

Theralase Technologies Inc.

Condensed Interim Consolidated Financial Statements - Unaudited

As at September 30, 2019 and for the nine-month period ended September 30, 2019, and 2018

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.

Condensed Consolidated Balance Sheets

As at September 30, 2019 and December 31, 2018

Stated in Canadian Dollars

		Unaudited	
	Note	2019	2018
Assets			
Current assets			
Cash		\$ 14,975,634	\$ 1,033,699
Trade and other receivables	4	558,326	790,455
Inventories	5	913,252	864,261
Prepaid expenses and other assets		265,242	56,373
Total current assets		16,712,454	2,744,788
Non-current assets			
Trade receivables	4	92,361	111,957
Property and equipment		573,992	672,690
Right-of-use-asset	7	154,061	-
Intangible assets		7,703	18,002
Rent deposit		16,982	16,982
Total non-current assets		845,099	819,631
Total Assets		\$ 17,557,553	\$ 3,564,419
Liabilities			
Current liabilities			
Payables and accruals	6	\$ 790,468	\$ 2,565,780
Current portion of lease liability	7	59,660	-
Total current liabilities		850,128	2,565,780
Non-current liabilities			
Lease liability	7	97,394	-
Total non-current liabilities		97,394	-
Total liabilities		947,522	2,565,780
Equity attributable to shareholders			
Share capital	8,10	40,857,934	26,434,938
Contributed surplus	9	6,123,617	5,989,332
Common share purchase warrants	8,10	9,265,765	3,812,609
Accumulated deficit		(39,637,285)	(35,238,240)
Total Equity		16,610,031	998,639
Total Shareholders' Equity and Liabilities		\$ 17,557,553	\$ 3,564,419

Commitments (Note 19)

Approved on Behalf of the Board

[Randy Bruder]

Director

[Guy Anderson]

Director

THERALASE® TECHNOLOGIES INC.

Condensed Consolidated Statements of Operations (Unaudited)
For the three and nine month periods ended September 30, 2019
Stated in Canadian Dollars

		Three Months Ended September 30		Nine Months Ended September 30	
	Note	2019	2018	2019	2018
Sales		\$ 144,455	\$ 365,940	\$ 514,891	\$ 1,276,630
Cost of Sales		106,396	126,975	374,040	559,296
Gross Margin		38,059	238,965	140,851	717,334
Operating Expenses					
Selling expenses	13	161,413	174,610	505,914	673,814
Administrative expenses	14	736,595	257,016	1,798,682	1,400,207
Research and development expenses	15	927,679	536,735	2,231,054	1,266,839
(Gain) Loss on foreign exchange		559	(1,258)	8,976	1,553
Interest expense		3,297	-	9,298	662
Interest income		(4,707)	(5,321)	(14,028)	(13,573)
		1,824,836	961,782	4,539,896	3,329,502
Net loss and comprehensive loss for the period		(1,786,777)	(722,817)	\$ (4,399,045)	(2,612,168)
Basic and diluted loss per common share		(0.01)	(0.006)	(0.03)	(0.02)
Weighted average number of common		144,437,287	128,425,241	144,040,525	127,806,874

THERALASE® TECHNOLOGIES INC.

Condensed Consolidated Statements of Cash Flows (Unaudited)

For the nine month periods ended September 30

Stated in Canadian Dollars

	2019	2018
Cash flows from operating activities		
Net loss for the year	\$ (4,399,045)	\$ (2,612,168)
Items not involving cash		
Amortization of property and equipment	140,251	150,882
Amortization of right-of-use asset	38,440	-
Amortization of intangibles	10,298	13,462
Stock-based compensation expense	134,285	113,130
Loss on foreign exchange	8,976	1,553
Lease inducements	(420)	(840)
	<u>(4,067,215)</u>	<u>(2,333,981)</u>
Change in operating assets and liabilities other than cash		
Current trade and other receivables	223,157	201,554
Non-current trade receivables	19,596	-
Inventories	(48,991)	165,337
Prepaid expenses and other assets	(208,869)	8,592
Payables and accruals	(573,496)	1,313,960
	<u>(4,655,818)</u>	<u>(644,538)</u>
Cash flows from investing activities		
Purchase of property and equipment	(41,556)	(120,108)
	<u>(41,556)</u>	<u>(120,108)</u>
Cash flows from financing activities		
Payment of Lease Liabilities	(35,447)	-
Proceeds from public offering (net of issuance costs)	15,885,216	1,010,448
Proceeds from the exercise of share warrants	2,789,540	-
	<u>18,639,309</u>	<u>1,010,448</u>
Increase/(decrease) in cash during the year	13,941,935	245,802
Cash, beginning of year	1,033,699	253,902
Cash, end of period	<u>\$ 14,975,634</u>	<u>\$ 499,704</u>
Supplementary Information		
Interest Paid	\$ 9,298	\$ 662
Interest Received	\$ 14,028	\$ 13,573

THERALASE® TECHNOLOGIES INC.

Condensed Consolidated Statements of Changes in Equity (Unaudited)

For the nine-month periods ended September 30, 2019 and 2018

Stated in Canadian Dollars

		Number of Shares	Share Capital	Contributed Surplus	Common Share Purchase Warrants	Deficit	Total Shareholders' Equity
	Note	#	\$	\$	\$	\$	\$
Balance, December 31, 2017		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
Issued pursuant to private placement	8	5,104,000	723,683		296,307		1,019,990
Transaction cost on private placement	8		(9,300)		(242)		(9,542)
Loss for the period		-	-	-	-	(2,612,168)	(2,612,168)
Balance, September 30, 2018		131,585,526	25,622,071	5,921,503	3,506,932	(34,493,531)	556,975
Balance, December 31, 2018		134,877,585	26,434,938	5,989,332	3,812,609	(35,238,240)	998,639
Stock-based compensation expense	9	-	-	134,286	-	-	134,286
Exercised share purchase warrants	10	7,802,633	3,382,853	-	(593,313)	-	2,789,540
Issued pursuant to private placement	8	4,095,157	1,017,289	-	416,017	-	1,433,306
Transaction cost on private placement	8	-	(6,096)	-	(2,493)	-	(8,589)
Issued pursuant to public offering		57,500,000	11,045,879		6,204,121		17,250,000
Transaction cost on public offering			(1,016,929)		(571,176)		(1,588,105)
Loss for the period		-	-	-	-	(4,399,045)	(4,399,045)
Balance, September 30, 2019	3	204,275,375	40,857,934	6,123,617	9,265,765	(39,637,285)	16,610,031

THERALASE[®] TECHNOLOGIES INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

Three and Nine Month periods ended September 30, 2019 and 2018

Stated in Canadian Dollars

1. Nature of Operations

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

The Anti-Cancer Therapy (“**ACT**”) 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 Medical Laser Technology (“**MLT**”) division designs, develops, manufactures and commercializes medical laser systems and other technologies for the activation of PDCs as well as 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 and when 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 September 30, 2019, 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, 2018, but do not include all the information and disclosures required in the Company’s annual financial statements, and with the exception of new accounting policies adopted on January 1, 2019 as described below. 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 2018 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, 2018.

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 nine-month period ended September 30, 2019, the Company had a net loss of \$4,399,045 (2018 - \$2,612,168), an accumulated deficit of \$39,637,285 (2018 - \$35,238,240) and has historically used net cash in operations. The company closed a public offering of units for gross proceeds of \$17,250,000 (note 20) and as a result the company believes that it will be able to continue as a going concern for at least 12 months from the date of issuance of these interim condensed consolidated financial statements. Historically, the Company has been able to raise capital to continue to market its products and develop sales opportunities that could result

THERALASE® TECHNOLOGIES INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

Three and Nine-Month periods ended September 30, 2019 and 2018

Stated in Canadian Dollars

in additional sales of its products in the future.

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 research, development and commercialization efforts and, accordingly, management has pursued and will pursue as required, alternate financing sources to fund the Company's strategic business initiatives. The Company has successfully raised capital through equity offerings in 2019 and 2018 (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 the Company does not use financial ratios to manage capital. There were no changes in the Company's approach to capital management during the periods presented.

Approval of Financial Statements

The condensed interim consolidated financial statements for the nine-month period ended September 30, 2019 were approved and authorized for issue by the board of directors on November 29, 2019.

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. Other than the adoption of IFRS 16, Leases ("IFRS 16"), 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, 2018.

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 Condensed Interim Consolidated Financial Statements (Unaudited)

Three and Nine-Month periods ended September 30, 2019 and 2018

Stated in Canadian Dollars

3. Adoption of New Accounting Standard

On January 1, 2019, the Company implemented IFRS 16. The impact of implementation of IFRS 16 is described below.

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. The Company applied the cumulative catch-up approach to remaining lease payments as at January 1, 2019, without restatement of comparative figures presented for 2018 as previously reported under IAS 17. Upon the initial application as of January 1, 2019, a right of use asset and lease liability was recorded with respect to the Company's leased premises, with no net impact on retained earnings. As this lease was previously classified as an operating lease under IAS 17, the lease liability has been measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as at the date of initial application. Additionally, the right of use asset has been measured at an amount equal to the lease liability. The result of the initial application of IFRS 16 on January 1, 2019 was to record a right of use asset of \$192,501 and a lease liability of \$192,501. When measuring the lease liability, the Company discounted the remaining lease payments (the operating lease commitments as of December 31, 2018 of \$226,013), using its incremental borrowing rate, estimated to be 8%.

4. Trade and Other Receivables

	As at September 30, 2019	As at December 31, 2018
Trade receivable (net amount)	\$ 381,046	\$ 549,689
Government tax credits receivable	269,641	352,723
Total	650,687	902,412
Less: Non-Current trade receivables	(92,361)	(111,957)
Total	\$ 558,326	\$ 790,455

Write-offs of trade receivables for the nine-month period ended September 30, 2019 amounted to \$nil which was previously provided for (2018 - \$nil). In addition, a direct write-off of \$nil was made during the year (2018 - \$nil). Refer to note 16 (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 16.

THERALASE® TECHNOLOGIES INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

Three and Nine-Month periods ended September 30, 2019 and 2018

Stated in Canadian Dollars

5. Inventories

	As at September 30,	As at December 31, 2018
Raw materials	\$ 550,612	\$ 449,703
Work-in-process	16,212	10,594
Finished goods	346,428	403,964
Total	\$ 913,252	\$ 864,261

6. Payables and Accruals

	As at September 30, 2019	As at December 31, 2018
Trade payables	\$ 708,717	\$ 1,062,411
Salaries, employment taxes, and benefits	80,651	280,860
Current portion of warranty liability	1,100	1,100
Audit fees and contract payments	-	20,013
Investor deposits (note 8)	-	1,201,396
Total	\$ 790,468	\$ 2,565,780

7. Lease Liability 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%

	Property	Office Equipment	Total
Right-of-use Assets			
Balance at January 1, 2019	\$ 185,479	\$ 7,022	\$ 192,501
Depreciation charge for the period	37,096	1,345	38,440
Balance at September 30, 2019	\$ 148,382	\$ 5,678	\$ 154,061
Lease Liability			
Balance at January 1, 2019	\$ 185,479	\$ 7,022	\$ 192,501
Interest charge for the period	8,958	339	9,298
Lease payments for the period ⁽¹⁾	(43,125)	(1,620)	(44,745)
Balance at September 30, 2019	\$ 151,311	\$ 5,741	\$ 157,054

1) Lease payments for the period does not include variable property lease payments of \$32,827.

THERALASE[®] TECHNOLOGIES INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

Three and Nine-Month periods ended September 30, 2019 and 2018

Stated in Canadian Dollars

8. Public Offering and Private Placement

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 \$1,588,104.

The purchase price of \$0.30 per unit was allocated between the common shares (\$0.19 per share) and common share purchase warrants (\$0.11 per warrant), based on their relative fair values. Management determined that the allocation of the gross proceeds of \$17,250,000 was \$11,045,879 for the common shares issued and \$6,204,121 for the common share purchase warrants issued.

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

	August 22, 2019
Expected volatility (based on historical share prices)	78.86%
Risk-free interest rate	1.32%
Expected life	5 Years
Expected dividends	Nil
Strike Price	\$0.35
Share Price	\$0.24

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 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.

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

	January 9, 2019
Expected volatility (based on historical share prices)	96.04%
Risk-free interest rate	1.91%
Expected life	2 Years
Expected dividends	Nil
Strike Price	\$0.300
Share Price	\$0.330

THERALASE® TECHNOLOGIES INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

Three and Nine-Month periods ended September 30, 2019 and 2018

Stated in Canadian Dollars

9. Stock Options

The Company has a rolling stock option plan reserving for issue up to 10% (20,427,537 common shares as of September 30, 2019) 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, 2019 is provided below.

	Common shares under option	Weighted average exercised price \$
Outstanding, December 31, 2018	5,770,000	\$ 0.50
Expired during period	(1,190,000)	\$ 0.50
Forfeited during period	(110,000)	\$ 0.50
Granted during period	12,370,000	\$ 0.30
Outstanding, September 30, 2019	16,840,000	\$ 0.50

The following table summarizes information on the stock options outstanding as at September 30, 2019:

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 \$
70,000	0.1	0.50	70,000	0.50
1,250,000	0.7	0.50	1,250,000	0.50
50,000	1.0	0.50	50,000	0.50
20,000	1.5	0.50	20,000	0.50
3,080,000	2.5	0.50	3,080,000	0.50
12,370,000	4.9	0.30	-	0.30
16,840,000			4,470,000	

Under the stock option plan, the stock options vest over a three year period, commencing one year after the grant. As at September 30, 2019, 4,470,000 of the stock options were vested. All outstanding stock options as at September 30, 2019 will be fully vested by September 11, 2024.

For the nine-month period ended September 30, 2019, the Company recognized stock-based compensation expense of \$134,285 (2018 – \$113,030) for stock options issued to directors, officers, employees and consultants, of which \$120,566 is included in administrative expenses, \$988 in selling expenses and \$12,731 is included in research and development expenses. The remaining stock-based compensation expense is \$1,652,154.

THERALASE[®] TECHNOLOGIES INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

Three and Nine-Month periods ended September 30, 2019 and 2018

Stated in Canadian Dollars

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, 2018	37,753,848		3,812,609
Issued with shares	61,595,157	0.36	6,046,469
Exercised	(7,802,633)	0.35	(593,313)
Outstanding September 30, 2019	91,546,372		9,265,765

- 1) During 2019, 61,595,157 warrants were issued (see note 8)
- 2) During 2019, 7,802,663 warrants were exercised

The following table summarizes information on the common share purchase warrants outstanding for the nine-month period ended September 30, 2019:

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	0.42
\$0.375	10,538,599	-	5,983,333	-	4,555,266	2.11
\$0.300	4,978,300	-	1,819,300	-	3,159,000	0.62
\$0.500	3,165,009	-	-	-	3,165,009	1.01
\$0.500	-	-	-	4,095,157	4,095,157	1.28
\$0.350	-	-	-	57,500,000	57,500,000	4.89
	37,753,848	-	7,802,633	61,595,157	91,546,372	-

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 condensed interim consolidated financial statements.

Stock options to purchase 16,840,000 (2018 – 5,770,000) common shares and common share purchase warrants totaling 91,546,372 (2018 – 34,723,839) were not included in the computation of diluted loss per common share due to their anti-dilutive nature.

THERALASE® TECHNOLOGIES INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

Three and Nine-Month periods ended September 30, 2019 and 2018

Stated in Canadian Dollars

13. Selling Expenses

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

	2019	2018
Sales salaries	\$ 303,150	\$ 461,191
Advertising	74,655	67,011
Commission	30,185	56,274
Travel	40,104	38,432
Stock based compensation	988	816
Amortization and depreciation allocation	56,832	50,090
Total selling expenses	\$ 505,914	\$ 673,814

14. Administrative Expenses

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

	2019	2018
Insurance	\$ 36,688	\$ 33,270
Professional fees	236,649	365,592
Rent	32,827	74,296
General and administrative expenses	348,151	333,670
Administrative salaries	838,088	449,121
Director and advisory fees	116,742	27,879
Stock based compensation	120,566	92,621
Amortization and depreciation allocation	68,971	23,758
Total administrative expenses	\$ 1,798,682	\$ 1,400,207

15. Research and Development Expenses

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

	2019	2018
Research and development (net of investment tax credit)	\$ 2,155,137	\$ 1,156,650
Stock based compensation	12,731	19,693
Amortization and depreciation allocation	63,186	90,496
Total research and development expenses	\$ 2,231,054	\$ 1,266,839

16. Financial Instruments – Fair Value and Risks

IFRS 7 - Financial Instruments: Disclosures establish 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.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

Three and Nine-Month periods ended September 30, 2019 and 2018

Stated in Canadian Dollars

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, 2019 and December 31, 2018, the Company's cash is 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 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 and estimates of future economic conditions. The Company has applied the simplified approach to IFRS 9 to measure the loss allowance for trade receivable. 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:

	As at September 30,	As at December 31, 2018
Trade receivables (net amount)	\$ 381,046	\$ 549,689
Percentage outstanding more than 30 days	16%	24%
Percentage outstanding more than 120 days	4%	23%

The following table reflects the changes in the allowance for trade receivables during the nine-month period ended September 30, 2019 and the year ended December 31:

	2019	2018
Allowance for trade receivables - beginning of year	\$ 94,012	\$ 133,453
Allowance recorded against current year sales	-	-
Adjustment based on collection experience	-	(11,164)
Amounts written off	-	(28,277)
Allowance for trade receivables - end of year	\$ 94,012	\$ 94,012

THERALASE® TECHNOLOGIES INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

Three and Nine-Month periods ended September 30, 2019 and 2018

Stated in Canadian Dollars

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	Total	Payments Due by Period				
		2019	2020	2021	2022	2023
Payables and accruals	\$ 790,468	\$ 790,468	\$ -	\$ -	\$ -	-
Commitments	\$ 1,405,176	\$ 273,890	\$ 901,645	\$ 151,645	\$ 77,995	-
Total contractual obligations	\$ 2,195,644	\$ 1,064,358	\$ 901,645	\$ 151,645	\$ 77,995	-

The Company also 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 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 are as follows:

	As at September 30,	As at December 31, 2018
Cash	\$ 17,050	\$ 24,057
Trade and other receivables	172,928	271,481
Payables and accruals	(291,866)	(237,145)
Total	\$ (101,888)	\$ 58,393

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

THERALASE® TECHNOLOGIES INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

Three and Nine-Month periods ended September 30, 2019 and 2018

Stated in Canadian Dollars

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 September 30,	As at December 31, 2018
Cash	\$ 1,705	\$ 2,406
Trade and other receivables	17,293	27,148
Payables and accruals	(29,187)	(23,715)
Total	\$ (10,188)	\$ 5,839

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.

	2019	2018
Short-term compensation	\$802,564	\$583,333
Stock-based compensation	62,262	58,276
Total	\$864,826	\$641,609

Key management personnel were not paid post-employment benefits, termination benefits or other long term benefits during the nine-month periods ended September 30, 2019 and 2018. 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; (1) Anti-Cancer Therapy ("ACT") division and (2) Medical Laser Technology ("MLT") division. The ACT division is responsible for the research and development of Photo Dynamic Compounds ("PDCs") for the treatment of cancer. The MLT division is responsible for the Company's medical laser business, which researches, develops, commercializes and manufactures lasers used by the ACT division to activate PDCs and researches, develops, manufactures and distributes therapeutic laser to healthcare practitioners predominantly for the healing of pain.

The following table displays revenue and direct expenses from the MLT and ACT divisions for the nine-month periods ended September 30:

THERALASE® TECHNOLOGIES INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

Three and Nine-Month periods ended September 30, 2019 and 2018

Stated in Canadian Dollars

	2019			2018		
	MLT	ACT	Total	MLT	ACT	Total
Sales	\$ 514,891	\$ -	\$ 514,891	\$ 1,276,630	\$ -	\$ 1,276,630
Cost of Sales	374,040	-	374,040	559,296	-	559,296
Gross Margin	140,851	-	140,851	717,334	-	717,334
Operating Expenses						
Selling expenses	505,914	-	505,914	673,814	-	673,814
Administrative expenses	1,079,360	719,322	1,798,682	848,373	551,834	1,400,207
Research and development expenses	401,511	1,829,543	2,231,054	282,562	984,277	1,266,839
Loss on foreign exchange	4,488	4,488	8,976	776	777	1,553
Interest expense	4,649	4,649	9,298	331	331	662
Interest income	(14,028)	-	(14,028)	(13,573)	-	(13,573)
	1,981,894	2,558,002	4,539,896	1,792,283	1,537,219	3,329,502
Loss for the period	\$ (1,841,043)	\$ (2,558,002)	\$ (4,399,045)	\$ (1,074,949)	\$ (1,537,219)	\$ (2,612,168)
Total Assets	\$ 17,336,488	\$ 221,065	\$ 17,557,553	\$ 2,189,590	\$ 221,793	\$ 2,411,383
Total Liabilities	769,019	178,503	947,522	2,199,120	391,142	2,590,262

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

	2019			2018		
	Canada	USA	International	Canada	USA	International
Sales	\$ 477,502	\$ 23,926	\$ 13,463	\$ 847,870	\$ 253,742	\$ 175,018
Cost of Sales	346,879	17,381	9,780	378,139	100,488	80,669
Selling Expenses	500,259	5,655	-	473,326	84,766	115,722
	\$ (369,636)	\$ 890	\$ 3,683	\$ (3,595)	\$ 68,488	\$ (21,373)

As at September 30, 2019 and 2018, 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	2019	2020	2021	2022	2023
Lease obligations (a)	\$ 179,400	\$ 14,950	\$ 59,800	\$ 59,800	\$ 44,850	-
Lease obligations (b)	\$ 6,840	\$ 540	\$ 2,160	\$ 2,160	\$ 1,980	-
Research Commitments (c)	\$ 117,040	\$ -	\$ 58,520	\$ 58,520	\$ -	-
Research Agreement (d)	\$ 8,400	\$ 8,400	\$ -	\$ -	\$ -	-
Research Agreement (e)	\$ 93,496		\$ 31,165	\$ 31,165	\$ 31,165	-
Research Agreement (f)	\$ 1,000,000	250,000	\$ 750,000	-	-	-
Total	\$ 1,405,176	\$ 273,890	\$ 901,645	\$ 151,645	\$ 77,995	-

- 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.

THERALASE® TECHNOLOGIES INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

Three and Nine-Month periods ended September 30, 2019 and 2018

Stated in Canadian Dollars

- b) Lease obligations under a lease agreement related to the Company's office equipment, commenced on May 1, 2017 and expires on November 1, 2022. The future minimum lease payments are shown in the table above.
- c) Research Commitments under a research collaboration agreement with University Health Network for the 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.
- d) Research Commitments under a sponsored research agreement with University Health Network for the TLC-3000 cancer therapy project. Under the terms of this agreement, the Company is required to pay \$128,800 for the period from November 1, 2018 through to October 31, 2019. The Company has paid \$120,400 relating to this commitment, of which \$8,400 is the remaining commitment.
- e) 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 USD\$96,800 for the period from July 23, 2019 through to December 31, 2022. The Company has paid USD\$26,200 relating to this commitment, of which USD\$70,600 is the remaining commitment.
- f) 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 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

A former employee of the Company has retained legal counsel and is seeking compensation for wrongful dismissal. The Company believes that the demand is without merit and plans to vigorously defend its position in this matter.