Theralase Technologies Inc.

Condensed Interim Consolidated Financial Statements - Unaudited

As at March 31, 2018 and for the three-month period ended March 31, 2018, 2017 and 2016

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

THERALASE® TECHNOLOGIES INC.

Consolidated Balance Sheets

As at March 31, 2018 and December 31, 2017

Stated in Canadian Dollars

	Note	2018	2017
Assets			
Current assets			
Cash and cash equivalents		$ 29,090	$ 253,902
Trade and other receivables	5	1,057,898	1,164,469
Inventories	6	949,465	1,046,459
Prepaid expenses and other assets		78,209	77,787
Total current assets		2,114,662	2,542,617
Non-Current assets			
Property and equipment	7	719,271	744,149
Intangible assets	8	31,431	35,941
Total non-current assets		750,702	780,090
Total Assets		**$ 2,865,364**	**$ 3,322,707**
Liabilities			
Current liabilities			
Payables and accruals	9	1,843,450	$ 1,277,142
Total liabilities		1,843,450	1,277,142
Equity attributable to shareholders			
Share capital	10, 13	24,907,688	24,907,688
Common share purchase warrants	10, 12	3,210,867	3,210,867
Contributed surplus	11	5,788,790	5,808,373
Deficit		(32,885,431)	(31,881,363)
Total Equity		1,021,914	2,045,565
Total Shareholders' Equity and Liabilities		**$ 2,865,364**	**$ 3,322,707**

Commitments (Note 22)

Approved on Behalf of the Board

[Randy Bruder] Director

[Guy Anderson] Director

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Operations

For the Three Month Period ended March 31

Stated in Canadian Dollars

	Note	2018	2017	2016
Sales		$ 441,193	$ 507,428	$ 411,448
Cost of Sales		242,857	207,237	131,764
Gross Margin		198,336	300,191	279,684
Operating Expenses				
Selling expenses	15	$ 280,874	$ 410,979	$ 316,254
Administrative expenses	16	555,086	700,924	623,314
Research and development expenses	17	364,956	668,723	477,588
(Gain) Loss on foreign exchange		5,331	(7,519)	16,879
Interest expense		88	32	127
Interest income		(3,930)	(766)	(8,740)
		$ 1,202,404	$ 1,772,374	$ 1,425,423
Loss for the year	14	$ (1,004,068)	$ (1,472,184)	$ (1,145,739)
Basic and diluted loss per common share	14	$ (0.008)	$ (0.014)	$ (0.012)
Weighted average number of common shares outstanding (basic and diluted)		125,375,656	109,035,634	95,957,158

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

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Cash Flows
For the Three Month Period ended March 31
Stated in Canadian Dollars

	Note	2018	2017	2016
Cash flows from operating activities				
Net loss for the period		$ (1,004,068)	$ (1,472,184)	$ (1,145,739)
Items not involving cash				
Amortization of property and equipment	6	46,566	46,922	33,512
Amortization of intangibles	7	4,510	3,228	4,510
Stock-based compensation expense	11	(19,582)	84,411	151,435
Gain(loss) on foreign exchange		5,331	7,519	(16,879)
loss on sale of property and equipment		-	-	-
Lease inducements		(420)	(700)	(700)
		(967,663)	(1,330,803)	(973,860)
Change in operating assets and liabilities other than cash				
Trade and other receivables		101,240	(26,092)	544,644
Finance receivables		-	-	19,367
Inventories		96,994	52,151	(160,105)
Prepaid expenses and other assets		(422)	(28,320)	(48,786)
Payables and accruals		566,728	(31,710)	(81,219)
		(203,123)	(1,364,774)	(699,959)
Cash flows from investing activities				
Purchase of property and equipment	6	(21,689)	(7,101)	(31,820)
Proceeds on disposal of property and equipment	6		-	-
		(21,689)	(7,101)	(31,820)
Cash flows from financing activities				
Proceeds from public offering (net of issue costs)		-	-	-
Proceeds from the exercising of share warrants		-	-	-
		-	-	-
Increase in cash during the year		$ (224,812)	$ (1,371,875)	$ (731,779)
Cash, beginning of period		$ 253,902	$ 2,970,198	$ 4,340,856
Cash, end of period		$ 29,090	$ 1,598,322	$ 3,609,077
Supplementary Information				
Interest Paid		$ 88	$ 32	$ 127
Interest Received		$ 3,930	$ 766	$ 8,740

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Changes in Equity
As at March 31, 2018, 2017, 2016
Stated in Canadian Dollars

	Note	Number of Shares	Share Capital	Contributed Surplus	Common Share Purchase Warrants	Deficit	Total Shareholders' Equity
		#	$	$	$	$	$
Balance, December 31, 2015		107,047,360	19,967,937	4,822,699	2,392,342	(20,866,519)	6,316,459
Stock-based compensation expense	11	-	-	151,435	-	-	151,435
Loss for the period		-	-	-	-	(1,145,739)	(1,145,739)
Balance, March 31, 2016		107,047,360	19,967,937	4,974,133	2,392,342	(22,012,258)	5,322,154
Balance, December 31, 2016		121,284,026	22,568,232	5,314,181	3,596,395	(25,787,767)	5,691,041
Stock-based compensation expense	11	-	-	84,411	-	-	84,411
Loss for the period		-	-	-	-	(1,472,184)	(1,472,184)
Balance, March 31, 2017		121,284,026	22,568,232	5,398,592	3,596,395	(27,259,951)	4,303,268
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	11	-	-	(19,582)	-	-	(19,582)
Loss for the period		-	-	-	-	(1,004,068)	(1,004,068)
Balance, March 31, 2018		126,481,526	24,907,688	5,788,790	3,210,867	(32,885,431)	1,021,914

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 (**"IFRISIC"**) 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.

For the three-month period ended March 31, 2018, the Company had a net loss of $1,004,068 (2017 - $1,472,184, 2016 - $1,145,739), an accumulated deficit of $32,885,431 (2017 - $31,881,363) 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 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 2016 (note 10), 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 three-month period ended March 31, 2018 (including comparatives) were approved and authorized for issue by the board of directors on May 30, 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. 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 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
IFRS 15 provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting standards on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

The Company adopted the standard on January 1, 2018. The implementation of IFRS 15 did not have a significant impact on the Company's revenue streams.

Stated in Canadian Dollars

IFRS 9

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 also includes requirements relating to a new hedge accounting model, which represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

The adoption of IFRS 9 did not have a significant impact on the Company's financial statements.

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 standards will have on its financial statements. ***IFRS 16, Leases*** *("IFRS 16")* was issued in January 2016 and specifies how to recognize, measure, present and disclose leases. The standard provides a single lease accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting; however, remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

5. Trade and Other Receivables

	As at March 31, 2018	As at December 31, 2017
Trade Accounts Receivable (net amount)	$ 583,274	$ 719,569
Government Tax Credits Receivable	474,624	444,900
Total	**$ 1,057,898**	**$ 1,164,469**

Write offs of trade receivables for the three-month period ended March 31, 2018 amounted to $nil which was previously provided for (2017 - $nil, 2016 - $nil). In addition, a direct write-off of $nil was made during the year (2017 - $nil, 2016 - $nil). Refer to note 20 (i) for the continuity schedule of allowance for trade receivables.

Government tax credits receivable comprise research and development investment tax credits receivable from the federal government, which relate to qualifiable research and development expenditures under the applicable tax laws.

The Company's exposure to credit and currency risks related to trade and other receivables is presented in note 19.

Stated in Canadian Dollars

6. Inventories

	As at March 31, 2018	As at December 31, 2017
Raw materials	$ 650,491	$ 661,085
Work-in-process	6,133	3,494
Finished goods	292,841	381,880
Total	**$ 949,465**	**$ 1,046,459**

7. Property and Equipment

Cost

	Tools and Dies	Finance Lease Equipment	Computer Equipment	Furniture and Fixtures	Rental units (1)	Equipment	Leasehold Improvements	Total
Balance at January 1, 2016	$ 187,821	$ 2,595	$ 151,374	$ 113,066	$ 28,148	$ 191,863	$ 217,767	$ 892,634
Additions	10,850	-	151,304	29,281	89,467	5,140	10,170	296,212
Disposals	-	-	-	(6,357)	-	-	-	(6,357)
Balance at December 31, 2016	$ 198,671	$ 2,595	$ 302,678	$ 135,990	$ 117,615	$ 197,003	$ 227,937	$ 1,182,489
Balance at January 1, 2017	$ 198,671	$ 2,595	$ 302,678	$ 135,990	$ 117,615	$ 197,003	$ 227,937	$ 1,182,489
Additions	8,828	-	9,707	7,275	41,562	217,116	125,888	410,376
Disposals	-	-	-	(199)	(6,734)	-	(227,937)	(234,870)
Balance at December 31, 2017	$ 207,499	$ 2,595	$ 312,385	$ 143,066	$ 152,443	$ 414,119	$ 125,888	$ 1,357,995
Balance at January 1, 2018	$ 207,499	$ 2,595	$ 312,385	$ 143,066	$ 152,443	$ 414,119	$ 125,888	$ 1,357,995
Additions	-	-	-	-	-	-	21,689	21,689
Disposals	-	(2,595)	-	-	-	-	-	(2,595)
Balance at March 31, 2018	$ 207,499	$ -	$ 312,385	$ 143,066	$ 152,443	$ 414,119	$ 147,577	$ 1,377,089

Depreciation

	Tools and Dies	Finance Lease Equipment	Computer Equipment	Furniture and Fixtures	Rental units (1)	Equipment	Leasehold Improvements	Total
Balance at January 1, 2016	$ 58,290	$ 2,529	$ 97,819	$ 84,068	$ 22,304	$ 86,126	$ 136,275	$ 487,411
Depreciation for the year	34,121	66	30,573	7,734	5,337	27,619	24,527	129,977
Disposals for the year	-	-	-	(4,578)	-	-	-	(4,578)
Balance at December 31, 2016	$ 92,411	$ 2,595	$ 128,392	$ 87,224	$ 27,641	$ 113,745	$ 160,802	$ 612,810
Balance at January 1, 2017	$ 92,411	$ 2,595	$ 128,392	$ 87,224	$ 27,641	$ 113,745	$ 160,802	$ 612,810
Depreciation for the year	27,176	-	54,222	10,238	21,918	52,997	69,345	235,896
Disposals	-	-	-	(189)	(6,734)	-	(227,937)	(234,860)
Balance at December 31, 2017	$ 119,587	$ 2,595	$ 182,614	$ 97,273	$ 42,825	$ 166,742	$ 2,210	$ 613,846
Balance at January 1, 2018	$ 119,587	$ 2,595	$ 182,614	$ 97,273	$ 42,825	$ 166,742	$ 2,210	$ 613,846
Depreciation for the period	5,419	-	9,600	2,249	6,895	15,249	7,154	46,566
Disposals	-	(2,595)	-	-	-	-	-	(2,595)
Balance at March 31, 2018	$ 125,006	$ -	$ 192,214	$ 99,522	$ 49,720	$ 181,991	$ 9,364	$ 657,817

Carrying Amounts

	Tools and Dies	Finance Lease Equipment	Computer Equipment	Furniture and Fixtures	Rental units (1)	Equipment	Leasehold Improvements	Total
At December 31, 2016	$106,260	-	$174,286	$48,766	$89,973	$83,258	$67,135	$569,679
At December 31, 2017	$ 87,912	-	$ 129,771	$ 45,793	$ 109,617	$247,377	$123,678	$ 744,149
At March 31, 2018	$ 82,493	$ -	$ 120,171	$ 43,544	$ 102,722	$ 232,128	$ 116,524	$ 719,271

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

Stated in Canadian Dollars

8. Intangible Assets

Cost

	Patents	Trademarks	Development Costs	FDA Clinical Study Costs(1)	Total
Balance at December 31, 2016	$ 199,622	$ 58,346	$ 344,093	$ 509,649	$ 1,111,710
Balance at December 31, 2017	$ 199,622	$ 58,346	$ 344,093	$ 509,649	$ 1,111,710
Balance at March 31, 2018	$ 199,622	$ 58,346	$ 344,093	$ 509,649	$ 1,111,710
Amortization					
Balance at January 1, 2016	$ 136,860	$ 47,809	$ 344,093	$ 509,649	$ 1,038,411
Amortization for the year	15,889	3,431	-	-	19,320
Balance at December 31, 2016	$ 152,749	$ 51,240	$ 344,093	$ 509,649	$ 1,057,731
Balance at January 1, 2017	$ 152,749	$ 51,240	$ 344,093	$ 509,649	$ 1,057,731
Amortization for the year	14,606	3,432	-	-	18,038
Balance at December 31, 2017	$ 167,355	$ 54,672	$ 344,093	$ 509,649	$ 1,075,769
Balance at January 1, 2017	$ 167,355	$ 54,672	$ 344,093	$ 509,649	$ 1,075,769
Amortization for the period	3,652	858	-	-	4,510
Balance at March 31, 2018	$ 171,007	$ 55,530	$ 344,093	$ 509,649	$ 1,080,279
Carrying Amounts					
At December 31, 2016	$ 46,873	$ 7,106	$ -	$ -	$ 53,979
At December 31, 2017	$ 32,267	$ 3,674	$ -	$ -	$ 35,941
At March 31, 2018	$ 32,267	$ 3,674	$ -	$ -	$ 31,431

(1) FDA clinical study costs consist of expenses incurred in conducting the clinical trial Laser Therapy Applications for Chronic Joint Pain used to obtain the FDA clearance in July 2005, which allows for the marketing and sale of the TLC-1000 product line into the US market.

9. Payables and Accruals

	As at March 31, 2018	As at December 31, 2017
Trade payables	$ 1,406,487	$ 1,089,297
Salaries, employment taxes, and benefits	234,401	102,701
Current portion of warranty liability	1,100	1,100
Audit fees and contract payments	201,462	84,044
Total	**$ 1,843,450**	**$ 1,277,142**

10. Public Offering

On November 10, 2016, the Company completed a financing by way of a public offering, where 14,236,666 units were issued at a price of $0.30 per unit for gross proceeds of $4,271,000. 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 $0.375, expiring on November 10, 2021. In connection with the offering, the Company incurred financing costs of $485,452, of which $466,652 was paid in cash and $18,800 was paid through issuance of 526,933 broker warrants. Each broker warrant is exercisable into one common share at an exercise price of $0.375 per share for a period of sixty months after the closing of the offering.

Stated in Canadian Dollars

The purchase price of $0.30 per unit was allocated between the common shares ($0.21 per share) and common share purchase warrants ($0.09 per warrant), based on their relative fair values. Management determined that the allocation of the net proceeds of $3,804,348 was $2,600,295 for the common shares issued and $1,204,053 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:

	November 10, 2016
Expected volatility (based on historical share prices)	66.09%
Risk-free interest rate	0.87%
Expected life	5 Years
Expected dividends	$nil
Strike price	$0.375
Share price	$0.25

11. Stock Options

The Company has a rolling stock option plan reserving for issue under this plan up to 10% (12,648,153 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 three-month period ended March 31, 2018, 2017 and 2016 is provided below.

	Common shares under option	Weighted average exercised price $
Outstanding, January 1, 2016	10,105,000	0.50
Granted (1)	380,000	0.50
Forfeited (2)	(1,310,000)	0.50
Expired (3)	(1,765,000)	0.50
Outstanding, December 31, 2016	7,410,000	0.50
Forfeited (4)	(320,000)	0.50
Granted (5)	3,220,000	0.50
Outstanding, December 31, 2017	10,310,000	0.50
Forfeited (6)	(4,430,000)	0.50
Outstanding, March 31, 2018	**5,880,000**	**0.50**

1) On January 1, April 4, April 18, May 16 and November 2, 2016 options were granted to certain employees and consultants of the Company totaling 380,000 at $0.50 each vesting in three tranches with tranches vesting in one, two and three years respectively and expiring five years from date of issue.
2) During 2016, certain employees and consultants were terminated and/or resigned from the employment of the Company and forfeited all non-vested and non-exercised options totaling 1,310,000.
3) On October 25, 2016, certain stock options previously issued to employees and consultants expired totaling 1,765,000.
4) During 2017, certain employees and consultants were terminated and/or resigned from the employment of the Company and forfeited all non-vested and non-exercised options totaling 320,000.
5) On April 18, 2017 options were granted to certain employees and consultants of the Company totaling 3,220,000 at $0.50 each

Stated in Canadian Dollars

vesting in three tranches with tranches vesting in one, two and three years respectively and expiring five years from date of issue

6) 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 130,000.

The following table summarizes information on the stock options outstanding as at March 31, 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 $**	
1,190,000	1.3	$	0.50	1,190,000		0.50
80,000	1.6	$	0.50	80,000		0.50
1,350,000	2.2	$	0.50	900,000		0.50
50,000	2.5	$	0.50	33,333		0.50
20,000	3.0	$	0.50	13,333		0.50
3,190,000	4.1	$	0.50	-		-
5,880,000		**$**	**0.50**	**2,216,667**	**$**	**0.50**

Under the stock option plan, the stock options vest over a three year period, commencing one year after the grant. As at March 31, 2018, 2,216,667 of the stock options were vested. All outstanding stock options as at March 31, 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:

	2017	**2016**
Risk-free interest rate	0.98%	0.68%
Expected volatility*	72.59%	63.28%
Expected life	5 years	5 years
Expected dividends	Nil	Nil
Weighted average grant date fair value	$0.20	$0.20
Weighted average exercise price	$0.50	$0.50
Forfeiture rate	28%	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:

Stated in Canadian Dollars

	2018	2017	2016
Risk-free interest rate	1.77%	1.73%	0.84%
Expected volatility*	60.80%	61.40%	71.07%
Expected life	3 Years	3 Years	5 years
Expected dividends	Nil	Nil	Nil
Weighted average grant date fair value	$0.29	$0.28	$0.24
Weighted average exercise price	$0.50	$0.50	$0.50
Forfeiture rate	18%	18%	18%

For the three-month period ended March 31, 2018, the Company recognized a stock-based compensation expense of ($19,582) (2017 - $484,411, 2016- $151,435) for stock options issued to directors, officers, employees and consultants, of which ($27,506) is included in administrative expenses, $356 in selling expenses and $7,567 is included in research and development expenses.

*Based on historical volatility

12. 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 January 1, 2016	20,526,940		2,392,343
Issued with shares	14,763,599	0.38	1,204,053
Outstanding December 31, 2016	35,290,539		3,596,396
Exercised	(5,197,500)	0.38	(371,947)
Expired	(482,500)	0.38	(13,582)
Outstanding December 31, 2017	29,610,539		3,210,867
Outstanding March 31, 2018	**29,610,539**		**3,210,867**

1) During 2017, 5,197,500 warrants were exercised. The share price at the exercise date was $0.38
2) During 2017, 482,500 warrants expired unexercised.

The following table summarizes information on the common share purchase warrants outstanding for the three-month period ended and as of March 31, 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)
$0.54	19,071,940	-	-	-	19,071,940	1.92
$0.375	10,538,599	-	-	-	10,538,599	3.61
	29,610,539	-	-	-	29,610,539	-

13. Share Capital

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

Stated in Canadian Dollars

14. 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 consolidated financial statements.

Stock options to purchase 5,880,000 (2017 - 7,380,000, 2016 – 10,035,000) common shares and common share purchase warrants totaling 29,610,539 (2017 - 35,290,539, 2016 – 20,526,940) were not included in the computation of diluted loss and comprehensive loss per common share due to their anti-dilutive nature.

15. Selling Expenses

The following are expenses classified as selling expenses on the condensed interim consolidated financial statements as of March 31:

		2018		**2017**		**2016**
Sales salaries	$	210,500	$	273,308	$	198,153
Advertising		16,455		69,114		33,239
Commission		18,954		22,523		19,055
Travel		17,640		22,803		46,464
Stock based compensation		356		(81)		6,861
Amortization and depreciation allocation		16,969		23,312		12,482
Total selling expenses		**$280,874**	**$**	**410,979**		**$316,254**

16. Administrative Expenses

The following are expenses classified as administrative expenses on the condensed interim consolidated financial statements as of March 31:

		2018		**2017**		**2016**
Insurance	$	16,728	$	25,002	$	19,708
Professional fees		231,568		71,748		73,303
Rent		24,765		20,300		20,300
General and administrative expenses		76,680		221,139		134,532
Administrative salaries		214,236		254,430		220,400
Director and advisory fees		9,741		17,993		24,613
Stock based compensation		(27,506)		78,220		120,769
Amortization and depreciation allocation		8,874		12,092		9,688
Total administrative expenses	**$**	**555,086**	**$**	**700,924**	**$**	**623,314**

17. Research and Development Expenses

The following are expenses classified as research and development expenses on the condensed interim consolidated financial statements as of March 31:

Stated in Canadian Dollars

		2018		2017		2016
Research and development (net of investment tax credit)	$	332,164	$	647,705	$	437,932
Stock based compensation		7,567		6,272		23,803
Amortization and depreciation allocation		25,225		14,746		15,853
Total research and development expenses		**$364,956**		**$668,723**		**$477,588**

18. Financial Instruments – Fair Value and Risks

IFRS 7 - Financial Instruments: Disclosures establishes a fair value hierarchy that reflects the significance of inputs used in making fair value measurements as follows:

Level 1 quoted prices in active markets for identical assets or liabilities;

Level 2 inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. from derived prices)

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

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

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As at March 31, 2018 and December 31, 2017, 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 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 March 31, 2018 and December 31, 2017:

		As at March 31, 2018		As at December 31, 2017
Trade and other receivables	$	583,274	$	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 three-month periods ending March 31, 2018 and December 31, 2017:

Stated in Canadian Dollars

	March 31, 2018	December 31, 2017
Allowance for trade receivables - beginning of period	$ 133,454	$ 139,627
Allowance recorded against current period sales		14,331
Adjustment based on collection experience		13,125
Amounts written off		(33,629)
Allowance for trade receivables - end of period	**$ 133,454**	**$ 133,454**

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:

		Payments Due by Period				
Contractual Obligations	**Total**	**2018**	**2019**	**2020**	**2021**	**2022**
Payables and accruals	$ 1,811,221	1,811,221	-	-	-	-
Commitments	$ 532,520	$ 129,648	$ 116,407	$ 118,317	$ 118,317	$ 49,831
Total contractual obligations	$ 2,343,741	1,940,869	116,407	118,317	118,317	49,831

The Company also has contractual obligations (note 22) in the form of lease obligations related to the Company's premises and research and development commitments.

iii Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect the Company's income or the value of the financial instruments held.

The Company is subject to interest rate risk on its cash; however, it does not expect a movement in interest rates to have a significant impact on the Company's financial position.

iv Foreign currency exchange risk

The Company is exposed to foreign currency exchange risk. This risk arises from the Company's holdings of US dollar denominated cash, trade and other receivables and payables and accrued liabilities. Changes arising from this risk could impact the Company's reported foreign currency exchange gains or losses.

Accounts exposed to foreign currency exchange risk as at March 31, 2018 and December 31, 2017 are as follows:

	As at March 31, 2018	As at December 31, 2017
Cash	$ (1,821)	$ 89,734
Trade and other receivables	282,991	271,669
Payables and accruals	(402,844)	(306,521)
Total	**$ (121,674)**	**$ 54,882**

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

v Foreign currency exchange risk sensitivity analysis

The following table details the Company's sensitivity analysis to a 10% strengthening in the US dollar on foreign currency denominated monetary items and adjusts its translation at the consolidated balance sheet dates for a 10% change in foreign currency exchange rates. For a 10% weakening of the US dollar against the Canadian dollar, there would be an equal and opposite impact on loss and comprehensive loss for the year.

	As at March 31, 2018	As at December 31, 2017
Cash	$ (182)	$ 8,973
Trade and other receivables	28,299	27,167
Payables and accruals	(40,284)	(30,652)
Total	**$ (12,167)**	**$ 5,488**

20. 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.

	2018	**2017**	**2016**
Short-term compensation	$183,333	$175,000	$125,000
Stock-based compensation	(35,467)	59,732	106,469
Total	**$147,866**	**$234,732**	**$231,469**

Key management personnel were not paid post-employment benefits, termination benefits or other long term benefits during the three-month periods ended March 31, 2018, 2017 and 2016. Fees paid to directors have been disclosed in note 17.

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

21. 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

Stated in Canadian Dollars

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.

The following table displays revenue and direct expenses from the PDT and TLT division for the three-month periods ended March 31, 2018, 2017 and 2016:

	2018			2017			2016		
	TLT	**PDT**	**Total**	**TLT**	**PDT**	**Total**	**TLT**	**PDT**	**Total**
Sales	$ 441,193	$ -	$ 441,193	$ 507,428	$ -	$ 507,428	$ 411,448	$ -	$ 411,448
Cost of Sales	242,857	-	242,857	207,237	-	207,237	131,764	-	131,764
Gross Margin	198,336	-	198,336	300,191	-	300,191	279,684	-	279,684
Operating Expenses									
Selling expenses	280,874	-	280,874	410,979	-	410,979	316,254	-	316,254
Administrative expenses	336,307	218,779	555,086	469,420	231,504	700,924	268,958	354,356	623,314
Research and development expenses	110,244	254,712	364,956	199,276	469,447	668,723	-	477,588	477,588
(Gain) loss on foreign exchange	2,664.50	2,666	5,331	(3,760)	(3,760)	(7,520)	8,440	8,440	16,880
Interest expense	44	44	88	16	16	32	64	64	128
Interest income	(3,930)	-	(3,930)	(766)	-	(766)	(8,740)	-	(8,740)
	726,204	476,200	1,202,404	1,075,166	697,207	1,772,374	584,976	840,448	1,425,423
Loss for the period	$ (527,868)	$ (476,200)	$ (1,004,068)	$ (774,975)	$ (697,207)	$ (1,472,184)	$ (305,292)	$ (840,448)	$ (1,145,739)
Total Assets	$ 2,603,891	$ 261,473	$ 2,865,364	$ 4,532,537	$ 288,763	$ 4,821,300	$ 5,599,229	$ 356,914	$ 5,956,142
Total Liabilities	1,529,061	282,160	1,811,221	389,683	128,349	518,032	342,614	361,831	704,445

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

	2018			**2017**			**2016**		
	Canada	**USA**	**International**	**Canada**	**USA**	**International**	**Canada**	**USA**	**International**
Sales	$ 297,061	$ 90,354	$ 53,778	$ 322,186	$ 141,714	$ 43,528	$ 180,069	$ 152,375	$ 79,004
Cost of Sales	164,038	45,015	33,804	131,583	57,877	17,777	51,290	45,713	34,762
Selling Expenses	179,606	58,101	43,166	323,619	87,360	-	177,700	128,022	10,532
	$ (46,583)	**$ (12,763)**	**$ (23,192)**	**$ (133,016)**	**$ (3,523)**	**$ 25,751**	**$ (48,921)**	**$ (21,360)**	**$ 33,710**

As at March 31, 2018, 2017 and 2016, the Company's long-lived assets used in operations are all located in Canada.

22. Commitments

The Company's commitments consist of the following:

		Total	**2018**	**2019**	**2020**	**2021**	**2022**
Lease obligations	(a)	$ 270,440	43,128	57,887	59,797	59,797	49,831
Research Agreement	(b)	$ 262,080	86,520	58,520	58,520	58,520	-
Total		**$ 532,520**	**129,648**	**116,407**	**118,317**	**118,317**	**49,831**

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 $86,520 in June 2017 relating to this commitment, in which $262,080 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.

23. Subsequent Events

On May 14, 2018 the Company closed a non-brokered private placement of units. On closing, the Company issued an aggregate of 5,104,000 Units at a price of $0.20 per Unit for aggregate gross proceeds of approximately $1,020,800. Each Unit consists of one common share of the Company and one common share purchase warrant (each, a "**Warrant**"). Each Warrant entitles the holder to acquire an additional Common Share at a price of $0.30 for a period of 24 months following the date of issuance.