

# **Theralase Technologies Inc.**

## **Condensed Interim Consolidated Financial Statements - Unaudited**

As at March 31, 2020 and for the three-month period ended March 31, 2020 and 2019

### **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 Statements of Financial Position

As at March 31, 2020 and December 31, 2019

Stated in Canadian Dollars

	Note	2020	2019
<b>Assets</b>			
Current assets			
Cash and cash equivalents		\$ 10,916,159	\$ 12,548,550
Trade and other receivables	3	731,682	824,133
Inventories	4	741,659	722,558
Prepaid expenses and other assets		125,932	95,101
<b>Total current assets</b>		<b>12,515,432</b>	<b>14,190,342</b>
Non-current assets			
Trade receivables	3	89,413	101,626
Property and equipment		999,620	1,013,381
Right-of-use-assets	5	128,434	141,247
Intangible assets		5,125	6,512
Rent deposit		16,982	16,982
<b>Total non-current assets</b>		<b>1,239,574</b>	<b>1,279,748</b>
<b>Total Assets</b>		<b>\$ 13,755,006</b>	<b>\$ 15,470,090</b>
<b>Liabilities</b>			
Current liabilities			
Payables and accruals	6	\$ 1,147,163	\$ 1,470,025
Current portion of lease liabilities	5	56,619	50,147
<b>Total current liabilities</b>		<b>1,203,782</b>	<b>1,520,172</b>
Non-current liabilities			
Lease liabilities	5	75,322	94,475
<b>Total non-current liabilities</b>		<b>75,322</b>	<b>94,475</b>
<b>Total liabilities</b>		<b>1,279,104</b>	<b>1,614,647</b>
<b>Equity attributable to shareholders</b>			
Share capital	7, 10	42,120,421	42,120,213
Contributed surplus	7, 8	9,606,548	6,990,821
Common share purchase warrants	7, 9	5,044,943	7,396,563
Accumulated deficit		(44,296,010)	(42,652,154)
<b>Total Equity</b>		<b>12,475,902</b>	<b>13,855,443</b>
<b>Total Shareholders' Equity and Liabilities</b>		<b>\$ 13,755,006</b>	<b>\$ 15,470,090</b>

Commitments (Note 18)

Approved on Behalf of the Board

[Randy Bruder]

Director

[Guy Anderson]

Director

# THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Operations

For the three month periods ended March 31

Stated in Canadian Dollars

	Note	2020	2019
Sales		\$ 111,543	\$ 121,179
Cost of Sales		99,447	84,251
Gross Margin		12,096	36,928
<b>Operating Expenses</b>			
Selling expenses	12	136,894	178,807
Administrative expenses	13	533,329	531,557
Research and development expenses	14	1,047,282	447,751
(Gain) / loss on foreign exchange		(1,770)	6,556
Interest accretion on lease liabilities		2,808	2,475
Interest income		(62,591)	(4,747)
		1,655,952	1,162,399
Net loss and comprehensive loss for the period		\$ (1,643,856)	\$ (1,125,471)
Basic and diluted loss per common share	11	(0.008)	(0.008)
Weighted average number of common		204,275,863	140,110,252

# THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Cash Flows

For the three month periods ended March 31

Stated in Canadian Dollars

	2020	2019
<b>Cash flows from operating activities</b>		
Net loss for the year	\$ (1,643,856)	\$ (1,125,471)
Items not involving cash		
Amortization of property and equipment	48,543	45,445
Amortization of right-of-use assets	12,813	12,813
Amortization of intangibles	1,387	4,469
Stock-based compensation expense	264,140	37,706
(Gain) / loss on foreign exchange	(1,770)	6,556
Interest accretion from lease liabilities	2,808	2,475
	<u>(1,315,935)</u>	<u>(1,016,007)</u>
Change in operating assets and liabilities other than cash		
Current trade and other receivables	94,221	135,099
Non-current trade receivables	12,213	31,181
Inventories	(19,101)	(4,314)
Prepaid expenses and other assets	(30,831)	(106,224)
Payables and accruals	(325,670)	(397,277)
	<u>(1,585,103)</u>	<u>(1,357,542)</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(34,782)	(14,164)
	<u>(34,782)</u>	<u>(14,164)</u>
<b>Cash flows from financing activities</b>		
Payment of Lease Liabilities	(12,681)	(12,440)
Proceeds from public offering	-	222,238
Proceeds from the exercise of share warrants	175	1,798,290
	<u>(12,506)</u>	<u>2,008,088</u>
Increase (decrease) in cash during the period	(1,632,391)	636,382
Cash, beginning of period	12,548,550	1,033,699
Cash, end of period	<u>\$ 10,916,159</u>	<u>\$ 1,670,081</u>
<b>Supplementary Information</b>		
Interest Paid	\$ -	\$ -
Interest Received	\$ 62,591	\$ 4,747

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

# THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Changes in Equity

For the three month periods ended March 31

Stated in Canadian Dollars

	Note	Number of Shares	Share Capital	Contributed Surplus	Common Share Purchase Warrants	Deficit	Total Shareholders' Equity
		#	\$	\$	\$	\$	\$
<b>Balance, December 31, 2018</b>		134,877,585	26,434,938	5,989,332	3,812,609	(35,238,240)	998,639
Stock-based compensation expense	8	-	-	37,706	-	-	37,706
Exercised share purchase warrants	9	5,159,300	2,176,025	-	(377,735)	-	1,798,290
Issued pursuant to private placement	7	4,095,157	1,017,288	-	416,017	-	1,433,305
Transaction cost on private placement	7	-	(6,864)	-	(2,807)	-	(9,671)
Loss for the period		-	-	-	-	(1,125,471)	(1,125,471)
<b>Balance, March 31, 2019</b>		144,132,042	29,621,387	6,027,038	3,848,084	(36,363,711)	3,132,798
<b>Balance, December 31, 2019</b>		204,275,375	42,120,213	6,990,821	7,396,563	(42,652,154)	13,855,443
Stock-based compensation expense	8	-	-	264,140	-	-	264,140
Expired Warrants	9	-	-	2,351,587	(2,351,587)	-	-
Exercised share purchase warrants	9	500	208	-	(33)	-	175
Loss for the period		-	-	-	-	(1,643,856)	(1,643,856)
<b>Balance, March 31, 2020</b>		204,275,875	42,120,421	9,606,548	5,044,943	(44,296,010)	12,475,902

# ThERALASE® TECHNOLOGIES INC.

## Notes to Consolidated Financial Statements

Three-Month periods ended March 31, 2020 and 2019

Stated in Canadian Dollars

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### 1. Nature of Operations

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

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. 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

These interim condensed 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”), effective for the reporting period ended March 31, 2020, and have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”. The interim condensed consolidated financial statements follow the same accounting policies and methods of application as those disclosed in the annual consolidated financial statements for the year ended December 31, 2019, but do not include all the information and disclosures required in the Company’s annual financial statements. The preparation of interim condensed consolidated financial statements in accordance with IAS 34 requires the use of certain accounting estimates, and also requires management to use judgement in applying the Company’s accounting policies. The areas that involve judgement and estimates have been disclosed in Note 2 of the Company’s 2019 annual consolidated financial statements. These interim condensed consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2019.

The interim condensed consolidated financial statements have been prepared by management in accordance with IFRS as issued by the IASB and including interpretations of the IFRS Interpretations Committee (“IFRIC”) 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.

For the three-month period ended March 31, 2020, the Company had a net loss of \$1,643,856 (2019 - \$1,125,471), an accumulated deficit of \$44,296,010 (2019 - \$42,652,154) and has historically used net cash in operations. These conditions indicate the existence of material uncertainties that casts 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 market 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

# **THERALASE® TECHNOLOGIES INC.**

## **Notes to Consolidated Financial Statements**

**Three-Month periods ended March 31, 2020 and 2019**

**Stated in Canadian Dollars**

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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.

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 in 2019 (note 7) 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 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.

### **Approval of Financial Statements**

The interim condensed consolidated financial statements for the three-month period ended March 31, 2020 (including comparatives) were approved and authorized for issue by the board of directors on May 28, 2020.

## **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, 2019.

### **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 consolidated financial statements.

### **Reclassification**

Certain reclassifications have been made to the prior-period financial statements to conform to the current-period presentation.

# THERALASE® TECHNOLOGIES INC.

## Notes to Consolidated Financial Statements

Three-Month periods ended March 31, 2020 and 2019

Stated in Canadian Dollars

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### 3. Trade and Other Receivables

	As at March 31, 2020	As at December 31, 2019
Trade receivable (net amount)	\$ 225,410	\$ 380,229
Government tax credits receivable	595,685	545,530
Total	821,095	925,759
Less: Non-Current trade receivables	(89,413)	(101,626)
<b>Total</b>	<b>\$ 731,682</b>	<b>\$ 824,133</b>

Write offs of trade receivables for the three-month period ended amounted to \$nil which was previously provided for (2019 - \$nil). Refer to note 15 (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.

Non-current trade receivables represent receivables from customers to whom the Company sold products under payment plans with payment terms ranging from 24 to 72 months. Receivables under payment plans are recorded at time of origination or purchase at fair value of products sold and are subsequently reported at amortized cost, net of any allowance for credit losses.

The Company's exposure to credit and currency risks related to trade and other receivables is presented in note 15.

### 4. Inventories

	As at March 31, 2020	As at December 31, 2019
Raw materials	\$ 353,139	\$ 337,536
Work-in-process	10,137	10,120
Finished goods	378,383	374,902
<b>Total</b>	<b>\$ 741,659</b>	<b>\$ 722,558</b>

### 5. Lease Liabilities and Right-of-use-Assets

The Company leases premises consisting of its office and manufacturing facilities. On adoption of IFRS 16, as of January 1, 2019, a liability of \$185,479 was established, representing the lease payments of \$58,075 in 2019, \$59,800 in 2020, \$59,800 in 2021 and \$44,850 in 2022, discounted using an incremental borrowing rate of 8.0%.

The Company leases office equipment. On adoption of IFRS 16, as of January 1, 2019, a liability of \$7,022 was established, representing the lease payments of \$2,160 in 2019, \$2,160 in 2020, \$2,160 in 2021 and \$1,980 in 2022, discounted using an incremental borrowing rate of 8.0%



# THERALASE® TECHNOLOGIES INC.

## Notes to Consolidated Financial Statements

Three-Month periods ended March 31, 2020 and 2019

Stated in Canadian Dollars

	Property	Office Equipment	Total
<b>Right-of-use Assets</b>			
Balance at January 1, 2019	\$ 185,479	\$ 7,022	\$ 192,501
Depreciation charge for the period	12,365	448	12,813
<b>Balance at March 31, 2019</b>	<b>\$ 173,114</b>	<b>\$ 6,574</b>	<b>\$ 179,688</b>
Balance at January 1, 2020	\$ 136,018	\$ 5,229	\$ 141,247
Depreciation charge for the period	12,365	448	12,813
<b>Balance at March 31, 2020</b>	<b>\$ 123,653</b>	<b>\$ 4,781</b>	<b>\$ 128,434</b>
<b>Lease Liabilities</b>			
Balance at January 1, 2019	\$ 185,479	\$ 7,022	\$ 192,501
Interest charge for the period	2,385	90	2,475
Lease payments for the period <sup>(1)</sup>	(14,375)	(540)	(14,915)
<b>Balance at March 31, 2019</b>	<b>\$ 173,489</b>	<b>\$ 6,572</b>	<b>\$ 180,061</b>
Balance at January 1, 2020	\$ 139,309	\$ 5,313	\$ 144,622
Interest charge for the period	2,705	103	2,808
Lease payments for the period <sup>(1)</sup>	(14,950)	(540)	(15,490)
<b>Balance at March 31, 2020</b>	<b>\$ 127,064</b>	<b>\$ 4,877</b>	<b>\$ 131,941</b>

(1) Lease payments does not include variable property lease payments of \$9,401 (2019- \$10,942).

Principal repayments of the Company's leased premises and office equipment until maturity are as follows:

	Property	Office Equipment	Total
2020	\$ 36,176	\$ 1,291	\$ 37,466
2021	52,294	1,864	54,158
2022	38,594	1,723	40,317
	<b>\$ 127,064</b>	<b>\$ 4,878</b>	<b>\$ 131,941</b>

## 6. Payables and Accruals

	As at March 31, 2020	As at December 31, 2019
Trade payables	\$ 500,732	\$ 525,195
Salaries, employment taxes, and benefits	351,464	613,170
Accrued liabilities	294,967	331,660
<b>Total</b>	<b>\$ 1,147,163</b>	<b>\$ 1,470,025</b>

## 7. Public Offering and Private Placement

On January 9, 2019, the Company completed a financing by way of a private placement, where 4,095,157 Units were issued at a price of \$0.35 per unit for gross proceeds of \$1,433,306 (\$1,201,396 received in 2018, see note 6), of which 542,857 Units were purchased by certain insiders of the Company. Each Unit consisted of

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

## Notes to Consolidated Financial Statements

Three-Month periods ended March 31, 2020 and 2019

Stated in Canadian Dollars

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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 \$0.50, expiring on January 9, 2021. In connection with the offering, the Company incurred financing costs of \$8,589.

The purchase price of \$0.35 per unit was allocated between the common shares (\$0.25 per share) and common share purchase warrants (\$0.10 per warrant), based on their relative fair values. Management determined that the allocation of the gross proceeds of \$1,433,306 was \$1,017,289 for the common shares issued and \$416,017 for the common share purchase warrants issued.

On August 22, 2019, the Company closed a public offering of units. On closing, the Company issued an aggregate of 57,500,000 Units, of which 502,000 units were purchased by certain insiders of the Company, at a price of \$0.30 per Unit for aggregate gross proceeds of \$17,250,000. Each Unit consisted 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 \$0.35, expiring on August 22, 2024. In connection with this financing the Company incurred financing costs of \$2,195,028 of which \$1,588,105 was paid in cash and \$606,923 was paid through the issuance of 2,023,077 broker compensation units. Each broker compensation unit entitles the holder thereof to acquire one common share and one common share purchase warrant on the same terms as the unit common shares and common share purchase warrants issued pursuant to the financing. The broker compensation units were valued based on the fair value of services rendered.

The purchase price of \$0.30 per unit was allocated between the common shares (\$0.23 per share) and common share purchase warrants (\$0.07 per warrant), based on their relative fair values. Management determined that the allocation of the gross proceeds of \$17,250,000 was \$12,937,500 for the common shares issued and \$4,312,500 for the common share purchase warrants issued.

The fair value of each common share purchase warrants granted, with the exception of the August 22, 2019 public offering, was estimated on the dates of the grant using the Black-Scholes option pricing model with the following assumptions:

	<b>January 9, 2019</b>
Expected volatility (based on historical share prices)	96.04%
Risk-free interest rate	1.91%
Expected life	2 Years
Expected dividends	Nil
Strike Price	\$0.50
Share Price	\$0.33

The August 22, 2019 public offering common share purchase warrants were valued based on the market value at time of grant which was \$0.07. As at March 31, 2020 2,023,077 broker compensation units were outstanding.

### 8. Stock Options

The Company has a rolling stock option plan reserving for issue under this plan up to 10% (20,427,537 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.

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

## Notes to Consolidated Financial Statements

Three-Month periods ended March 31, 2020 and 2019

Stated in Canadian Dollars

A summary of stock options issued under the stock option plan for the three-month period ended March 31, 2020 is provided below.

	Common shares under option	Weighted average exercised price \$
<b>Outstanding, December 31, 2019</b>	<b>16,010,000</b>	<b>0.35</b>
Forfeited during period <sup>1</sup>	(210,000)	0.50
<b>Outstanding, March 31, 2020</b>	<b>15,800,000</b>	<b>0.34</b>

- 1) During 2019, certain employees were terminated and/or resigned from the employment of the Company and forfeited all non-vested options and non-exercised totaling 210,000.

The following table summarizes information on the stock options outstanding as at March 31, 2020:

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 \$
1,250,000	0.2	0.50	1,250,000	0.50
50,000	0.5	0.50	50,000	0.50
10,000	1.0	0.50	10,000	0.50
3,020,000	2.0	0.50	3,020,000	0.50
11,470,000	4.4	0.28	-	0.28
<b>15,800,000</b>			<b>4,330,000</b>	

Under the stock option plan, the stock options vest over a three year period, commencing one year after the grant. As at March 31, 2020, 4,330,000 of the stock options were vested. All outstanding stock options as at March 31, 2020 will be fully vested by September 11, 2022.

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:

	2019
Risk-free interest rate	1.43%
Expected volatility*	86.28%
Expected life	5 years
Expected dividends	Nil
Weighted average grant date fair value	\$0.14
Weighted average exercise price	\$0.30
Weighted average forfeiture rate	15%

\* Based on historical volatility

For the three-month period ended March 31, 2020, the Company recognized stock-based compensation expense of \$264,140 (2019 - \$37,706) for stock options issued to directors, officers, employees and consultants, of which \$140,942 (2019 - \$32,673) is included in administrative expenses, \$579 (2019 - \$367) in selling expenses and \$122,619 (2019 - \$4,666) is included in research and development expenses. The

# THERALASE® TECHNOLOGIES INC.

## Notes to Consolidated Financial Statements

Three-Month periods ended March 31, 2020 and 2019

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remaining stock based compensation amount to be expensed on non-vested options, net of forfeiture, is \$973,274.

### 9. 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, 2019	91,546,371		7,396,563
Expired <sup>1</sup>	(19,071,940)	0.54	(2,351,587)
Exercised <sup>2</sup>	(500)	0.35	(33)
<b>Outstanding March 31, 2020</b>	<b>72,473,931</b>		<b>5,044,943</b>

1) During 2020, 19,071,940 warrants expired.

2) During 2020, 500 warrants were exercised. The share price at the exercise date was \$0.35

The following table summarizes information on the common share purchase warrants outstanding for the year ended and as of March 31, 2020:

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	-	-	-	-
\$0.375	4,555,266	-	-	-	4,555,266	1.61
\$0.300	3,159,000	-	-	-	3,159,000	2.12
\$0.500	3,165,008	-	-	-	3,165,008	0.51
\$0.500	4,095,157	-	-	-	4,095,157	0.78
\$0.350	57,500,000	-	500	-	57,499,500	4.39
	<b>91,546,371</b>	<b>19,071,940</b>	<b>500</b>	<b>-</b>	<b>72,473,931</b>	<b>-</b>

### 10. Share Capital

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

### 11. 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 three-month periods presented in the condensed interim consolidated financial statements.

Stock options to purchase 15,800,000 (2019 – 5,770,000) common shares and common share purchase warrants totaling 72,473,931 (2019 – 36,689,705) 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 periods ended March 31, 2020 and 2019

Stated in Canadian Dollars

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### 12. Selling Expenses

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

	2020	2019
Sales salaries	\$ 80,072	\$ 95,633
Advertising	38,380	48,733
Commission	2,665	5,095
Travel	6,434	9,744
Stock based compensation	579	367
Amortization and depreciation allocation	8,764	19,235
<b>Total selling expenses</b>	<b>\$ 136,894</b>	<b>\$ 178,807</b>

### 13. Administrative Expenses

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

	2020	2019
Insurance	\$ 10,146	\$ 12,236
Professional fees	105,680	128,302
Rent	9,401	10,942
General and administrative expenses	43,386	116,294
Administrative salaries	186,117	193,667
Director and advisory fees	20,340	14,734
Stock based compensation	140,942	32,673
Amortization and depreciation allocation	17,317	22,709
<b>Total administrative expenses</b>	<b>\$ 533,329</b>	<b>\$ 531,557</b>

### 14. Research and Development Expenses

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

	2020	2019
Research and development (net of investment tax credit)	\$ 896,041	\$ 422,302
Stock based compensation	122,619	4,666
Amortization and depreciation allocation	28,622	20,783
<b>Total research and development expenses</b>	<b>\$ 1,047,282</b>	<b>\$ 447,751</b>

### 15. 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;

# THERALASE® TECHNOLOGIES INC.

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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); and

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

The carrying amounts of cash and cash equivalents, trade and other receivable and payables 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, 2020 and December 31, 2019, the Company's financial instruments 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 trade and other 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:

	<b>2020</b>	<b>2019</b>
Trade receivables (net amount)	\$ 225,410	\$ 380,229
Percentage outstanding more than 30 days	16%	21%
Percentage outstanding more than 120 days	12%	21%

The following table reflects the changes in the allowance for trade receivables during the three-month period ended March 31, 2020 and the year ended December 31, 2019:

	<b>As at March 31, 2020</b>	<b>As at December 31, 2019</b>
Allowance for trade receivables - beginning of period	\$ 70,436	\$ 94,012
Allowance recorded against current period sales	-	1,695
Adjustment based on collection experience	-	13,601
Amounts written off	-	(38,872)
<b>Allowance for trade receivables - end of period</b>	<b>\$ 70,436</b>	<b>\$ 70,436</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			
		2020	2021	2022	2023
Lease liabilities	\$ 155,260	\$ 46,470	\$ 61,960	\$ 46,830	-
Payables and accruals	1,147,163	1,147,163	-	-	-
Commitments (note 23)	1,112,484	970,434	111,485	30,565	-
<b>Total contractual obligations</b>	<b>\$ 2,414,907</b>	<b>\$ 2,164,067</b>	<b>\$ 173,445</b>	<b>\$ 77,395</b>	<b>\$ -</b>

The Company also has contractual obligations (note 18) in the form of 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 December 31 are as follows:

	As at March 31, 2020		As at December 31, 2019	
	Canadian	U.S.	Canadian	U.S.
Cash	\$ 48,036	\$ 33,859	\$ 31,223	\$ 24,040
Trade and other receivables	118,821	82,023	108,826	86,677
Payables and accruals	(152,608)	(107,569)	(201,469)	(173,318)
<b>Total</b>	<b>\$ 14,249</b>	<b>\$ 8,313</b>	<b>\$ (61,420)</b>	<b>\$ (62,601)</b>

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### 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.

	As at March 31, 2020	As at December 31, 2019
Cash	\$ 4,804	\$ 3,122
Trade and other receivables	11,882	10,883
Payables and accruals	(15,261)	(20,147)
<b>Total</b>	<b>\$ 1,425</b>	<b>\$ (6,142)</b>

### 16. 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.

	2020	2019
Short-term compensation	\$300,000	\$177,636
Stock-based compensation	149,317	12,760
<b>Total</b>	<b>\$449,317</b>	<b>\$190,396</b>

Key management personnel were not paid post-employment benefits, termination benefits or other long term benefits during the three-month periods ended March 31, 2020 and 2019. Fees paid to directors have been disclosed in note 13.

Stock-based compensation paid to key management personnel is the fair value of options that vested to key management personnel during the year. Stock based compensation paid to directors have been disclosed in note 13.

### 17. Segmented Information

For management purposes, the Company is organized into two separate reportable operating divisions; (1) Photo Dynamic Therapy (PDT) division and (2) Medical Laser Technology (MLT) division. The PDT division is responsible for the research and development of Photo Dynamic Compounds (PDCs) for the treatment of cancer. The MLT 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.



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The following table displays revenue and direct expenses from the MLT and PDT division for the three-month periods ended March 31:

	2020			2019		
	MLT	PDT	Total	MLT	PDT	Total
Sales	\$ 111,543	\$ -	\$ 111,543	\$ 121,179	\$ -	\$ 121,179
Cost of Sales	99,447	-	99,447	84,251	-	84,251
Gross Margin	12,096	-	12,096	36,928	-	36,928
<b>Operating Expenses</b>						
Selling expenses	136,894	-	136,894	178,807	-	178,807
Administrative expenses	343,945	189,384	533,329	408,593	122,964	531,557
Research and development expenses	138,141	909,141	1,047,282	67,017	380,734	447,751
Loss on foreign exchange	(885)	(884)	(1,770)	3,278	3,278	6,556
Interest expense	1,404	1,404	2,808	2,475	-	2,475
Interest income	(62,591)	-	(62,591)	(4,747)	-	(4,747)
	556,909	1,099,045	1,655,952	655,423	506,976	1,162,399
Loss for the period	\$ (544,813)	\$ (1,099,045)	\$ (1,643,856)	\$ (618,495)	\$ (506,976)	\$ (1,125,471)
Total Assets	\$ 4,381,847	\$ 9,373,159	\$ 13,755,006	\$ 4,089,585	\$ 192,856	\$ 4,282,441
Total Liabilities	641,340	637,764	1,279,104	802,558	347,085	1,149,643

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

	2020			2019		
	Canada	USA	International	Canada	USA	International
<b>Sales by Product Line</b>						
TLC-1000	\$ 70,506	\$ -	\$ -	\$ 70,617	\$ 5,075	\$ -
TLC-2000	41,038	-	-	45,487	-	-
	111,543	-	-	116,104	5,075	-
<b>Expenses</b>						
Cost of Sales	99,447	-	-	80,577	3,674	-
Selling Expenses	136,894	-	-	178,807	-	-
	236,341	-	-	259,384	3,674	-
	\$ (124,798)	\$ -	\$ -	\$ (143,280)	\$ 1,401	\$ -

As at March 31, 2020 and 2019, the Company's long-lived assets used in operations are all located in Canada. Timing of revenue is recognized at a point in time.

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### 18. Commitments

The Company's commitments consist of the following:

	Total	2020	2021	2022	2023
Research Commitments (a)	\$ 117,040	\$ 58,520	\$ 58,520	\$ -	-
Research Agreement (b)	91,695	30,565	30,565	30,565	-
Research Agreement (c)	758,160	758,160	-	-	-
Research Agreement (d)	145,589	123,189	22,400	-	-
<b>Total</b>	<b>\$ 1,112,484</b>	<b>\$ 970,434</b>	<b>\$ 111,485</b>	<b>\$ 30,565</b>	<b>-</b>

- a) Research Commitments under a research collaboration agreement with University Health Network for the Ontario Research Fund 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 \$231,560 relating to this commitment, of which \$117,040 is the remaining commitment.
- b) Research Commitments under a research agreement with a Trial Management Organization for the TLC-3000 cancer therapy project. Under the terms of this agreement, the Company is required to pay \$126,324 (USD\$96,800) for the period from July 23, 2019 through to December 31, 2022. The Company has paid \$34,629 (USD\$26,200) relating to this commitment, of which \$91,695 (USD\$70,600) is the remaining commitment.
- c) Research Commitments under a research agreement with Alphora Research Inc. for the TLC-3000 cancer therapy project. Under the terms of this agreement, the Company is required to pay \$1,000,000 for the period from September 27, 2019 through to April 30, 2020. The Company has paid \$241,840 relating to this commitment, of which \$758,160 is the remaining commitment.
- d) Research Commitments under a research collaboration agreement with University Health Network for the Sponsored Research Agreement. Under the terms of this agreement, the Company is required to pay \$184,789 for the period from March 1, 2020 through to February 28, 2021. The Company has paid \$39,200 relating to this commitment, of which \$145,589 is the remaining commitment.

### 19. Subsequent Events

Two former employee's of the Company have retained legal counsel and are seeking compensation for wrongful dismissal. The Company believes that both cases are without merit and plans to vigorously defend its position in both of these matters.

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a global pandemic, which continues to spread throughout Canada and around the world. As of May 28, 2020, the Company is aware of significant changes in its business as a result of COVID-19, notably unavailability of personnel, personnel working remotely or virtually and significant delays / cancellations in customer purchase decisions. Management is uncertain of the full extent of these impacts on its financial statements and believes that the business disruption caused by COVID-19 could be temporary; however, there is uncertainty around its duration and hence the potential impact on the business cannot be fully estimated as of the date of this report.

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On May 11, 2020, the Company extended the expiry date of 3,159,000 share purchase warrants, all of which are exercisable at \$0.30 per share. The share purchase warrants were issued on May 14, 2018 pursuant to a private placement involving the issuance of 5,104,000 units of the Company. The new expiry date of the warrants is May 14, 2022.