

# **Theralase Technologies Inc.**

**Interim Condensed Consolidated Financial Statements - Unaudited**

As at September 30, 2018 and for the nine-month periods ended September 30, 2018 and 2017

# THERALASE® TECHNOLOGIES INC.

Condensed Consolidated Balance Sheets

As at September 30, 2018 and December 31, 2017

Stated in Canadian Dollars

	Note	2018 (unaudited)	2017
<b>Assets</b>			
Current assets			
Cash and cash equivalents		\$ 499,704	\$ 253,902
Trade and other receivables	5	961,362	1,164,469
Inventories	6	881,122	1,046,459
Prepaid expenses and other current assets		69,195	77,787
<b>Total current assets</b>		<b>2,411,383</b>	<b>2,542,617</b>
Non-Current assets			
Property and equipment		713,375	744,149
Intangible assets		22,479	35,941
<b>Total non-current assets</b>		<b>735,854</b>	<b>780,090</b>
<b>Total Assets</b>		<b>\$ 3,147,237</b>	<b>\$ 3,322,707</b>
<b>Liabilities</b>			
Current liabilities			
Payables and accruals	7	\$ 2,590,262	\$ 1,277,142
<b>Total liabilities</b>		<b>2,590,262</b>	<b>1,277,142</b>
<b>Equity attributable to shareholders</b>			
Share capital	8, 11	25,622,071	24,907,688
Common share purchase warrants	8, 10	3,506,932	3,210,867
Contributed surplus	9	5,921,503	5,808,373
Deficit		(34,493,531)	(31,881,363)
<b>Total Equity</b>		<b>556,975</b>	<b>2,045,565</b>
<b>Total Shareholders' Equity and Liabilities</b>		<b>\$ 3,147,237</b>	<b>\$ 3,322,707</b>

Commitments (Note 19)

Approved on Behalf of the Board

[Randy Bruder]

Director

[Guy Anderson]

Director

# THERALASE® TECHNOLOGIES INC.

Condensed Consolidated Statements of Operations

(unaudited)

Stated in Canadian Dollars

	Note	Three Months Ended Sep 30		Nine Months Ended Sep 30	
		2018	2017	2018	2017
Sales		\$ 365,940	\$ 337,520	\$ 1,276,630	\$ 1,354,254
Cost of Sales		126,975	164,153	559,296	558,221
Gross Margin		238,965	173,367	717,334	796,033
<b>Operating Expenses</b>					
Selling expenses	13	\$ 174,610	\$ 509,130	\$ 673,814	\$ 1,407,387
Administrative expenses	14	257,016	699,785	1,400,207	2,222,701
Research and development expenses	15	536,735	610,870	1,266,839	2,044,838
(Gain) Loss on foreign exchange		(1,258)	11,709	1,553	18,531
Interest expense		-	-	662	72
Interest income		(5,321)	(2,378)	(13,573)	(3,727)
		\$ 961,782	\$ 1,829,116	\$ 3,329,502	\$ 5,689,804
Net and comprehensive loss for the period	12	\$ (722,817)	\$ (1,655,749)	\$ (2,612,168)	\$ (4,893,771)
Basic and diluted loss per common share	12	\$ (0.006)	\$ (0.014)	\$ (0.02)	\$ (0.04)
Weighted average number of common shares outstanding (basic and diluted)		128,425,241	121,184,838	127,806,874	121,184,838

# THERALASE® TECHNOLOGIES INC.

Condensed Consolidated Statements of Cash Flows  
(unaudited)

Stated in Canadian Dollars

	Nine Months Ended September 30		
	Note	2018	2017
<b>Cash flows from operating activities</b>			
Net loss for the period		\$ (2,612,168)	\$ (4,893,771)
Items not involving cash			
Amortization of property and equipment		150,882	159,840
Amortization of intangibles		13,462	12,249
Stock-based compensation expense	9	113,130	354,671
Gain(loss) on foreign exchange		1,553	18,531
Lease inducements		(840)	(1,400)
		(2,333,981)	(4,349,880)
Change in operating assets and liabilities other than cash			
Trade and other receivables		201,554	461,202
Finance receivables			-
Inventories		165,337	19,236
Prepaid expenses and other assets		8,592	81,655
Payables and accruals		1,313,960	(29,354)
		(644,538)	(3,817,141)
<b>Cash flows from investing activities</b>			
Purchase of property and equipment		(120,108)	(261,609)
Proceeds on disposal of property and equipment		-	-
		(120,108)	(261,609)
<b>Cash flows from financing activities</b>			
Proceeds from public offering (net of issue costs)	8	1,010,448	-
Proceeds from the exercising of share warrants		-	1,953,925
		1,010,448	1,953,925
Decrease in cash and cash equivalents during the period		\$ 245,802	\$ (2,124,826)
Cash and cash equivalents, beginning of period		\$ 253,902	\$ 2,970,198
Cash and cash equivalents, end of period		\$ 499,704	\$ 845,371
<b>Supplementary Information</b>			
Interest Paid		\$ 662	\$ 72
Interest Received		\$ 13,573	\$ 3,727

## THERALASE® TECHNOLOGIES INC.

Condensed Consolidated Statements of Changes in Equity

As at September 30, 2018, 2017 and 2016

(unaudited)

Stated in Canadian Dollars

		Number of Shares	Share Capital	Contributed Surplus	Common Share Purchase Warrants	Deficit	Total Shareholders' Equity
	Note	#	\$	\$	\$	\$	\$
<b>Balance, December 31, 2016</b>		121,284,026	22,568,232	5,314,181	3,596,395	(25,787,767)	5,691,041
Stock-based compensation expense	9	-	-	354,672	-	-	354,672
Exercised share purchase warrants		5,197,500	2,325,872	-	(371,947)	-	1,953,925
Expired share purchase warrants			13,582	-	(13,582)	-	-
Loss for the period		-	-	-	-	(4,893,771)	(4,893,771)
<b>Balance, September 30, 2017</b>		126,481,526	24,907,686	5,668,853	3,210,866	(30,681,538)	3,105,866
<b>Balance, December 31, 2017</b>		126,481,526	24,907,688	5,808,373	3,210,867	(31,881,363)	2,045,565
Stock-based compensation expense	9	-	-	113,130	-	-	113,130
Loss for the period		-	-	-	-	(2,612,168)	(2,612,168)
Private Placement	8	5,104,000	714,383	-	296,065	-	1,010,448
<b>Balance, September 30, 2018</b>		131,585,526	25,622,071	5,921,503	3,506,932	(34,493,531)	556,975

# THERALASE<sup>®</sup> TECHNOLOGIES INC.

Notes to Condensed Consolidated Financial Statements  
Nine-Month period ended September 30, 2018 and 2017  
(unaudited)  
Stated in Canadian Dollars

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## 1. Nature of Operations

Theralase Technologies Inc. (the “Company” or “Theralase”) is a clinical stage pharmaceutical company with two main divisions.

The Photo Dynamic Therapy (“PDT”) division is dedicated to the research and development of light activated Photo Dynamic Compounds (“PDCs”) and their associated drug formulations with the intended purpose to safely and effectively destroy cancer. 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.

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 Venture Exchange under the symbol TLT. The registered office is 41 Hollinger Road, Toronto, Ontario, Canada M4B 3G4.

### Going Concern, Capital Disclosures and Statement of Compliance

The condensed interim 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 including interpretations of the IFRS Interpretations Committee (“IFRSIC”) on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future.

These condensed 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, 2017 as filed on April 30, 2018.

For the nine-month period ended September 30, 2018, the Company had a net loss of \$2,612,168 (2017 - \$4,893,771), an accumulated deficit of \$34,493,531 (2017 - \$31,881,363) and has historically used net cash in operations. These conditions indicate the existence of material uncertainties that cast substantial doubt about the Company’s ability to continue as a going concern. The Company’s ability to continue as a going concern is dependent upon achieving a profitable level of operations and obtaining additional financing, neither of which is assured. The Company has been able to raise capital to continue to develop and commercialize its products and continues to develop sales opportunities that could result in additional sales of its products in the future. These consolidated financial statements do not give effect to any adjustments which may be necessary should the Company be unable to continue as a going concern and be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying consolidated financial statements. These adjustments could be material.

# **THERALASE® TECHNOLOGIES INC.**

## **Notes to Condensed Consolidated Financial Statements Nine-Month period ended September 30, 2018 and 2017 (unaudited) Stated in Canadian Dollars**

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The Company's objective is to maintain a sufficient capital base to support future research, development and strategic business initiatives allowing the Company to invest in its future and maintain investor, creditor and market confidence.

Sales of the TLC-1000 and TLC-2000, the Company's existing product lines have not met expectations and 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. The Company has successfully raised capital through equity offerings (note 8); however, there is no guarantee that the Company will be able to raise additional capital on terms and conditions agreeable to the Company.

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

### **Approval of Financial Statements**

The condensed interim consolidated financial statements for the nine-month period ended September 30, 2018 (including comparatives) were approved and authorized for issue by the board of directors on November 28, 2018.

## **2. Summary of Significant Accounting Policies**

### **Basis of presentation**

These condensed interim 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. These condensed interim consolidated financial statements have been prepared using the same accounting policies and methods of computation followed in the Company's annual consolidated financial statements for the year ended December 31, 2017 except as disclosed in Note 3 – Adoption of New Accounting Standards. Share options and share awards granted to employees, directors, officers and third parties are recognized at fair value at the date of grant.

### **Basis of consolidation**

The condensed interim 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 condensed consolidated financial statements.

## **3. Adoption of New Accounting Standards**

On January 1, 2018, the Company implemented IFRS 15, "Revenue From Contracts with Customers" ("IFRS 15") and IFRS 9, "Financial Instruments" ("IFRS 9"), in accordance with IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors". The impacts on implementation of IFRS 15 and IFRS 9 are described below.

### **IFRS 15**

The Company adopted all of the requirements of IFRS 15 Revenue from Contracts with Customers as of

# THERALASE® TECHNOLOGIES INC.

## Notes to Condensed Consolidated Financial Statements Nine-Month period ended September 30, 2018 and 2017 (unaudited) Stated in Canadian Dollars

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January 1, 2018. IFRS 15 utilizes a methodical framework for entities to follow in order to recognize 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 be entitled in exchange for those goods and services. The change did not impact the cumulative revenue recognized or the related assets and liabilities on the transition date.

The following is the Company's accounting policy for revenue from contracts with customers under IFRS 15:

The Company designs, develops, manufactures and markets patented and proprietary super-pulsed laser technology. Sales are recognized when control of the products has transferred to the Company's customers, being when the products are shipped to the customer. Once products are shipped to the Company's customers, the risks of obsolescence and loss have been transferred to the customer, and either: the customer has accepted the products in accordance with the sales order, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied. A portion of the Company's sales take place on a trial basis, where the Company will deliver inventory to customer locations that has not yet been purchased. The revenue from these sales is recognized when the customer purchases the inventory.

No element of financing is deemed present as the sales are made with credit terms standard for the market. The Company's obligation to provide a refund for faulty products under the standard warranty terms is recognized as a provision. Historically, the Company's annual returns for products sold have been negligible.

A receivable is recognized when the product is shipped as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. The adoption of IFRS 15 resulted in no impact to the opening accumulated deficit, nor to the opening balance of accumulated comprehensive income on January 1, 2018.

### **IFRS 9**

The Company adopted all of the requirements of IFRS 9 Financial Instruments ("IFRS 9") as of January 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is unchanged.

As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date. The following is the Company's accounting policy for financial instruments under IFRS 9:

#### (i) Classification

The Company classifies its financial instruments in the following categories: at Fair Value Through Profit and Loss ("FVTPL"), at Fair Value Through Other Comprehensive Income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the



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## Notes to Condensed Consolidated Financial Statements Nine-Month period ended September 30, 2018 and 2017 (unaudited) Stated in Canadian Dollars

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Company has opted to measure them at FVTPL. The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

<u>Financial assets/liabilities</u>	<u>Original classification (IAS 39)</u>	<u>New classification (IFRS 9)</u>
Accounts receivables	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Amortized cost	Amortized cost

The Company did not restate prior periods as it recognized the effects of retrospective application to stockholders' equity at the beginning of the 2018 annual reporting period, which also includes the date of initial application. The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit nor to the opening balance on January 1, 2018.

### (ii) Measurement

#### Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

#### Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of operations. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of net (loss) income in the period in which they arise.

### (iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses, if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company recognizes in the consolidated statements of net operations, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

### (iv) Derecognition

#### Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of net operations.

## 4. Accounting Standards Issued but Not Yet Applied

The IASB has issued the following standard which has not yet been adopted by the Company. The Company has not yet begun the process of assessing the impact that the new standard will have on its financial

# THERALASE® TECHNOLOGIES INC.

## Notes to Condensed Consolidated Financial Statements Nine-Month period ended September 30, 2018 and 2017 (unaudited) Stated in Canadian Dollars

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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.

### 5. Trade and Other Receivables

	As at September 30, 2018	As at December 31, 2017
Trade Accounts Receivable (net amount)	\$ 481,499	\$ 719,569
Other Receivable	250,000	
Government Tax Credits Receivable	229,863	444,900
<b>Total</b>	<b>\$ 961,362</b>	<b>\$ 1,164,469</b>

Write offs of trade receivables for the nine-month period ended September 30, 2018 amounted to \$2,025 which was previously provided for (2017 - \$nil). In addition, a direct write-off of \$nil was made during the year (2017 - \$nil). Refer to note 16 (i) for the continuity schedule of allowance for trade receivables.

Other receivable is comprised of an insurance settlement. 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 16.

### 6. Inventories

	As at September 30, 2018	As at December 31, 2017
Raw materials	\$ 596,141	\$ 661,085
Work-in-process	8,107	3,494
Finished goods	276,874	381,880
<b>Total</b>	<b>\$ 881,122</b>	<b>\$ 1,046,459</b>

### 7. Payables and Accruals

	As at September 30, 2018	As at December 31, 2017
Trade payables	\$ 1,558,468	\$ 1,089,297
Salaries, employment taxes, and benefits	105,005	102,701
Current portion of warranty liability	1,100	1,100
Audit fees and contract payments	125,689	84,044
Investor deposits	800,000	\$ -
<b>Total</b>	<b>\$ 2,590,262</b>	<b>\$ 1,277,142</b>

# THERALASE® TECHNOLOGIES INC.

Notes to Condensed Consolidated Financial Statements  
Nine-Month period ended September 30, 2018 and 2017  
(unaudited)  
Stated in Canadian Dollars

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## 8. Private Placement

On May 14, 2018, the Company completed a private placement financing, where 5,104,000 Units were issued at a price of \$0.20 per unit for gross proceeds of \$1,020,800, of which 750,000 units were purchased by certain insiders of the Corporation. Each Unit consisted of one common share and one non-transferable common share purchase warrant. Each whole warrant entitles the holder thereof to acquire one common share at a price of \$0.30, expiring on May 14, 2020. In connection with the offering, the Company incurred financing costs of \$10,594, of which \$10,352 was paid in cash and \$242 was paid through issuance of 9,300 broker warrants. Each broker warrant is exercisable into one common share at an exercise price of \$0.30 per share for a period of 24 months after the closing of the offering.

The purchase price of \$0.20 per Unit was allocated between the common shares (\$0.14 per share) and common share purchase warrants (\$0.06 per warrant), based on their relative fair values. Management determined that the allocation of the net proceeds of \$1,010,206 was \$714,383 for the common shares issued and \$296,065 for the common share purchase warrants issued. The warrants issued meet the criteria for equity classification.

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

Expected volatility (based on historical share prices)	92.97%
Risk-free interest rate	1.99%
Expected life	2 Years
Expected dividends	Nil
Strike Price	\$0.300
Share Price	\$0.215

## 9. Stock Options

The Company has a rolling stock option plan reserving for issue under this plan up to 10% (13,158,552 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 the nine-month period ended September 30, 2018 is provided below.

	Common shares under option	Weighted average exercised price \$
Outstanding, December 31, 2017	10,310,000	0.50
Forfeited (1)	(4,540,000)	0.50
<b>Outstanding, September 30, 2018</b>	<b>5,770,000</b>	<b>0.50</b>

- 1) During 2018, certain employees forfeited all non-exercised and non-vested options totaling 4,300,000 and certain employees were terminated and/or resigned from the employment of the Company and forfeited all non-vested options and non-exercised totaling 240,000.

# THERALASE® TECHNOLOGIES INC.

**Notes to Condensed Consolidated Financial Statements**  
**Nine-Month period ended September 30, 2018 and 2017**  
**(unaudited)**  
**Stated in Canadian Dollars**

The following table summarizes information on the stock options outstanding as at September 30, 2018:

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 \$	
1,180,000	0.8	\$ 0.50	1,180,000	0.50	
80,000	1.1	\$ 0.50	80,000	0.50	
1,350,000	1.7	\$ 0.50	1,350,000	0.50	
50,000	2.0	\$ 0.50	50,000	0.50	
20,000	2.5	\$ 0.50	13,333	0.50	
3,090,000	3.5	\$ 0.50	1,030,000	0.50	
<b>5,770,000</b>		<b>\$ 0.50</b>	<b>3,703,332</b>	<b>\$ 0.50</b>	

Under the stock option plan, the stock options vest over a three year period, commencing one year after the grant. As at September 30, 2018, 3,703,332 of the stock options were vested. All outstanding stock options as at September 30, 2018 will be fully vested by April 18, 2020.

Options to employees are measured at the fair value of the equity instruments granted on the grant date and were measured using the following weighted average assumptions for the nine-months ended September 30:

	2018	2017
Risk-free interest rate	N/A	0.98%
Expected volatility*	N/A	72.59%
Expected life	N/A	5 years
Expected dividends	N/A	Nil
Weighted average grant date fair value	N/A	\$0.20
Weighted average exercise price	N/A	\$0.50
Forfeiture rate	N/A	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 were recalculated using the following assumptions for the nine-months ended September 30:

	2018	2017
Risk-free interest rate	1.93%	1.73%
Expected volatility*	61.50%	64.13%
Expected life	3 Years	5 Years
Expected dividends	Nil	Nil
Weighted average grant date fair value	\$0.26	\$0.24
Weighted average exercise price	\$0.50	\$0.50
Forfeiture rate	18%	18%

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## Notes to Condensed Consolidated Financial Statements Nine-Month period ended September 30, 2018 and 2017 (unaudited) Stated in Canadian Dollars

For the nine-month period ended September 30, 2018, the Company recognized a stock-based compensation expense of \$113,130 (2017 - \$354,761) for stock options issued to directors, officers, employees and consultants, of which \$92,621 is included in administrative expenses, \$816 in selling expenses and \$19,693 is included in research and development expenses.

\*Based on historical volatility

### 10. Common Share Purchase Warrants

Common share purchase warrants consisted of the following:

	Number outstanding	Weighted average exercised price \$	Fair value at date of grant \$
Outstanding December 31, 2017	29,610,539		3,210,867
Issued with shares	5,113,300	0.30	296,065
<b>Outstanding September 30, 2018</b>	<b>34,723,839</b>		<b>3,506,932</b>

1) During 2018, 5,113,300 warrants were issued (see note 8).

The following table summarizes information on the common share purchase warrants outstanding for the nine-month period ended and as of September 30, 2018:

Exercise Price	Outstanding Beginning of the year	Expired During the period	Exercised During the period	Granted During the period	Outstanding End of Period	Weighted Average Remaining Contractual Life (years)
\$0.540	19,071,940	-	-	-	19,071,940	1.67
\$0.375	10,538,599	-	-	-	10,538,599	3.36
\$0.300	-	-	-	5,113,300	5,113,300	1.87
	29,610,539	-	-	5,113,300	34,723,839	-

### 11. Share Capital

The Company is authorized to issue an unlimited number of common shares.

### 12. Loss Per Common Share

Basic loss per common share has been calculated based on the weighted average number of common shares outstanding during each of the nine-month periods presented in the consolidated financial statements.

Stock options to purchase 5,770,000 (2017 – 10,390,000) common shares and common share purchase warrants totaling 34,723,839 (2017 – 29,610,539) were not included in the computation of diluted loss per common share due to their anti-dilutive nature.

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Notes to Condensed Consolidated Financial Statements  
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(unaudited)  
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## 13. Selling Expenses

The following are expenses classified as selling expenses on the condensed interim consolidated financial statements as of September 30:

	<b>2018</b>	<b>2017</b>
Sales salaries	\$ 461,191	\$ 959,205
Advertising	67,011	182,623
Commission	56,274	71,691
Travel	38,432	114,284
Stock based compensation	816	9,339
Amortization and depreciation allocation	50,090	70,245
<b>Total selling expenses</b>	<b>\$673,814</b>	<b>\$ 1,407,387</b>

## 14. Administrative Expenses

The following are expenses classified as administrative expenses on the condensed interim consolidated financial statements as of September 30:

	<b>2018</b>	<b>2017</b>
Insurance	\$ 33,270	\$ 77,728
Professional fees	365,592	472,382
Rent	74,296	74,039
General and administrative expenses	333,670	466,172
Administrative salaries	449,121	737,408
Director and advisory fees	27,879	52,350
Stock based compensation	92,621	306,183
Amortization and depreciation allocation	23,758	36,439
<b>Total administrative expenses</b>	<b>\$ 1,400,207</b>	<b>\$ 2,222,701</b>

## 15. Research and Development Expenses

The following are expenses classified as research and development expenses on the condensed interim consolidated financial statements as of September 30:

	<b>2018</b>	<b>2017</b>
Research and development (net of investment tax credit)	\$ 1,156,650	\$ 1,940,284
Stock based compensation	19,693	39,151
Amortization and depreciation allocation	90,496	65,403
<b>Total research and development expenses</b>	<b>\$1,266,839</b>	<b>\$2,044,838</b>

## 16. 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;

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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 September 30, 2018 and December 31, 2017, the Company's cash and cash equivalents are categorized as Level 1. There were no financial instruments categorized 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 condensed interim 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 September 30, 2018 and December 31, 2017:

	As at September 30, 2018	As at December 31, 2017
Trade and other receivables	\$ 481,499	\$ 719,569
Percentage outstanding more than 30 days	17%	7%
Percentage outstanding more than 120 days	1%	7%

The following table reflects the changes in the allowance for trade receivables for the nine month periods ending September 30, 2018 and December 31, 2017:

	As at September 30, 2018	As at December 31, 2017
Allowance for trade receivables - beginning of period	\$ 131,431	139,626
Allowance recorded against current period sales		14,216
Adjustment based on collection experience	(9,646)	13,240
Amounts written off	(9,250)	(33,629)
<b>Allowance for trade receivables - end of period</b>	<b>\$ 112,535</b>	<b>\$ 133,453</b>

### 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,

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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	Total	Payments Due by Period				
		2018 (remaining)	2019	2020	2021	2022
Payables and accruals	\$ 2,590,263	2,590,263	-	-	-	-
Commitments	\$ 417,248	\$ 14,376	\$ 116,407	\$ 118,317	\$ 118,317	\$ 49,831
Total contractual obligations	\$ 3,007,511	2,604,639	116,407	118,317	118,317	49,831

The Company has contractual obligations (note 19) 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, 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 September 30, 2018 and December 31, 2017 are as follows:

	As at September 30, 2018	As at December 31, 2017
Cash	\$ 108,316	\$ 89,734
Trade and other receivables	262,092	271,669
Payables and accruals	(351,131)	(306,521)
<b>Total</b>	<b>\$ 19,277</b>	<b>\$ 54,882</b>

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



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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 period.

	As at September 30, 2018	As at December 31, 2017
Cash	\$ 10,832	\$ 8,973
Trade and other receivables	26,209	27,167
Payables and accruals	(35,113)	(30,652)
<b>Total</b>	<b>\$ 1,928</b>	<b>\$ 5,488</b>

### 17. Related Party Disclosure

The compensation of the directors and other key management of the Company is 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. For the nine months ended September 30:

	2018	2017
Short-term compensation	\$583,333	\$525,000
Stock-based compensation	58,276	258,814
<b>Total</b>	<b>\$641,609</b>	<b>\$783,814</b>

Key management personnel were not paid post-employment benefits, termination benefits or other long term benefits during the nine-month periods ended September 30, 2018 and 2017. Fees paid to directors have been disclosed in note 14.

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

### 18. Segmented Information

For management purposes, the Company is organized into two separate reportable operating divisions: Photo Dynamic Therapy (“PDT”) division and the Therapeutic Laser Therapy (“TLT”) division.

The PDT division is responsible for the research, development and commercialization of Photo Dynamic Compounds (“PDCs”) intended primarily for the treatment of cancer. The TLT division is responsible for the Company’s therapeutic laser business, which researches, designs and manufactures products used by healthcare practitioners primarily for the healing of pain.

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The following table displays revenue and direct expenses from the PDT and TLT division for the nine-month periods ended September 30, 2018 and 2017:

	2018			2017		
	TLT	PDT	Total	TLT	PDT	Total
Sales	\$ 1,276,630	\$ -	\$ 1,276,630	\$ 1,354,254	\$ -	\$ 1,354,254
Cost of Sales	559,296	-	559,296	558,221	-	558,221
Gross Margin	717,334	-	717,334	796,033	-	796,033
<b>Operating Expenses</b>						
Selling expenses	673,814	-	673,814	1,407,387	-	1,407,387
Administrative expenses	848,373	551,834	1,400,207	1,298,420	924,281	2,222,701
Research and development expenses	282,562	984,277	1,266,839	547,089	1,497,749	2,044,838
(Gain) loss on foreign exchange	776	777	1,553	18,531	-	18,531
Interest expense	331	331	662	36	36	72
Interest income	(13,573)	-	(13,573)	(3,727)	-	(3,727)
	1,792,283	1,537,218	3,329,502	3,267,737	2,422,066	5,689,804
Loss for the period	\$ (1,074,949)	\$ (1,537,218)	\$ (2,612,168)	\$ (2,471,704)	\$ (2,422,066)	\$ (4,893,771)
Total Assets	\$ 2,189,590	\$ 221,793	\$ 2,411,383	\$ 3,319,827	\$ 308,038	\$ 3,627,865
Total Liabilities	2,199,120	391,142	2,590,262	338,838	153,109	491,947

The following table displays revenue and direct expenses from TLT division product sales by geographic area for the nine-month periods ended September 30:

	2018			2017		
	Canada	USA	International	Canada	USA	International
Sales	\$ 847,870	\$ 253,742	\$ 175,018	\$ 1,046,508	\$ 272,305	\$ 35,441
Cost of Sales	378,139	100,488	80,669	432,045	111,645	14,531
Selling Expenses	473,326	84,766	115,722	1,034,918	327,261	45,208
	\$ (3,595)	\$ 68,488	\$ (21,373)	\$ (420,455)	\$ (166,601)	\$ (24,298)

As at September 30, 2018 and 2017, the Company's long-lived assets used in operations are all located in Canada.

## 19. Commitments

The Company's commitments consist of the following:

	Total	2018 (remaining)	2019	2020	2021	2022
Lease obligations (a)	\$ 241,688	14,376	57,887	59,797	59,797	49,831
Research Agreement (b)	\$ 175,560	-	58,520	58,520	58,520	-
<b>Total</b>	<b>\$ 417,248</b>	<b>14,376</b>	<b>116,407</b>	<b>118,317</b>	<b>118,317</b>	<b>49,831</b>

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- a) Lease obligations under a lease agreement related to the Company's premises, commenced on October 1, 2017 and expires on September 30, 2022. 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) 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 \$348,600 for the period from June 1, 2017 through to June 1, 2021. The Company has paid \$173,040 relating to this commitment, in which \$175,560 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.

## 20. Subsequent Events

On October 3, 2018 the Company closed a non-brokered private placement of units. On closing, the Company issued an aggregate of 3,157,059 units at a price of \$0.35 per Unit for aggregate gross proceeds of approximately \$1,104,970 of which 920,000 units were purchased by certain insiders of the Corporation. Each Unit consists of one common share of the Company and one non-transferable common share purchase warrant (each, a "**Warrant**"). Each Warrant entitles the holder to acquire an additional Common Share at a price of \$0.50 for a period of 24 months following the date of issuance.