Theralase Technologies Inc.

Condensed Interim Consolidated Financial Statements - Unaudited

As at March 31, 2021 and for the three-month period ended March 31, 2021 and 2020

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, 2021 and December 31, 2020
Stated in Canadian Dollars

	Note		2021		2020
Assets					
Current assets					
Cash and cash equivalents		**$**	**6,688,201**	$	7,880,243
Trade and other receivables	3		**572,946**		485,238
Inventories	4		**574,384**		452,238
Prepaid expenses and other assets			**197,801**		97,900
Total current assets			**8,033,332**		8,915,619
Non-current assets					
Trade receivables	3		**44,434**		55,325
Property and equipment	5		**951,425**		951,258
Right-of-use-assets	6		**77,180**		89,993
Rent deposit			**8,587**		8,587
Total non-current assets			**1,081,626**		1,105,163
Total Assets		**$**	**9,114,958**	$	10,020,782
Liabilities					
Current liabilities					
Payables and accruals	7	**$**	**678,233**	$	764,790
Current portion of lease liabilities	6		**57,759**		56,619
Total current liabilities			**735,992**		821,409
Non-current liabilities					
Lease liabilities	6		**20,849**		35,724
Total non-current liabilities			**20,849**		35,724
Total Liabilities			**756,842**		857,133
Equity attributable to shareholders					
Share capital	10		**42,120,421**		42,120,421
Contributed surplus	8,9		**10,368,750**		10,254,440
Common share purchase warrants	9		**5,469,275**		5,295,255
Accumulated deficit			**(49,600,330)**		(48,506,467)
Total Equity			**8,358,116**		9,163,649
Total Shareholders' Equity and Liabilities		**$**	**9,114,958**	$	10,020,782

Commitments (Note 18)

Approved on Behalf of the Board

[Randy Bruder] Director

[Matthew Perraton] Director

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

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Operations
For the three-month periods ended March 31
Stated in Canadian Dollars

	Note	2021	2020
Sales		$ **124,783**	$ 111,543
Cost of sales		**74,463**	99,447
Gross margin		**50,320**	12,096
Operating expenses			
Selling expenses	12	**95,780**	136,894
Administrative expenses	13	**418,454**	533,329
Research and development expenses	14	**589,567**	1,047,282
(Gain) from legal settlement		**(131,941)**	-
(Gain) loss on foreign exchange		**2,801**	(1,770)
Interest accretion on lease liabilities	6	**1,756**	2,808
Interest income		**(7,004)**	(62,591)
		969,413	1,655,952
Net loss and comprehensive loss for the period		$ **(919,093)**	$ (1,643,856)
Basic and diluted loss per common share	11	**(0.004)**	(0.051)
Weighted average number of common shares		**204,275,875**	204,275,863

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

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Cash Flows
For the three-month periods ended March 31
Stated in Canadian Dollars

	2021	2020
Cash flows from operating activities		
Net loss for the period	**$ (919,093)**	$ (1,643,856)
Items not involving cash:		
Amortization of property and equipment	**48,245**	48,543
Amortization of right-of-use assets	**12,813**	12,813
Amortization of intangibles	**-**	1,387
Stock-based compensation expense	**114,310**	264,140
(Gain) loss on foreign exchange	**2,801**	(1,770)
Interest accretion from lease liabilities	**1,756**	2,808
	(739,167)	(1,315,935)
Change in operating assets and liabilities other than cash:		
Current trade and other receivables	**(90,510)**	94,221
Non-current trade receivables	**10,891**	12,213
Inventories	**(122,146)**	(19,101)
Prepaid expenses and other assets	**(99,901)**	(30,831)
Payables and accruals	**(88,313)**	(325,670)
	(1,129,145)	(1,585,103)
Cash flows from investing activity		
Purchase of property and equipment	**(48,412)**	(34,782)
	(48,412)	(34,782)
Cash flows from financing activities		
Payment of lease liabilities	**(13,735)**	(12,681)
Warrant extension costs	**(750)**	-
Proceeds from the exercise of share warrants	**-**	175
	(14,485)	(12,506)
Increase (decrease) in cash and cash equivalents during the period	**(1,192,042)**	(1,632,391)
Cash and cash equivalents, beginning of period	**7,880,243**	12,548,550
Cash and cash equivalents, end of period	**$ 6,688,201**	$ 10,916,159
Supplementary Information		
Interest Paid	**$ -**	$ -
Interest Received	**$ 7,004**	$ 62,591

The accompanying notes are an integral part of these unaudited condensed consolidated interim 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
		#	$	$	$	$	$
Balance, December 31, 2019		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		-	-	2,351,587	(2,351,587)	-	-
Exercised share purchase warrants		500	208	-	(33)	-	175
Loss for the period		-	-	-	-	(1,643,856)	(1,643,856)
Balance, March 31, 2020		204,275,875	42,120,421	9,606,548	5,044,943	(44,296,010)	12,475,902
Balance, December 31, 2020		**204,275,875**	**42,120,421**	**10,254,440**	**5,295,255**	**(48,506,467)**	**9,163,649**
Stock-based compensation expense	8	**-**	**-**	**114,310**	**-**	**-**	**114,310**
Extension of warrants	9	**-**	**-**		**174,770**	**(174,770)**	**-**
Warrants extension costs	9	**-**	**-**		**(750)**	**-**	**(750)**
Loss for the period		**-**	**-**	**-**	**-**	**(919,093)**	**(919,093)**
Balance, March 31, 2021		**204,275,875**	**42,120,421**	**10,368,750**	**5,469,275**	**(49,600,330)**	**8,358,116**

1. Nature of Operations

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

The Anti-Cancer Therapy (“**ACT**”) 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, bacteria and viruses. The Cool Laser Therapy (“**CLT**”) 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, 2021, 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, 2020, 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 2020 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, 2020.

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, 2021, the Company had a net loss of $919,093 (2020 - $1,643,856), an accumulated deficit of $49,600,330 (2020 - $44,296,010) 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 condensed interim 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 condensed interim 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-2000, the Company's existing product line 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 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 condensed interim consolidated financial statements for the three-month period ended March 31, 2021 (including comparatives) were approved and authorized for issue by the board of directors on May 28, 2021.

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, 2020.

Basis of consolidation

The condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries; Theralase Inc. and Theralase Biotech Inc., over which the Company exercises control. Inter-company balances and transactions are eliminated in preparing the condensed interim consolidated financial statements.

Reclassification

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

Stated in Canadian Dollars

3. Trade and Other Receivables

	As at March 31, 2021	As at December 31, 2020
Trade receivable (net amount)	$ 302,007	$ 230,283
Government tax credits receivable	315,373	310,280
Total	617,380	540,563
Less: Non-current trade receivables	(44,434)	(55,325)
Total	$ 572,946	$ 485,238

Write offs of trade receivables for the three-month period ended amounted to $nil which was previously provided for (2020 - $nil). Refer to note 15 (i) for the continuity schedule of allowance for trade receivables.

Government tax credits receivable comprise of research and development investment tax credits and the Canada Emergency Wage Subsidy from the federal government which relate to qualifiable research and development expenditures under the applicable tax laws. Research and development tax credits receivable total $240,000 and has been allocated against research and development expenses. The Canada Emergency Wage Subsidy receivable totals $19,366 and is accounted for as a reduction of operating expenses and has been recognized as follows, $2,886 against selling expenses, $3,665 against administrative expenses, $4,261 against cost of goods sold and $8,554 against research and development expenses.

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, 2021	As at December 31, 2020
Raw materials	$ 359,062	$ 229,063
Work-in-process	1,455	1,135
Finished goods	213,867	222,040
Total	$ 574,383	$ 452,238

During the three-month period, inventories amounting to $10,746 (2020 - $28,492) were incurred as expense in cost of sales in the Statements of Operations.

Stated in Canadian Dollars

5. Property and Equipment

Cost	Tools and Dies	Computer Equipment	Furniture and Fixtures	Rental units[1]	Equipment	Leasehold Improvements	Total
Balance at January 1, 2020	$ 208,649	$ 407,458	$ 149,031	$ 133,929	$ 862,353	$ 242,206	$ 2,003,626
Additions	5,144	-	12,745	-	138,285	8,402	164,576
Reclassification	-	-	-	3,313	(3,313)	-	-
Disposals	(39,653)	(129,313)	(90,552)	(2,900)	(54,258)	-	(316,676)
Balance at December 31, 2020	$ 174,140	$ 278,145	$ 71,224	$ 134,342	$ 943,067	$ 250,608	$ 1,851,526
Balance at January 1, 2021	**$ 174,140**	**$ 278,145**	**$ 71,224**	**$ 134,342**	**$ 943,067**	**$ 250,608**	**$ 1,851,526**
Additions	**23,141**	**-**		**-**	**20,462**	**4,809**	**48,412**
Balance at March 31, 2021	**$ 197,281**	**$ 278,145**	**$ 71,224**	**$ 134,342**	**$ 963,529**	**$ 255,417**	**$ 1,899,938**
Depreciation							
Balance at January 1, 2020	$ 158,065	$ 267,174	$ 115,289	$ 78,472	$ 281,268	$ 89,977	$ 990,245
Depreciation for the year	13,731	42,190	9,167	27,357	64,409	57,659	214,513
Reclassification	-	-	-	(826)	826	-	-
Disposals	(39,606)	(122,002)	(86,457)	(2,901)	(53,524)	-	(304,490)
Balance at December 31, 2020	$ 132,190	$ 187,362	$ 37,999	$ 102,102	$ 292,979	$ 147,636	$ 900,268
Balance at January 1, 2021	**$ 132,190**	**$ 187,362**	**$ 37,999**	**$ 102,102**	**$ 292,979**	**$ 147,636**	**$ 900,268**
Depreciation for the period	**3,616**	**6,716**	**1,638**	**6,559**	**17,271**	**12,445**	**48,245**
Balance at March 31, 2021	**$ 135,806**	**$ 194,078**	**$ 39,637**	**$ 108,661**	**$ 310,250**	**$ 160,081**	**$ 948,513**
Carrying Amounts							
At December 31, 2020	$ 41,950	$ 90,783	$ 33,225	$ 32,240	$ 650,088	$ 102,972	$ 951,258
At March 31, 2021	**$ 61,475**	**$ 84,067**	**$ 31,587**	**$ 25,681**	**$ 653,279**	**$ 95,336**	**$ 951,425**

For the three-month period ended March 31, 2021, there was amortization included in cost of sales amounting to $6,730 (2020 - $9,159). As at March 31, 2021, research and development equipment included assets not available for use with a cost of $329,479.

6. Lease Liabilities and Right-of-use-Assets

	Property	Office Equipment	Total
Right-of-use Assets			
Balance at January 1, 2020	$ 136,018	$ 5,229	$ 141,247
Depreciation charge for the period	12,365	448	12,813
Balance at March 31, 2020	$ 123,653	$ 4,781	$ 128,434
Balance at January 1, 2021	**$ 86,557**	**$ 3,436**	**$ 89,993**
Depreciation charge for the period	**12,365**	**448**	**12,813**
Balance at March 31, 2021	**$ 74,192**	**$ 2,988**	**$ 77,180**

Stated in Canadian Dollars

Lease Liabilities			
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[(1)]	(14,950)	(540)	(15,490)
Balance at March 31, 2020	$ 127,064	$ 4,876	$ 131,940
Balance at January 1, 2021	**$ 88,830**	**$ 3,513**	**$ 92,343**
Interest charge for the period	**1,689**	**67**	**1,756**
Lease payments for the period[(1)]	**(14,950)**	**(541)**	**(15,491)**
Balance at March 31, 2021	**$ 75,569**	**$ 3,039**	**$ 78,608**

(1) Lease payments does not include variable property lease payments of $9,887 (2020 - $9,401).

	As at March 31, 2021			As at December 30, 2020		
	Property	**Office Equipment**	**Total**	Property	Office Equipment	Total
Current portion of lease liabilities	**$ 55,770**	**$ 1,989**	**$ 57,759**	$ 54,669	$ 1,950	$ 56,619
Non-current portion of lease liabilities	**19,799**	**1,051**	**20,849**	34,160	1,564	35,724
	$ 75,569	**$ 3,039**	**$ 78,608**	$ 88,829	$ 3,514	$ 92,343

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

	Property	**Office Equipment**	**Total**
2021	55,770	1,989	57,759
2022	19,799	1,051	20,849
	$ 75,569	**$ 3,039**	**$ 78,608**

7. Payables and Accruals

	As at March 31, 2021	As at December 31, 2020
Raw materials	**$ 359,062**	$ 229,063
Work-in-process	**1,455**	1,135
Finished goods	**213,867**	222,040
Total	**$ 574,383**	$ 452,238

8. Stock Options

The Company has a rolling stock option plan reserving for issue under this plan up to 10% (20,427,588 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.

Stated in Canadian Dollars

A summary of stock options issued under the stock option plan for the three-month period ended March 31, 2021 is provided below.

	Common shares under option	Weighted average exercised price $
Outstanding, December 31, 2020	14,415,000	0.35
Forfeited during period[1]	**(250,000)**	**0.50**
Outstanding, March 31, 2021	**14,165,000**	**0.33**

1) During 2021, certain employees were terminated and/or resigned from the employment of the Company and forfeited all non-vested options and non-exercised totaling 250,000.

The following table summarizes information on the stock options outstanding as at March 31, 2021:

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 $**
10,000	0.1	0.50	10,000	0.50
3,020,000	1.0	0.50	3,020,000	0.50
11,135,000	3.4	0.28	3,711,667	0.28
14,165,000			**6,741,667**	

Under the stock option plan, the stock options vest over a three year period, commencing one year after the grant. As at March 31, 2021, 6,741,667 of the stock options were vested. All outstanding stock options as at March 31, 2021 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, 2021, the Company recognized stock-based compensation expense of $114,310 (2020 - $264,140) for stock options issued to directors, officers, employees and consultants, of which $65,416 (2020 - $140,942) is included in administrative expenses, $1,002 (2020 - $579) in selling expenses and $47,892 (2020 - $122,619) is included in research and development expenses. The remaining stock based compensation amount to be expensed on non-vested options, net of forfeiture, is $353,860.

Stated in Canadian Dollars

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, 2020	72,473,931		5,295,255
Extended	**-**		**174,770**
Extension Costs	**-**		**(750)**
Outstanding March 31, 2021	**72,473,931**		**5,469,275**

The following table summarizes information on the common share purchase warrants outstanding for the year ended and as of March 31, 2021:

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)
$0.375	4,555,266	-	-	-	4,555,266	0.61
$0.300	3,159,000	-	-	-	3,159,000	1.12
$0.500	3,165,008	-	-	-	3,165,008	1.51
$0.500	4,095,157	-	-	-	4,095,157	1.78
$0.350	57,499,500	-	-	-	57,499,500	3.39
	72,473,931	**-**	**-**	**-**	**72,473,931**	-

On January 8, 2021, the Board of Directors of the Company extended the expiry date of 4,095,157 share purchase warrants issued on January 8, 2019 by two years to January 8, 2023. The estimated fair value of the warrant extension is $174,770 which has been recognized under common share purchase warrants and the deficit. The fair value was estimated using the Black-Scholes model calculated for the difference between the extended period and the remaining period when the decision was taken to extend the warrants. The assumptions used were as follows for the two periods respectively: no expected dividend yield, 90.96% and 96.04% expected volatility, 0.19% and 0.19% risk-free interest rate and 2 and 0.005 years warrant expected life. Warrant extension expenses totaling $750 were allocated to these common share purchase warrants.

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 14,165,000 (2020 - 15,800,000) common shares and common share purchase warrants totaling 72,473,931 (2020 – 72,473,931) were not included in the computation of diluted loss and comprehensive loss per common share due to their anti-dilutive nature.

Stated in Canadian Dollars

12. Selling Expenses

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

		2021		2020
Sales salaries	**$**	**66,852**	$	80,072
Advertising		**12,756**		38,380
Commission		**3,483**		2,665
Travel		**1,677**		6,434
Stock based compensation		**1,001**		579
Amortization and depreciation allocation		**10,010**		8,764
Total selling expenses	**$**	**95,780**	$	136,894

13. Administrative Expenses

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

		2021		2020
Insurance	**$**	**13,457**	$	10,146
Professional fees		**134,292**		105,680
Rent		**9,887**		9,401
General and administrative expenses		**53,377**		43,386
Administrative salaries		**121,884**		186,117
Director and advisory fees		**10,130**		20,340
Stock based compensation		**65,417**		140,942
Amortization and depreciation allocation		**10,010**		17,317
Total administrative expenses	**$**	**418,454**	$	533,329

14. Research and Development Expenses

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

		2021		2020
Research and development (net of investment tax credit)	**$**	**507,368**	$	896,041
Stock based compensation		**47,892**		122,619
Amortization and depreciation allocation		**34,308**		28,622
Total research and development expenses	**$**	**589,567**	$	1,047,282

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;

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); 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, 2021 and December 31, 2020, 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, 2021 and December 31, 2020:

	As at March 31, 2021	As at December 31, 2020
Trade receivables (net amount)	$ 302,007	$ 230,283
Percentage outstanding more than 30 days	1%	1%
Percentage outstanding more than 120 days	1%	1%

The following table reflects the changes in the allowance for trade receivables during the three-month period ended March 31, 2021 and the year ended December 31, 2020:

	As at March 31, 2021	As at December 31, 2020
Allowance for trade receivables - beginning of period	**$ 41,685**	$ 70,436
Adjustment based on collection experience	**-**	1,274
Amounts written off	**-**	(30,025)
Allowance for trade receivables - end of period	**$ 41,685**	$ 41,685

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.

Stated in Canadian Dollars

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**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**
Lease liabilities	$ 78,608	$ 42,464	$ 36,144	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Payables and accruals	764,790	764,790	-	-	-	-	-	-	-	-	-	-
Commitments (note 20)	386,444	311,444	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500
Total contractual obligations	**$ 1,229,842**	**$ 1,118,699**	**$ 43,644**	**$ 7,500**	**$ 7,500**	**$ 7,500**	**$ 7,500**	**$ 7,500**	**$ 7,500**	**$ 7,500**	**$ 7,500**	**$ 7,500**

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.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's exposure to interest rate risk is as follows:

Cash and cash equivalents	Short-term fixed and variable interest rate
Short-term investments	Short-term fixed interest rate
Financed trade receivables	Short-term and long-term fixed interest rate

Based on the carrying amount of the Company's variable interest-bearing financial instruments as at March 31, 2021, an assumed 0.5% increase or 0.5% decrease in interest rates during such period would have resulted in an increase/decrease of $9,000 in income, with all other variables held constant.

Management believes that the risk that the Company will realize a loss as a result of the decline in the fair value of its cash equivalents and short-term investments is limited because these investments have short-term maturities and are generally held to maturity.

The capacity of the Company to reinvest the short-term amounts with equivalent returns will be impacted by variations in short-term fixed interest rates available in the market.

Interest income presented in the consolidated statement of loss represents interest income on financial assets.

Stated in Canadian Dollars

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, 2021 and December 31, 2020 are as follows:

	As at March 31, 2021		As at December 31, 2020	
	Canadian	**U.S.**	Canadian	U.S.
Cash	**$ 2,086**	**$ 1,659**	$ 40,822	$ 32,062
Trade and other receivables	**53,933**	**42,889**	56,110	44,070
Payables and accruals	**(109,935)**	**(92,309)**	(185,317)	(145,552)
Total	**$ (53,916)**	**$ (47,761)**	$ (88,385)	$ (69,420)

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, 2021	As at December 31, 2020
Cash	**$ 209**	$ 4,082
Trade and other receivables	**5,393**	5,611
Payables and accruals	**(10,993)**	(18,532)
Total	**$ (5,393)**	$ (8,839)

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.

	2021	**2020**
Short-term compensation	$300,000	$300,000
Stock-based compensation	134,295	149,317
Total	**$434,296**	**$449,317**

Key management personnel were not paid post-employment benefits, termination benefits or other long term benefits during the three-month periods ended March 31, 2021 and 2020. Fees paid to directors have been disclosed in note 13.

Stated in Canadian Dollars

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.

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

	2021			2020		
	CLT	**ACT**	**Total**	CLT	ACT	Total
Sales	**$ 124,783**	**$ -**	**$ 124,783**	$ 111,543	$ -	$ 111,543
Cost of sales	**74,463**	**-**	**74,463**	99,447	-	99,447
Gross margin	**50,320**	**-**	**50,320**	12,096	-	12,096
Operating Expenses						
Selling expenses	**95,780**	**-**	**95,780**	136,894	-	136,894
Administrative expenses	**245,744**	**172,710**	**418,454**	343,945	189,384	533,329
Research and development expenses	**54,616**	**534,951**	**589,567**	138,141	909,141	1,047,282
(Gain) from legal settlement	**(131,941)**	**-**	**(131,941)**	-	-	-
(Gain) loss on foreign exchange	**1,401**	**1,400**	**2,801**	(885)	(885)	(1,770)
Interest expense	**878**	**878**	**1,756**	1,404	1,404	2,808
Interest income	**(3,502)**	**(3,502)**	**(7,004)**	(62,591)	-	(62,591)
	262,977	**706,435**	**969,413**	556,908	1,099,044	1,655,952
Loss for the period	**$ (212,657)**	**$ (706,435)**	**$ (919,093)**	$ (544,812)	$ (1,099,044)	$ (1,643,856)
Total Assets	**$ 2,769,075**	**$ 6,223,942**	**$ 8,993,017**	$ 4,381,847	$ 9,373,159	$13,755,006
Total Liabilities	**443,573**	**313,268**	**756,841**	641,340	637,764	1,279,104

Stated in Canadian Dollars

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:

	2021			2020		
	Canada	**USA**	**International**	Canada	USA	International
Sales by Product Line						
TLC-1000	**$ 71,915**	**$ 2,532**	**$ -**	$ 70,506	$ -	$ -
TLC-2000	**32,491**	**17,845**	**-**	41,037	-	-
	104,406	**20,377**	**-**	111,543	-	-
Expenses						
Cost of Sales	**62,303**	**12,160**	**-**	99,447	-	-
Selling Expenses	**84,255**	**7,631**	**3,893**	136,894	-	-
	146,558	**19,791**	**3,893**	236,341	-	-
	$ (42,153)	**$ 586**	**$ (3,893)**	$ (124,798)	$ -	$ -

As at March 31, 2021 and 2020, the Company's long-lived assets used in operations are all located in Canada. Timing of revenue is recognized at a point in time.

18. Commitments

The Company's commitments consist of the following:

	Total	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**
Research Commitments (a)	$ 58,250	$ 58,250	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Research Agreement (b)	24,969	24,969	-	-	-	-	-	-	-	-	-	-
Research Agreement (c)	303,225	228,225	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500
Total	**386,444**	**311,444**	**7,500**	**7,500**	**7,500**	**7,500**	**7,500**	**7,500**	**7,500**	**7,500**	**7,500**	**7,500**

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 $289,810 relating to this commitment, of which $58,250 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 $101,335 (USD$76,400) relating to this commitment, of which $24,969 (USD$20,400) 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 $939,000 for the period from September 27, 2019 through to April 30, 2031. The Company has paid $635,775 relating to this commitment, of which $303,225 is the remaining commitment.

19. COVID-19 Pandemic

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 the report date, 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, significant delays / cancellations in customer purchase decisions and delays in the Company's Phase II Non-Muscle Invasive Bladder Cancer clinical study specifically; patient enrollment, patient treatment and the on-boarding of new clinical study sites. Management is uncertain of the full extent of theses 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.