248	\$ 143,023	\$ 217,767	\$ 644,138
Balance at January 1, 2015	\$ 39,653	2,595	\$ 118,745	\$ 97,107	\$ 25,248	\$ 143,023	\$ 217,767	\$ 644,138
Additions	148,168	-	32,629	15,959	2,900	48,840	-	248,496
Balance at December 31, 2015	\$ 187,821	2,595	\$ 151,374	\$ 113,066	\$ 28,148	\$ 191,863	\$ 217,767	\$ 892,634
Balance at January 1, 2016	\$ 187,821	2,595	\$ 151,374	\$ 113,066	\$ 28,148	\$ 191,863	\$ 217,767	\$ 892,634
Additions	127	-	8,115	5,936	7,100	1,452	9,090	31,820
Balance at March 31, 2016	\$ 187,948	2,595	\$ 159,489	\$ 119,002	\$ 35,248	\$ 193,315	\$ 226,857	\$ 924,454

Depreciation

	Tools and Dies	Finance Lease Equipment	Computer Equipment	Furniture and Fixtures	Rental units ⁽¹⁾	Equipment	Leasehold Improvements	Total
Balance at January 1, 2014	\$ 39,297	1,872	\$ 78,243	\$ 76,087	\$ 17,932	\$ 52,920	\$ 42,176	\$ 308,528
Depreciation for the year	88	532	5,678	4,002	3,089	4,943	46,523	64,852
Balance at December 31, 2014	\$ 39,385	2,404	\$ 83,921	\$ 80,089	\$ 21,022	\$ 57,862	\$ 88,699	\$ 373,382
Balance at January 1, 2015	\$ 39,385	2,404	\$ 83,921	\$ 80,089	\$ 21,022	\$ 57,862	\$ 88,699	\$ 373,382
Depreciation for the year	18,905	125	13,898	3,979	1,282	28,264	47,576	114,026
Balance at December 31, 2015	\$ 58,290	2,529	\$ 97,819	\$ 84,068	\$ 22,304	\$ 86,126	\$ 136,275	\$ 487,411
Balance at January 1, 2016	\$ 58,290	2,529	\$ 97,819	\$ 84,068	\$ 22,304	\$ 86,126	\$ 136,275	\$ 487,411
Depreciation for the period	8,101	-	4,169	1,579	503	6,621	12,542	33,512
Balance at March 31, 2016	\$ 66,391	2,529	\$ 101,988	\$ 85,647	\$ 22,807	\$ 92,747	\$ 148,817	\$ 520,926

Carrying Amounts

At December 31, 2014	\$268	191	\$34,825	\$17,019	\$4,226	\$ 85,161	\$ 129,068	\$ 270,758
At December 31, 2015	\$ 129,531	66	\$ 53,555	\$ 28,998	\$ 5,844	\$ 105,736	\$ 81,492	\$ 405,223
At March 31, 2016	\$ 121,557	66	\$ 57,501	\$ 33,355	\$ 12,441	\$ 100,567	\$ 78,040	\$ 403,528

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

7. Intangible Assets

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month Period Ended March 31, 2016, 2015 & 2014

Stated in Canadian Dollars

Cost

	Patents	Trademarks	Development Costs	FDA Clinical Study Costs ⁽¹⁾	Total
Balance at January 1, 2014	\$ 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
Balance at December 31, 2015	\$ 199,622	58,346	\$ 344,093	\$ 509,649	\$ 1,111,710
Balance at March 31, 2016	\$ 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, 2014	\$ 104,721	40,944	\$ 344,093	\$ 509,649	\$ 999,407
Amortization for the year	14,606	3,432	-	-	18,038
Balance at December 31, 2014	\$ 119,327	44,376	\$ 344,093	\$ 509,649	\$ 1,017,445
Balance at January 1, 2015	\$ 119,327	44,376	\$ 344,093	\$ 509,649	\$ 1,017,445
Amortization for the year	17,533	3,432	-	-	20,965
Balance at December 31, 2015	\$ 136,860	47,808	\$ 344,093	\$ 509,649	\$ 1,038,410
Balance at January 1, 2016	\$ 136,860	47,808	\$ 344,093	\$ 509,649	\$ 1,038,410
Amortization for the period	3,652	858	-	-	4,510
Balance at March 31, 2016	\$ 140,512	48,666	\$ 344,093	\$ 509,649	\$ 1,042,920

Carrying Amounts

At January 1, 2014	\$ 94,901	17,402	\$ -	\$ -	\$ 112,303
At December 31, 2014	\$ 80,295	13,970	\$ -	\$ -	\$ 94,265
At December 31, 2015	\$ 62,762	10,537	\$ -	\$ -	\$ 73,299
At March 31, 2016	\$ 59,110	9,680	\$ -	\$ -	\$ 68,790

(1) FDA clinical study costs 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

	As at March 31, 2016	As at December 31, 2015
Trade payables	\$ 334,918	\$ 390,407
Salaries, employment taxes, and benefits	45,929	43,776
Current portion of warranty liability	1,100	1,100
Audit fees, contract payments and other	322,498	350,380
Total	\$ 704,445	\$ 785,664

9. Public Offering

On March 3, 2015, the Company completed a financing by way of a public offering, where 18,181,817 units were issued at a price of \$0.44 per unit for gross proceeds of approximately \$8,000,000. Each unit consisted of 1 common share and 1 non-transferable common share purchase warrant. Each whole warrant entitles the

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month Period Ended March 31, 2016, 2015 & 2014

Stated in Canadian Dollars

holder thereof to acquire 1 common share at a price of \$0.54, expiring on March 3, 2020. In connection with the offering, the Company incurred financing costs of \$1,053,871, of which \$997,851 was paid in cash and \$56,019 was paid through issuance 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.

The purchase price of \$0.44 per unit was allocated between the common shares (\$0.30 per share) and common share purchase warrants (\$0.14 per warrant), based on their relative fair values. Management determined that the allocation of the net proceeds of \$6,946,129 was \$4,650,562 for the common shares issued and \$2,295,567 for the common share purchase warrants issued.

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

	March 3, 2015
Expected volatility (based on historical share prices)	68.27%
Risk-free interest rate	0.81%
Expected life	5 Years
Expected dividends	\$nil
Strike price	\$0.54
Share price	\$0.395

10. Stock Options

The Company has a rolling stock option plan reserving for issue under this plan 10% (10,704,736 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, 2015 and 2014 is provided below.

	Common shares under	Weighted average exercised
Outstanding, January 1, 2014	2,220,000	0.46
Granted (1)	3,320,000	0.50
Forfeited (2)	(45,000)	0.50
Exercised (3)	(100,000)	0.15
Expired (4)	(300,000)	0.35
Outstanding, December 31, 2014	5,095,000	0.50
Granted (5)	5,340,000	0.50
Forfeited (6)	(330,000)	0.50
Outstanding, December 31, 2015	10,105,000	0.50
Granted (7)	100,000	0.50
Forfeited (8)	(170,000)	0.50
Outstanding, March 31, 2016	10,035,000	0.50

1) On July 1, 2014 and November 11, 2014 options were granted to certain employees, board members, medical scientific and

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month Period Ended March 31, 2016, 2015 & 2014

Stated in Canadian Dollars

advisory board members and consultants of the Company totaling 2,650,000 and 670,000, respectively, for \$0.50 vesting in three tranches with tranches vesting in one year, two years and three years and expiring five years from date of issue.

- 2) During 2014 certain employees were terminated 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.
- 3) On January 5, 2014 a board member exercised their options. The share price at exercise date was \$0.45
- 4) On May 28, July 27, October 13 and November 2, 2015 options were granted to certain employees, board members, medical scientific and advisory board members and consultants of the Company totaling 5,340,000 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.
- 5) During 2015 a board member resigned from the employment of the Company and forfeited all non-vested options totaling 330,000.
- 6) On January 1, 2016 options were granted to certain employees, board members, medical scientific and advisory board members and consultants of the Company totaling 100,000 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.
- 7) During 2016 certain employees were terminated and/or resigned from the employment of the Company and forfeited all non-vested options totaling 170,000.

The following table summarizes information on the stock options outstanding as at March 31, 2016:

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 \$
1,765,000	0.6	\$ 0.50	1,765,000	\$ 0.50
2,430,000	3.3	\$ 0.50	810,000	0.50
580,000	3.6	\$ 0.50	193,333	0.50
4,970,000	4.2	\$ 0.50	-	-
110,000.00	4.3	\$ 0.50	-	-
60,000.00	4.5	\$ 0.50	-	-
10,000.00	4.6	\$ 0.50	-	-
10,000.00	4.7	\$ 0.50	-	-
100,000.00	4.8	\$ 0.50	-	-
<u>10,035,000</u>		<u>\$ 0.50</u>	<u>2,768,333</u>	<u>\$ 0.50</u>

Under the stock option plan, the stock options vest over a three year period, commencing one year after the grant. As at March 31, 2015, 2,771,666 of the stock options were vested. All outstanding stock options as at March 31, 2016 will be fully vested by January 1, 2019.

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

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month Period Ended March 31, 2016, 2015 & 2014

Stated in Canadian Dollars

	2015
Risk-free interest rate	0.94%
Expected volatility*	78.88%
Expected life	5 years
Expected dividends	Nil
Weighted average grant date fair value	0.19
Weighted average exercise price	0.5
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 remeasured on March 31, 2016 using the following assumptions:

	2016	2015
Risk-free interest rate	0.81%	0.49%
Expected volatility*	78.47%	78.50%
Expected life	5 years	5 years
Expected dividends	Nil	Nil
Weighted average grant date fair value	0.2	0.38
Weighted average exercise price	0.5	0.5
Forfeiture rate	18%	18%

For the three-month period ended March 31, 2016, the Company recognized stock-based compensation expense of \$151,435 (December 31, 2015 - \$508,273, December 31, 2014 - \$206,894) for stock options issued to directors, employees, medical scientific and advisory board, marketing and media relation consultants and business development consultants, of which \$120,770 is included in administrative expenses, \$6,861 in selling expenses and \$28,304 is included in research and development expenses.

*Based on historical volatility

11. Common Share Purchase Warrants

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

	Number outstanding	Weighted average exercised price \$	Fair value at date of
Outstanding, January 31, 2015	5,034,250	0.25	214,624
Issued with shares	19,071,940	0.54	2,351,587
Exercised	(3,544,250)	0.20	(172,171)
Expired	(35,000)	0.20	(1,697)
Outstanding, December 31, 2015	20,526,940		2,392,342
Outstanding, March 31, 2016	20,526,940		2,392,342

1) During 2015, 3,544,250 warrants were exercised. The share price at exercise date was \$0.20

The following table summarizes information on the common share purchase warrants outstanding for the year ended and as of December 31, 2015

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month Period Ended March 31, 2016, 2015 & 2014

Stated in Canadian Dollars

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	1,455,000	-	-	-	1,455,000	1.04
\$0.54	19,071,940	-	-	-	19,071,940	4.16
	20,526,940	-	-	-	20,526,940	3.94

12. Share Capital

Authorized

Unlimited number of common shares

Issued

	As at March 31, 2016		As at December 31, 2015	
	Number	Amount	Number	Amount
Balance, beginning of year	107,047,360	\$ 19,967,937	85,321,293	\$ 14,436,356
Issued during year	-	-	21,726,067	5,531,581
Balance, ending of year	107,047,360	\$ 19,967,937	107,047,360	\$ 19,967,937

- 1) The common shares issued during 2015 upon conversion of warrants were issued for gross proceeds of \$0.20 and \$0.38 (2014 - \$0.20 and \$0.38) per common share for cash (see note 12 and 13).

13. 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:

	2016	2015	2014
Loss for the year	\$ (1,145,739)	\$ (933,643)	\$ (344,074)
Weighted average number of common shares	105,411,280	81,392,501	47,853,882
Basic and diluted loss and comprehensive loss per share	\$ (0.01)	\$ (0.01)	\$ (0.01)

Stock options to purchase 10,035,000 (December 31, 2015 – 10,105,000, December 31, 2014 – 5,095,000) common shares and common share purchase warrants totaling 20,526,940 (December 31, 2015 – 20,526,940, December 31, 2014 – 4,990,916) were not included in the computation of diluted loss and comprehensive loss per common share due to their anti-dilutive nature.

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month Period Ended March 31, 2016, 2015 & 2014

Stated in Canadian Dollars

14. Selling Expenses

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

	2016	2015	2014
Sales salaries	\$ 198,153	102,785	\$ 53,495
Advertising	33,239	12,781	23,671
Commission	19,055	22,596	7,068
Travel	46,464	35,670	30,716
Stock based compensation	6,861	1,244	0
Amortization and depreciation allocation	12,482	9,412	7,328
Total selling expenses	\$316,254	\$ 184,488	\$122,278

15. Administrative Expenses

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

	2016	2015	2014
Insurance	\$ 19,708	15,338	\$ 12,419
Professional fees	73,303	77,385	17,804
Rent	20,300	20,300	20,300
General and administrative expenses	134,532	115,462	57,573
Administrative salaries	220,400	139,437	116,633
Director and advisory fees	24,613	23,387	-
Stock based compensation	120,769	57,582	10,468
Amortization and depreciation allocation	9,688	7,232	5,176
Total administrative expenses	\$623,314	456,123	\$240,373

16. Research and Development Expenses

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

	2016	2015	2014
Research and development (net of investment)	\$437,932	470,113	\$189,659
Stock based compensation	23,803	61,726	236
Amortization and depreciation allocation	15,853	13,806	7,897
Total research and development expenses	\$477,588	545,645	\$197,792

17. 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 received or collection is reasonably assured. In the three-month period ending March 31, 2016, an amount of \$Nil (December 31, 2015 - \$300,000, December 31, 2014 - \$173,041) of investment tax

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month Period Ended March 31, 2016, 2015 & 2014

Stated in Canadian Dollars

credits was recorded against research and development expense. The amount is included in the trade and other receivables accounts in the consolidated balance sheet.

18. Financial Instruments – Fair Value and Risks

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

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate fair value due to the short-term maturities of these instruments

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As at March 31, 2016 and December 31, 2015, 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 carrying value of trade and other receivables represent the Company's maximum exposure to credit risk.

The following table reflects the balance and age of trade receivables as at March 31, 2016 and December 31, 2015:

	As at March 31, 2016	As at December 31, 2015
Trade and other receivables	\$ 266,236	\$ 493,003
Percentage outstanding more than 30 days	27%	21%
Percentage outstanding more than 120 days	1%	9%

The following table reflects the changes in the allowance for trade receivables during as the three-month period ending March 31, 2016 and the year ended December 31, 2015:

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month Period Ended March 31, 2016, 2015 & 2014

Stated in Canadian Dollars

	As at March 31, 2016	As at December 31, 2015
Allowance for trade receivables - beginning of year	\$ 139,627	\$ 16,416
Adjustment based on collection experience		123,211
Allowance for trade receivables - end of year	<u>\$ 139,627</u>	<u>\$ 139,627</u>

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.

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

Contractual Obligations	Payments Due by Period			
	Total	2016	2017	2018
Payables and accruals	\$ 704,445	\$ 704,445	\$ -	\$ -
Commitments (Note 23)	403,618	352,113	51,004	501
Total contractual obligations	<u>\$ 1,108,063</u>	<u>\$ 1,056,558</u>	<u>\$ 51,004</u>	<u>\$ 501</u>

The Company also has significant contractual obligations (note 23) 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.

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 March 31 are as follows:

	March 31, 2016	December 31, 2015
Cash	\$ 50,977	\$ (13,989)
Trade and other receivables	131,159	144,833
Payables and accruals	(112,979)	(103,097)
Total	\$ 69,157	\$ 27,747

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month Period Ended March 31, 2016, 2015 & 2014

Stated in Canadian Dollars

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

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 three-month period.

	March 31, 2016	December 31, 2015
Cash	\$ 5,098	\$ (1,399)
Trade and other receivables	13,116	14,483
Payables and accruals	(11,298)	(10,310)
Total	\$ 6,916	\$ 2,775

19. Related Party Disclosure

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.

	2016	2015	2014
Short-term compensation	125,000	\$87,500	\$ 66,250
Stock-based compensation	106,469	60,792	10,722
Total	231,469	\$148,292	\$76,972

Key management personnel were not paid post-employment benefits, termination benefits or other long term benefits during the years ended December 31, 2015, 2014. Fees paid to directors have been disclosed in note 15.

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

20. 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 three-month period ended March 31, 2016, the Company reported a loss of \$1,145,739, and an accumulated deficit of \$22,012,258 as at that date. Sales of the TLC-1000 and TLC-2000, 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

THERALASE[®] TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month Period Ended March 31, 2016, 2015 & 2014

Stated in Canadian Dollars

and commercialization efforts that are similar to the financing secured through the public offering that took place on March 3, 2015 (note 9). 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.

21. 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 three-months period ended March 31:

	2016			2015			2014		
	TLT	PDT	Total	TLT	PDT	Total	TLT	PDT	Total
Sales	\$ 411,448	\$ -	\$ 411,448	\$ 368,304	\$ -	\$ 368,304	\$ 361,179	\$ -	\$ 361,179
Cost of Sales	131,764	-	131,764	135,156	-	135,156	121,546	-	121,546
Gross Margin	279,684	-	279,684	233,148	-	233,148	239,633	-	239,633
Operating Expenses									
Selling expenses	316,254	-	316,254	184,488	-	184,488	122,278	-	122,278
Administrative expenses	268,958	354,356	623,314	250,105	206,018	456,123	187,439	52,952	240,391
Research and development expenses	-	477,588	477,588	200,117	345,528	545,645	69,787	132,868	202,655
(Gain) loss on foreign exchange	8,440	8,440	16,879	(15,228)	-	(15,228)	4,465	9,806	14,271
Interest expense	64	64	127	34	34	68	5,423	5,423	10,846
Interest income	(8,740)	-	(8,740)	(4,303)	-	(4,303)	(1,853)	-	(1,853)
	584,974	840,448	1,425,422	615,212	551,581	1,166,792	387,539	201,050	588,588
Loss and comprehensive loss for the period	\$ (305,291)	\$ (840,448)	\$ (1,145,739)	\$ (382,064)	\$ (551,581)	\$ (933,644)	\$ (147,905)	\$ (201,050)	\$ (348,956)
Total Assets	\$ 5,599,229	\$ 356,914	\$ 5,956,142	\$ 9,382,999	\$ 334,306	\$ 10,167,305	\$ 2,108,553	\$ 92,530	\$ 2,201,083
Total Liabilities	342,614	361,831	704,445	283,551	176,086	459,637	611,336	-	611,336

The following table displays revenue and direct expenses from TLT division product sales by geographic area for the three-month periods ended March 31:

	2016			2015			2014		
	Canada	USA	International	Canada	USA	International	Canada	USA	International
Sales	\$180,069	\$152,375	\$79,004	\$344,351	\$8,369	\$15,584	\$187,810	\$80,936	\$92,433
Cost of Sales	51,290	45,713	34,762	126,342	3,071	5,743	56,578	24,281	40,671
Selling Expenses	177,700	128,022	10,532	183,051	502	935	68,809	49,299	4,170
	\$ (48,921)	\$ (21,360)	\$ 33,710	\$ 34,958	\$ 4,796	\$ 8,906	\$ 62,423	\$ 7,356	\$ 47,592

As at March 31, 2016, December 31, 2015 and December 31, 2014, the company's long-lived assets used in operations are all located in Canada.

THERALASE[®] TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month Period Ended March 31, 2016, 2015 & 2014

Stated in Canadian Dollars

23. Commitments

The Company's commitments consist of the following:

	Total	2016	2017	2018
Lease obligations (a)	\$ 112,000	\$ 63,000	\$ 49,000	\$ -
Lease obligations (b)	4,008	1,503	2,004	501
Research Agreement (c)	210,610	210,610	-	-
Research Agreement (d)	77,000	77,000		
Total	\$ 403,618	\$ 352,113	\$ 51,004	\$ 501

- 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 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 or accrued \$286,878 relating to this commitment, in which \$210,610 is the remaining commitment.
- d) 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 \$126,000 for the period from March 1, 2016 through to February 28, 2017. The Company has paid or accrued \$49,000 relating to this commitment, in which \$77,000 is the remaining commitment.