Theralase Technologies Inc.

Audited Consolidated Financial Statements

As at December 31, 2016 and 2015

Management’s Responsibility for Financial Information

The accompanying consolidated financial statements and all information in this report were prepared by and are the responsibility of management. The consolidated financial statements were prepared in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and reflect management’s best estimates and judgments. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial information presented elsewhere in this report is consistent with that in the consolidated financial statements.

The Company maintains a system of internal controls, which provides management with reasonable assurance that financial information is relevant, reliable and accurate and that the Company’s assets are properly accounted for and adequately safeguarded.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee, consisting solely of outside trustees. The Audit Committee reviews the Company’s annual consolidated financial statements and has recommended their approval by the Board of Directors. The shareholders’ auditors and Audit Committee meet with and without management being present.

The consolidated financial statements have been audited by the independent registered public accounting firm appointed by the shareholders, Marcum LLP. In that capacity they have issued a report on the consolidated financial statements for the year ended December 31, 2016 and Collins Barrow Toronto LLP has issued a report on the consolidated financial statements for the years ended December 31, 2015 and 2014.

[*signed*]
Roger Dumoulin-White
President & CEO
Theralase Technologies Inc.

[*signed*]
Kristina Hachey
Chief Financial Officer
Theralase Technologies Inc.

INDEPENDENT AUDITORS' REPORT

To the Audit Committee of Board of Directors and Stockholders
of Theralase Technologies, Inc.

We have audited the accompanying financial statements of Theralase Technologies Inc. (the “Company”), which comprise the consolidated balance sheet as December 31, 2016 and the consolidated statements of operations, cash flows and changes in equity for the year ended December 31, 2016 and notes, comprising a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Marcum LLP ■ 750 Third Avenue ■ 11th Floor ■ New York, New York 10017 ■ Phone 212.485.5500 ■ Fax 212.485.5501 ■ marcumllp.com

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of Theralase Technologies Inc. as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2016 in accordance with IFRS as issued by the International Accounting Standards Board.

Other Matter

The financial statements of Theralase Technologies Inc. for the years ended December 31, 2015 and 2014 were audited by another auditor who expressed an unmodified opinion on those statements on April 29, 2016.

Marcum LLP

New York, NY
May 1, 2017

THERALASE® TECHNOLOGIES INC.

Consolidated Balance Sheets

As at December 31, 2016 and December 31, 2015

Stated in Canadian Dollars

	Note	2016	2015
Assets			
Current assets			
Cash and cash equivalents		$ 2,970,198	$ 4,340,856
Trade and other receivables, net	5	1,200,082	1,179,844
Inventories	6	1,215,753	913,516
Prepaid expenses and other assets		231,092	159,064
Total current assets		5,617,125	6,593,280
Non-Current assets			
Finance receivable		-	30,321
Property and equipment, net	7	569,679	405,223
Intangible assets, net	8	53,979	73,299
Total non-current assets		623,658	508,843
Total Assets		**$ 6,240,783**	**$ 7,102,123**
Liabilities			
Current liabilities			
Payables and accruals	9	$ 549,742	$ 785,664
Total liabilities		549,742	785,664
Equity attributable to shareholders			
Share capital	11, 14	22,568,232	19,967,937
Common share purchase warrants	11, 13	3,596,395	2,392,342
Contributed surplus	12	5,314,181	4,822,699
Deficit		(25,787,767)	(20,866,522)
Total Equity		5,691,041	6,316,459
Total Shareholders' Equity and Liabilities		**$ 6,240,783**	**$ 7,102,123**

Commitments (Note 23)

Approved on Behalf of the Board

[Roger Dumoulin-White] Director

[Guy Anderson] Director

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Operations
For the years ended December 31
Stated in Canadian Dollars

	Note	2016	2015	2014
Sales		$ 1,918,893	$ 1,945,246	$ 1,380,604
Cost of Sales		796,569	629,607	459,323
Gross Margin		1,122,324	1,315,639	921,281
Operating Expenses				
Selling expenses	16	$ 1,614,680	$ 1,086,354	$ 598,178
Administrative expenses	17	2,546,706	2,452,328	1,448,781
Research and development expenses	18	1,867,621	3,029,369	1,455,301
(Gain) Loss on foreign exchange		29,796	(7,891)	(4,550)
Interest expense		198	795	19,538
Interest income		(15,429)	(37,171)	(8,424)
		$ 6,043,572	$ 6,523,784	$ 3,508,824
Loss for the year	15	$ (4,921,248)	$ (5,208,144)	$ (2,587,542)
Basic and diluted loss per common share	15	$ (0.045)	$ (0.054)	$ (0.035)
Weighted average number of common shares outstanding (basic and diluted)		109,035,634	95,957,158	74,979,539

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Cash Flows
For the years ended December 31
Stated in Canadian Dollars

	Note	2016	2015	2014
Cash flows from operating activities				
Net loss for the period		$ (4,921,248)	$ (5,208,144)	$ (2,587,542)
Items not involving cash				
Amortization of property and equipment	7	129,977	114,030	64,852
Amortization of intangibles	8	19,320	20,967	18,038
Stock-based compensation expense	12	491,482	508,273	206,894
Provision for inventory reserve		3,756	-	-
Gain(loss) on foreign exchange		(29,796)	7,891	4,550
Loss on sale of property and equipment		181	-	-
Lease inducements		(1,400)	(2,800)	(2,800)
Change in operating assets and liabilities other than cash				
Trade and other receivables		9,557	(557,634)	(323,921)
Finance receivables		30,321	(1,301)	(5,474)
Inventories		(305,993)	(617,896)	(105,225)
Prepaid expenses and other assets		(70,628)	418,597	(516,789)
Payables and accruals		(235,922)	273,916	(377,814)
		(4,880,393)	(5,044,101)	(3,625,231)
Cash flows from investing activities				
Purchase of property and equipment	7	(296,212)	(248,496)	(114,115)
Proceeds on sale of property and equipment	8	1,600	-	-
		(294,612)	(248,496)	(114,115)
Cash flows from financing activities				
Repayment of capital lease obligation		-	-	(507)
Repayment of officer loan		-	-	(28,118)
Proceeds from public offering (net of issue costs)	11	3,804,348	7,002,149	-
Proceeds from the exercising of stock options		-	-	15,000
Proceeds from the exercising of share warrants		-	708,850	3,907,097
		3,804,348	7,710,999	3,893,472
(Decrease) / Increase in cash during the year		$ (1,370,658)	$ 2,418,402	$ 154,125
Cash, beginning of year		$ 4,340,856	$ 1,922,454	$ 1,768,329
Cash, end of year		$ 2,970,198	$ 4,340,856	$ 1,922,454
Supplementary Information				
Interest Paid		$ 198	$ 795	$ 19,538
Interest Received		$ 15,429	$ 37,171	$ 8,424

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Changes in Equity
As at December 31, 2016, 2015 and 2014
Stated in Canadian Dollars

	Note	Number of Shares	Share Capital	Contributed Surplus	Common Share Purchase Warrants	Deficit	Total Shareholders' Equity
		#	$	$	$	$	$
Balance, December 31, 2013		65,726,309	9,492,432	4,119,138	1,223,149	(13,070,831)	1,763,888
Stock-based compensation expense		-	-	206,894	-	-	206,894
Exercised share purchase warrants		19,494,984	4,915,621	-	(1,008,525)	-	3,907,096
Exercised stock options		100,000	28,303	(13,303)	-	-	15,000
Loss for the year		-	-	-	-	(2,587,542)	(2,587,542)
Balance, December 31, 2014		85,321,293	14,436,356	4,312,729	214,624	(15,658,373)	3,305,334
Balance, December 31, 2014		85,321,293	14,436,356	4,312,729	214,624	(15,658,375)	3,305,334
Stock-based compensation expense	12	-	-	508,273	-	-	508,273
Exercised share purchase warrants	13	3,544,250	881,019	-	(172,171)	-	708,848
Expired share purchase warrants	13	-	-	1,697	(1,697)	-	-
Issued pursuant to public offering	11	18,181,817	5,357,144	-	2,642,856	-	8,000,000
Transaction cost on public offering		-	(706,582)	-	(291,270)	-	(997,852)
Loss for the year		-	-	-	-	(5,208,144)	(5,208,144)
Balance, December 31, 2015		107,047,360	19,967,937	4,822,699	2,392,342	(20,866,519)	6,316,459
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	12	-	-	491,482	-	-	491,482
Issued pursuant to public offering	11	14,236,666	2,933,752	-	1,337,248	-	4,271,000
Transaction cost on public offering	11	-	(333,457)	-	(133,195)	-	(466,652)
Loss for the year		-	-	-	-	(4,921,248)	(4,921,248)
Balance, December 31, 2016		121,284,026	22,568,232	5,314,181	3,596,395	(25,787,767)	5,691,041

1. Nature of Operations

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

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, including arthritis, osteoarthritis and wounds. The Photo Dynamic Therapy ("**PDT**") division develops patented and patent pending drugs, called Photo Dynamic Compounds ("**PDCs**") and activates them with proprietary and patent pending laser technology to destroy specifically targeted cancers and bacteria.

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 Exchange Venture Exchange under the symbol TLT. The registered office is 1945 Queen Street East, Toronto, Ontario, M4L 1H7, Canada.

Statement of Compliance

The 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"**).

The consolidated financial statements for the year ended December 31, 2016 (including comparatives) were approved and authorized for issue by the board of directors on May 1, 2017.

2. Capital Disclosures

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. The Company makes every attempt to manage its liquidity to minimize shareholder dilution when possible.

The Company's capital is composed of total shareholders' equity. For the year ended December 31, 2016, the Company reported a loss of $4,921,248, and an accumulated deficit of $25,787,767 as at that date. 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 2015 and 2016 (note 11). Nevertheless, while there is no assurance that these initiatives will be successful, management believes that the Company has sufficient cash on hand to meet its operating and working capital needs for the next twelve months (see note 20i)

2. Capital Disclosures (continued)

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.

3. Summary of Significant Accounting Policies

Basis of presentation

The 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.

Accounting estimates and judgments

The preparation of these consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the year.

Financial statement items subject to significant management judgment include:

- Valuation of deferred income tax assets – The valuation of deferred income tax assets requires judgment on their recoverability. Such judgments are made based on management's estimate on the timing and amount of the Company's future taxable earnings (see note 10).

- Warrants and share-based payments – The Company used the Black-Scholes option pricing model in determining the value of warrants and stock options, which requires a number of assumptions made, including the risk-free interest rate, expected life, forfeiture rate and expected share price volatility. Consequently, the actual share-based compensation expense may vary from the amount estimated (see note 13).

Financial statement items subject to significant management estimates include:

- Allowance for doubtful accounts - The valuation of allowances for uncollectible trade receivables requires assumptions including estimated credit losses based on customer, industry concentrations and the Company's knowledge of the financial conditions of its customers. Uncertainty relates to the actual collectability of customer balances that can vary from management's estimates and judgment (see note 20).

- Allowance for inventory obsolescence – The Company estimates inventory obsolescence allowances for potential losses resulting from inventory that cannot be processed and/or sold to customers. Additional allowances may be required if the physical condition of inventory deteriorates or customer requirements change (see note 6).

3. Summary of Significant Accounting Policies (continued)

- Measurement of impairment in assets – The active market or a binding sale agreement provides the best evidence for determination of fair value, but where neither exists, fair value is based on the best information available to reflect the amount the Company could receive for the assets or its value in use which is equal to the present value of future cash flows expected to be derived from the use and sale of the assets. Management exercises judgment to determine whether indicators of impairment exist, and if so, management must estimate the timing and amount of future cash flows from sales.

- Warranty reserves – The valuation for warranty reserves requires assumptions regarding estimated warranty claims against product sales. Uncertainty relates to the actual warranty claims against product sales that can vary from management's estimates.

While management believes that the estimates and judgments are reasonable, actual results may differ materially from those estimates.

Basis of consolidation

The 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.

Foreign currency

The functional and presentation currency of the Company and its subsidiaries is the Canadian dollar. Transactions which are denominated in other currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction date. The carrying values of monetary assets and liabilities denominated in foreign currencies are adjusted at each balance sheet date to reflect exchange rates prevailing at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year adjusted for effective interest and payments during the year, and the amortized cost in the foreign currency translated at the exchange rate at the end of the year. Foreign exchange gains and losses are recognized in the statement of operations and comprehensive loss.

Revenues and expenses are converted at transaction date rates prevailing during the year, except for amortization, which is converted at historical rates.

Cash and cash equivalents

Cash and cash equivalents includes cash held in a Canadian Schedule I bank and short-term and highly liquid investments with original maturities of three months or less.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported in the balance

3. Summary of Significant Accounting Policies (continued)

sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

a) Financial assets and liabilities at fair value through profit or loss:
A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Cash is included in this category. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of operations. Gains and losses arising from changes in fair value are presented in the statement of operations in the year in which they arise.

b) Available-for-sale investments:
Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company does not have any instruments classified in this category.

c) Loans and receivables:
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise of trade and other receivables and finance receivables. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

d) Financial liabilities at amortized cost:
Financial liabilities at amortized cost include payables and accruals. Financial liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently financial liabilities are measured at amortized cost using the effective interest method.

Inventory

Raw materials are valued at the lower of cost or net realizable value. Finished goods and work in process are valued at the lower of cost or net realizable value and consist of the following costs: raw materials, subcontracting, direct and indirect labour and the applicable share of manufacturing overhead. Net realizable value is estimated based on the amount at which inventories are expected to be sold, taking into account estimated costs necessary to make the sale. Finished goods are determined on a first-in, first-out basis. Raw materials are recorded on weighted average basis.

Property and equipment

Property and equipment are recorded at cost net of accumulated depreciation and impairment charges. Depreciation of property and equipment, other than finance lease equipment, leasehold improvements and rental units, is calculated using the declining balance basis to depreciate the cost of the assets over their estimated useful lives using the following annual rates:

3. Summary of Significant Accounting Policies (continued)

Tools and dies	25%
Computer equipment	30%
Furniture and fixtures	20%
Equipment	25%

Finance lease equipment and leasehold improvements are depreciated on a straight-line basis over the shorter of the useful life of the leasehold or the initial lease term.

Rental units are depreciated on a straight-line basis over five years based on the estimated useful life.

Intangible assets

Intangible assets are recorded at cost including professional fees incurred in connection with the filing of the patents and the registration of the trademarks for product marketing and manufacturing purposes net of accumulated amortization and impairment charges. Costs incurred to maintain patents and trademarks for intellectual property are expensed in the year incurred. Amortization of intangible assets is recorded on a straight-line basis over the estimated useful lives of the related assets as follows:

Patents	10 to 17 years
Trademarks	17 years
Food and Drug Administration (FDA) clinical study costs	5 years
Development Costs	10 years

Impairment of assets

Items of property and equipment and intangible assets with finite lives, subject to depreciation or amortization, respectively, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Management is required to assess at each reporting date whether there is any indication that an asset may be impaired. Where such an indication exists, the asset's recoverable amount is compared to its carrying value, and an impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows, or Cash-Generating Units ("CGU"). In determining value in use of a given asset or CGU, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Items of property and equipment and amortizable identifiable intangible assets with finite lives that suffered impairment are reviewed for possible reversal of the impairment if there has been a change, since the date of the most recent impairment test, in the estimates used to determine the impaired asset's recoverable amount. However, an asset's carrying amount, increased due to the reversal of a prior impairment loss, must not exceed the carrying amount that would have been determined, net of depreciation or amortization, had the original impairment not occurred.

3. Summary of Significant Accounting Policies (continued)

Lease and Lease inducements

Leases are classified as either capital or operating based on their nature. Leases that transfer substantially all of the benefits and risks of ownership of the asset to the Company are accounted for as finance leases. At the time a finance lease is entered into, an asset is recorded together with its related long-term obligation, reflecting the fair value of future lease payments, discounted at the appropriate interest rates. Finance lease obligations are amortized over their estimated useful lives at the same rates used for other equipment and fixtures. All other leases are classified as operating leases and expensed on a straight line basis.

Lease inducements received by the Company as free rent periods are deferred and amortized on a straight-line basis over the term of the lease and recorded as a reduction in rental expense within administrative expenses.

Research and development expenditures

Research expenditures are expensed in the year incurred. Product development expenditures are expensed in the year incurred unless the product candidate meets the following criteria for deferral and amortization:

- the technical feasibility of completing the intangible asset so it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably the expenditure during development.

The Company's policy is to amortize deferred product development expenditures over the expected future life of the product once product revenues or royalties are recorded. No product development expenditures have been deferred during the year.

Investment tax credits and government assistance

The Company is entitled to refundable and non-refundable Canadian federal and provincial investment tax credits, which are earned as a percentage of eligible research and development expenditures incurred in each taxation year.

Investment tax credits are accounted for as a reduction of the related expenditure for items of a current nature and as a reduction of the related asset's cost for items of a long-term nature in the year the expenses are incurred, when received or when the Company has reasonable assurance that investment tax credits will be realized.

Revenue recognition

Sales include product sales revenue, product services revenue and clinic services revenue. Product sales revenue is recognized when there is an unconditional sales order, title passes to the customer, the fee is fixed and can be measured reliably and ultimate collection of the consideration is probable. Some product sales include an extended warranty however, they are de minimus. In the case of such sales arrangements, the

3. Summary of Significant Accounting Policies (continued)

individual deliverables are accounted for separately based on their relative fair values and are recognized as the product or service is delivered, if all other criteria are met.

Some product sales have a non-monetary amount attached to it representing an amount in exchange for goods and services. The related revenues are measured at the more reliable measure of the fair value of the asset given up and the fair value of the service received.

Product services and clinic services revenue is recognized when the service is delivered to the customer or patient and collection is probable.

Share-based payment

The share-based payment plan, described in note 12, allows Company employees and consultants to acquire shares of the Company. The fair value of share-based payment awards granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The Company uses the fair value based method of accounting for employee stock options. Under the fair value based method, compensation costs are measured at fair value at the date of grant and are expensed using the graded vesting method over the stock options’ vesting periods. The fair value of granted stock options is determined using the Black-Scholes valuation model. Any consideration received by the Company in connection with the exercise of stock options is credited to share capital.

For equity-settled share-based payment transactions with non-employees, the Company measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which cases, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

Share capital

The proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option and warrant enabled the holder to purchase a share in the Company. Commissions paid to underwriters, and other related share issue costs, such as legal and auditing, on the issue of the Company’s shares are charged directly to capital stock.

Valuation of equity units issued in public offerings

The Company has adopted a fair value method with respect to the measurement of shares and warrants issued as public offering units. The Company allocates the net proceeds based on the relative fair values to each component.

Loss per share

Loss per common share is calculated by dividing the net loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share amounts do not differ from basic share

3. Summary of Significant Accounting Policies (continued)

amounts in these consolidated financial statements as the effect of outstanding options and warrants is anti-dilutive for all years presented.

Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases ("temporary differences") and loss carry forwards. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income

in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is generally recognized in income in the year that includes the date of enactment or substantive enactment. Deferred income tax assets are recognized at each reporting date only to the extent that it is probable that the related tax benefit will be realized.

4. Accounting Standards Issued But Not Yet Applied

The IASB has issued the following standards which have 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.

The following is a description of the new standards:

IFRS 9, Financial Instruments *("IFRS 9")* was issued in final form in July 2014 by the IASB and will replace IAS 39 *Financial Instruments: Recognition and Measurement*. 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. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

IFRS 15, Revenue from contract with customers *("IFRS 15")* was issued in May 2014 and specifies how and when revenue is recognised as well as provides users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods and services. IFRS 15 will require enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (particularly, service revenue

Stated in Canadian Dollars

4. Accounting Standards Issued But Not Yet Applied (continued)

and contract modifications) and improve guidance for multiple –element arrangements.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The company has not yet assessed the impacts of adopting this standard on its consolidated 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

	2016	2015
Trade Accounts Receivable (net amount)	$ 567,725	$ 493,003
Government Tax Credits Receivable	632,357	686,841
Total	**$ 1,200,082**	**$ 1,179,844**

Write offs of trade receivables for the year ended December 31, 2016 amounted to $10,478 which was previously provided for (2015 - $nil, 2014 - $14,678). In addition, a direct write-off of $nil was made during the year (2015 - $nil, 2014 - $18,486). 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 20.

6. Inventories

	2016	2015
Raw materials	$ 694,862	$ 656,892
Work-in-process	54,481	52,427
Finished goods	466,410	204,197
Total	**$ 1,215,753**	**$ 913,516**

During the year, inventories amounting to $310,275 (2015 - $283,434, 2014 - $147,594) were incurred as expense in cost of sales in the Statement of Operations and Comprehensive Loss. In 2016, there were inventories written-off amounting to $3,756 (2015 - $22,331, 2014 - $17,736).

Stated in Canadian Dollars

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, 2014	$ 39,653	$ 2,595	$ 91,741	$ 95,735	$ 25,248	$ 62,717	$ 212,335	$ 530,024
Additions	-	-	27,004	1,372	-	80,306	5,433	114,115
Balance at December 31, 2014	$ 39,653	$ 2,595	$ 118,745	$ 97,107	$ 25,248	$ 143,023	$ 217,767	$ 644,139
Balance at January 1, 2015	$ 39,653	$ 2,595	$ 118,745	$ 97,107	$ 25,248	$ 143,023	$ 217,767	$ 644,138
Additions	148,168	-	32,629	15,959	2,900	48,840	-	248,496
Balance at December 31, 2015	$ 187,821	$ 2,595	$ 151,374	$ 113,066	$ 28,148	$ 191,863	$ 217,767	$ 892,634
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

Depreciation

	Tools and Dies	Finance Lease Equipment	Computer Equipment	Furniture and Fixtures	Rental units (1)	Equipment	Leasehold Improvements	Total
Balance at January 1, 2014	$ 39,297	$ 1,872	$ 78,243	$ 76,087	$ 17,933	$ 52,919	$ 42,178	$ 308,529
Depreciation for the year	88	532	5,678	4,002	3,089	4,943	46,520	64,852
Balance at December 31, 2014	$ 39,385	$ 2,404	$ 83,921	$ 80,089	$ 21,022	$ 57,862	$ 88,698	$ 373,381
Balance at January 1, 2015	$ 39,385	$ 2,404	$ 83,921	$ 80,089	$ 21,022	$ 57,862	$ 88,698	$ 373,381
Depreciation for the year	18,905	125	13,898	3,979	1,282	28,264	47,577	114,030
Balance at December 31, 2015	$ 58,290	$ 2,529	$ 97,819	$ 84,068	$ 22,304	$ 86,126	$ 136,275	$ 487,411
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

Carrying Amounts

At December 31, 2014	$268	$191	$34,824	$17,018	$4,226	$85,161	$129,069	$270,758
At December 31, 2015	$129,531	$66	$53,555	$28,998	$5,843	$105,737	$81,492	$405,223
At December 31, 2016	$106,260	$0	$174,286	$48,766	$89,973	$83,258	$67,135	$569,679

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

In 2016, there was amortization included in cost of sales amounting to $34,977 (2015 - $875, 2014 - $980).

Stated in Canadian Dollars

8. Intangible Assets

Cost	Patents	Trademarks	Development Costs	FDA Clinical Study Costs(1)	Total
Balance at December 31, 2014	$ 199,622	$ 58,346	$ 344,093	$ 509,649	$ 1,111,710
Balance at December 31, 2015	$ 199,622	$ 58,346	$ 344,093	$ 509,649	$ 1,111,710
Balance at December 31, 2016	$ 199,622	$ 58,346	$ 344,093	$ 509,649	$ 1,111,710
Amortization					
Balance at January 1, 2014	$ 104,721	$ 40,944	$ 344,093	$ 509,649	$ 999,407
Amortization for the year	14,606	3,432	-	-	18,038
Balance at December 31, 2014	$ 119,327	$ 44,376	$ 344,093	$ 509,649	$ 1,017,445
Balance at January 1, 2015	$ 119,327	$ 44,376	$ 344,093	$ 509,649	$ 1,017,445
Amortization for the year	17,533	3,434	-	-	20,967
Balance at December 31, 2015	$ 136,860	$ 47,809	$ 344,093	$ 509,649	$ 1,038,411
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
Carrying Amounts					
At December 31, 2014	$ 80,295	$ 13,970	$ -	$ -	$ 94,265
At December 31, 2015	$ 62,762	$ 10,537	$ -	$ -	$ 73,299
At December 31, 2016	$ 46,873	$ 7,106	$ -	$ -	$ 53,979

(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

	2016	**2015**
Trade payables	$ 311,905	$ 390,407
Salaries, employment taxes, and benefits	65,994	43,776
Current portion of warranty liability	1,100	1,100
Audit fees and contract payments	170,743	350,381
Total	**$ 549,742**	**$ 785,664**

Stated in Canadian Dollars

10. Income Taxes

	2016	2015	2014
Current income taxes			
Loss before income taxes	$ (4,921,428)	$ (5,208,143)	$ (2,587,542)
Combined Federal and Provincial tax rate	26.50%	26.50%	26.50%
Provision for tax at statutory tax rate	$ (1,304,178)	$ (1,380,158)	(685,699)
Permanent differences	187,379	138,521	62,132
Federal and provincial investment tax credits	(389,251)	(411,583)	(223,090)
Effect of higher tax rates in foreign jurisdiction	-	-	(564)
Expiry of non-capital losses	59,062	21,383	38,935
True-up adjustment	503,177	(210,578)	-
Change in tax rate and other	-	(2,383)	1,640
Change in unrecognized deferred tax asset	943,811	1,844,798	806,646
Deferred income tax recovery	**$ -**	**$ -**	**$ -**

	2016	2015	2014
Deferred Income tax assets			
Non-capital loss carry forwards	$ 2,096,036	$ 1,769,085	$ 1,036,779
Property, plant and equipment	56,917	132,750	102,125
Share issuance costs		(48,861)	9,216
Patents and trademarks	34,364	43,861	38,699
Development costs	2,388,168	1,893,249	1,264,967
Federal and provincial investment tax credits	1,668,871	1,504,041	999,032
Reserves	5,099	5,912	3,964
Cumulative Eligible Capital	(2,397)	3,210	3,667
Deferred Income tax assets	**$ 6,247,058**	**$ 5,303,247**	**$ 3,458,449**
Net future deferred income tax assets	6,247,058	5,303,247	3,458,449
Less: unrecognized deferred tax asset	(6,247,058)	(5,303,247)	(3,458,449)
Deferred Income tax assets	**$ -**	**$ -**	**$ -**

Non-capital loss carry-forwards

The company has non-capital losses available for carry forward of approximately $7,909,570 (2015 - $5,678,707, 2014 - $3,870,077). The income tax benefit of this income tax recovery has not been recorded. These non-capital losses will expire as follows:

Stated in Canadian Dollars

10. Income Taxes (continued)

2026	93,534
2027	145,746
2028	351,013
2029	30,162
2030	602,073
2031	779,012
2032	362,215
2033	438,309
2034	837,869
2035	1,868,853
2036	2,400,784
	$ 7,909,570

11. Public Offering

On March 3, 2015, the Company completed a financing by way of a public offering, where 18,181,817 units were issued at a price of $0.44 per unit for gross proceeds of $8,000,000. Each unit consisted of 1 common share and 1 non-transferable common share purchase warrant. Each whole warrant entitles the holder thereof to acquire 1 common share at a price of $0.54, expiring on March 3, 2020. In connection with the offering, the Company incurred financing costs of $1,053,871, of which $997,852 was paid in cash and $56,019 was paid through issuance of 890,123 broker warrants. Each broker warrant is exercisable into one common share at an exercise price of $0.54 per share for a period of 60 months after the closing of the offering.

The purchase price of $0.44 per unit was allocated between the common shares ($0.30 per share) and common share purchase warrants ($0.14 per warrant), based on their relative fair values. Management determined that the allocation of the net proceeds of $6,946,129 was $4,650,562 for the common shares issued and $2,295,567 for the common share purchase warrants issued.

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

	March 3, 2015
Expected volatility (based on historical share prices)	68.27%
Risk-free interest rate	0.81%
Expected life	5 Years
Expected dividends	$nil
Strike price	$0.54
Share price	$0.395

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 1 common share and 1 non-transferable common share purchase warrant. Each whole warrant entitles the holder thereof to acquire 1 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

Stated in Canadian Dollars

11. Public Offering (continued)

common share at an exercise price of $0.375 per share for a period of 60 months after the closing of the offering.

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 warrant granted was estimated on the date 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

12. Stock Options

The Company has a rolling stock option plan reserving for issue under this plan 10% (12,128,402 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 years ended December 31, 2016 and 2015 is provided below.

Stated in Canadian Dollars

12. Stock Options (continued)

	Common shares under option	Weighted average exercised price $
Outstanding, January 1, 2014	2,220,000	0.46
Granted (1)	3,320,000	0.50
Forfeited (2)	(45,000)	0.50
Exercised (3)	(100,000)	0.15
Expired (4)	(300,000)	0.35
Outstanding, December 31, 2014	5,095,000	0.50
Granted (5)	5,340,000	0.50
Forfeited (6)	(330,000)	0.50
Outstanding, December 31, 2015	10,105,000	0.50
Granted (7)	380,000	0.50
Forfeited (8)	(1,310,000)	0.50
Expired (9)	(1,765,000)	0.50
Outstanding, December 31, 2016	**7,410,000**	**0.50**

1) On July 1, 2014 and November 11, 2014 options were granted to certain employees, board members, medical scientific and advisory board members and consultants of the Company totaling 2,650,000 and 670,000 for $0.50 vesting in three tranches with tranches vesting in one year, two years and three years respectively and expiring five years from date of issue.

2) During 2014 certain employees were terminated and/or resigned from the employment of the Company and forfeited all nonvested options totaling 45,000 in which $1,982 of stock based compensation recognized in prior years was reversed.

3) On January 5, 2014 a board member exercised their options. The share price at exercise date was $0.45.

4) On August 11, 2014, certain stock options previously issued to consultants expired

5) On May 28, July 27, October 13 and November 2, 2015 options were granted to certain employees, board members, medical scientific and advisory board members and consultants of the Company totaling 5,340,000 for $0.50 vesting in three tranches with tranches vesting in one year, two years and three years respectively and expiring five years from date of issue.

6) During 2015 a board member resigned from the employment of the Company and forfeited all non-vested options totaling 330,000.

7) 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 for $0.50 vesting in three tranches with tranches vesting in one year, two years and three years respectively and expiring five years from date of issue.

8) During 2016, certain employees and consultants were terminated and/or resigned from the employment of the Company and forfeited all non-vested options totaling 1,310,000.

9) On October 25, 2016, certain stock options previously issued to employees and consultants expired.

Stated in Canadian Dollars

12. Stock Options (continued)

The following table summarizes information on the stock options outstanding as at December 31, 2016:

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 $	
2,430,000	2.5	$	0.50	810,000		0.50
80,000	2.8	$	0.50	26,667		0.50
4,460,000	3.4	$	0.50	1,486,667		0.50
110,000	3.6	$	0.50	-		-
50,000	3.8	$	0.50	-		-
10,000	3.9	$	0.50	-		-
20,000	4.3	$	0.50	-		-
20,000	4.4	$	0.50	-		-
230,000	4.8	$	0.50	-		-
7,410,000		**$**	**0.50**	**2,323,334**	**$**	**0.50**

Under the stock option plan, the stock options vest over a three year period, commencing one year after the grant. As at December 31, 2016, 2,323,334 of the stock options were vested. All outstanding stock options as at December 31, 2016 will be fully vested by November 2, 2019.

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:

	2016	2015	2014
Risk-free interest rate	0.68%	0.94%	1.16%
Expected volatility*	63.28%	78.88%	81.79%
Expected life	5 years	5 years	5 years
Expected dividends	Nil	Nil	Nil
Weighted average grant date fair value	$0.20	$0.20	$0.19
Weighted average exercise price	$0.50	$0.50	$0.50
Forfeiture rate	28%	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 was recalculated using the following assumptions:

	2016	2015	2014
Risk-free interest rate	0.84%	0.81%	1.06%
Expected volatility*	71.07%	78.47%	83.70%
Expected life	5 years	5 years	5 years
Expected dividends	Nil	Nil	Nil
Weighted average grant date fair value	$0.24	$0.20	$0.38
Weighted average exercise price	$0.50	$0.50	$0.50
Forfeiture rate	18%	18%	18%

Stated in Canadian Dollars

12. Stock Options (continued)

For the year ended December 31, 2016, the Company recognized stock-based compensation expense of $491,482 (2015 - $508,273, 2014 - $206,894) for stock options issued to directors, employees, medical scientific and advisory board, marketing and media relation consultants and business development consultants, of which $413,585 is included in administrative expenses, $21,756 in selling expenses and $56,142 is included in research and development expenses.

*Based on historical volatility

13. Common Share Purchase Warrants

As at December 31, common share purchase warrants consisted of the following:

	Number outstanding	Weighted average exercised price $	Fair value at date of grant $
Outstanding, January 1, 2014	24,485,900	0.21	1,223,149
Exercised (1)	(19,451,650)	0.20	(1,008,525)
Outstanding, December 31, 2015	5,034,250	0.25	214,624
Issued with shares	19,071,940	0.54	2,351,587
Exercised (2)	(3,544,250)	0.20	(172,171)
Expired	(35,000)	0.20	(1,697)
Outstanding December 31, 2015	20,526,940		2,392,342
Issued with shares	14,763,599	0.38	1,204,053
Outstanding December 31, 2016	**35,290,539**		**3,596,395**

1) During 2014, 19,451,650 warrants were exercised. The share price at the exercise date was $0.20

2) During 2015, 3,544,250 warrants were exercised. The share price at the exercise date was $0.20

The following table summarizes information on the common share purchase warrants outstanding for the year ended and as of December 31, 2016

Exercise Price	Outstanding Beginning of the year	Expired During the year	Exercised During the year	Granted During the year	Outstanding End of Year	Weighted Average Remaining Contractual Life (years)
$0.38	1,455,000	-	-	-	1,455,000	0.29
$0.54	19,071,940	-	-		19,071,940	3.41
$0.38				14,763,599	14,763,599	4.86
	20,526,940	-	-	14,763,599	35,290,539	-

14. Share Capital

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

Stated in Canadian Dollars

15. 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 years presented in the consolidated financial statements.

Stock options to purchase 7,410,000 (2015 – 10,105,000, 2014 – 5,095,000) common shares and common share purchase warrants totaling 35,290,539 (2015 – 20,526,940, 2014 – 5,034,250) were not included in the computation of diluted loss and comprehensive loss per common share due to their anti-dilutive nature.

16. Selling Expenses

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

	2016	2015	2014
Sales salaries	$ 946,317	$ 622,633	$ 296,314
Advertising	300,931	140,411	99,532
Commission	94,159	133,111	51,325
Travel	193,718	135,397	120,993
Stock based compensation	21,756	16,875	1,938
Amortization and depreciation allocation	57,797	37,927	28,076
Total selling expenses	**$1,614,680**	**$1,086,354**	**$598,178**

17. Administrative Expenses

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

	2016	2015	2014
Insurance	$ 83,147	$ 64,384	$ 53,461
Professional fees	304,249	284,715	137,109
Rent	93,513	93,707	87,541
General and administrative expenses	674,578	846,986	491,950
Administrative salaries	865,465	698,001	478,570
Director and advisory fees	82,896	75,104	50,401
Stock based compensation	413,585	361,446	129,645
Amortization and depreciation allocation	29,273	27,985	20,104
Total administrative expenses	**$2,546,706**	**$2,452,328**	**$1,448,781**

18. Research and Development Expenses

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

	2016	2015	2014
Research and development (net of investment tax credit)	$ 1,749,253	$ 2,830,332	$ 1,345,281
Stock based compensation	56,142	129,952	75,311
Amortization and depreciation allocation	62,226	69,085	34,709
Total research and development expenses	**$1,867,621**	**$3,029,369**	**$1,455,301**

Stated in Canadian Dollars

19. Government Assistance

The Company is eligible to receive grants and investment tax credits from the federal government related to research and development activities. All such amounts are applied against related research and development expenses when received or collection is reasonably assured. In 2016, an amount of $200,000 (2015 - $300,000, 2014 - $173,041) of investment tax credits was recorded against research and development expense. The amount is included in the trade and other receivables accounts in the consolidated balance sheet.

20. 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 December 31, 2016 and 2015, the Company's cash is categorized as Level 1. There were no financial instruments categorised 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. 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 December 31:

	2016	2015
Trade and other receivables	$ 567,725	$ 493,003
Percentage outstanding more than 30 days	16%	21%
Percentage outstanding more than 120 days	10%	9%

Stated in Canadian Dollars

20. Financial Instruments (continued)

The following table reflects the changes in the allowance for trade receivables during year ended December 31:

	2016	2015
Allowance for trade receivables - beginning of period	$ 139,627	$ 16,416
Allowance recorded against current period sales	-	-
Adjustment based on collection experience	10,478	123,211
Amounts written off	(10,478)	-
Allowance for trade receivables - end of period	**$ 139,627**	**$ 139,627**

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**	**2017**	**2018**
Payables and accruals	$ 549,742	$ 549,742	$ -
Commitments	$ 65,505	$ 65,004	$ 501
Total contractual obligations	**$ 615,247**	**$ 614,746**	**$ 501**

The Company also has contractual obligations (note 23) 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.

20. Financial Instruments (continued)

Accounts exposed to foreign currency exchange risk as at December 31 are as follows:

	2016	2015
Cash	$ 2,183	$ (13,989)
Trade and other receivables	247,246	144,833
Payables and accruals	(98,440)	(103,097)
Total	**$ 150,989**	**$ 27,747**

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.

	2016	2015
Cash	$ 218	$ (1,399)
Trade and other receivables	24,725	14,483
Payables and accruals	(9,844)	(10,310)
Total	**$ 15,099**	**$ 2,774**

21. Related Party Disclosure

The compensation of the directors and other key management of the Company are 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.

	2016	2015	2014
Short-term compensation	$700,000	$459,500	$300,417
Stock-based compensation	322,376	222,377	125,284
Total	**$1,022,376**	**$681,877**	**$425,701**

Key management personnel were not paid post-employment benefits, termination benefits or other long term benefits during the years ended December 31, 2016, 2015 and 2014. Fees paid to directors have been disclosed in note 17.

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

Stated in Canadian Dollars

22. Segmented Information

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

The following table displays revenue and direct expenses from the TLT and PDT division for the years ended December 31:

	2016			**2015**			**2014**		
	TLT	**PDT**	**Total**	**TLT**	**PDT**	**Total**	**TLT**	**PDT**	**Total**
Sales	$ 1,918,893	$ -	$ 1,918,893	$ 1,945,246	$ -	$ 1,945,246	$ 1,380,604	$ -	$ 1,380,604
Cost of Sales	796,569	-	796,569	629,607	-	629,607	459,323	-	459,323
Gross Margin	1,122,324	-	1,122,324	1,315,639	-	1,315,639	921,281	-	921,281
Operating Expenses									
Selling expenses	1,614,678	-	1,614,678	1,086,354	-	1,086,354	598,178	-	598,178
Administrative expenses	1,278,647	1,268,059	2,546,706	1,380,010	1,072,318	2,452,328	908,597	540,184	1,448,781
Research and development expenses	337,296	1,530,325	1,867,621	431,933	2,597,436	3,029,369	472,451	982,850	1,455,301
(Gain) loss on foreign exchange	14,898	14,898	29,796	(7,891)	-	(7,891)	(4,550)	-	(4,550)
Interest expense	99	99	198	397	398	795	9,769	9,769	19,538
Interest income	(15,429)	-	(15,429)	(37,171)	-	(37,171)	(8,424)	-	(8,424)
	3,230,189	2,813,381	6,043,571	2,853,632	3,670,152	6,523,784	1,976,020	1,532,804	3,508,823
Loss and comprehensive loss for the year	$(2,107,865)	$(2,813,381)	$(4,921,248)	$(1,537,993)	$(3,670,152)	$(5,208,145)	$(1,054,739)	$(1,532,804)	$(2,587,542)
Total Assets	$ 5,951,273	$ 289,510	$ 6,240,783	$ 6,935,393	$ 166,730	$ 7,102,123	$ 3,208,401	$ 608,683	$ 3,817,084
Total Liabilities	495,497	54,245	549,742	545,485	240,179	785,664	341,225	170,525	511,750

The following table displays revenue and direct expenses from TLT division product sales by geographic area for the years ended December 31:

	2016			**2015**			**2014**		
	Canada	**USA**	**International**	**Canada**	**USA**	**International**	**Canada**	**USA**	**International**
Sales	$1,423,181	$416,812	$78,900	$1,691,087	$214,744	$39,415	$857,723	$283,784	$239,097
Cost of Sales	590,789	173,027	32,753	543,245	69,019	17,343	266,147	87,973	105,203
Selling Expenses	1,305,151	309,527	-	948,570	117,113	20,671	466,236	127,772	4,170
	$ (472,759)	**$ (65,743)**	**$ 46,147**	**$ 199,271**	**$ 28,612**	**$ 1,402**	**$ 125,339**	**$ 68,039**	**$129,723**

As at December 31, 2016, 2015 and 2014, the Company's long-lived assets used in operations are all located in Canada.

23. Commitments

The Company's commitments consist of the following:

	Total	**2017**	**2018**
Lease obligations (a)	$ 49,000	$ 49,000	
Lease obligations (b)	2,505	2,004	501
Research Agreement (c)	14,000	14,000	-
Total	**$ 65,505**	**$ 65,004**	**$ 501**

23. Commitments (continued)

a) Lease obligations under a lease agreement related to the Company's premises, commenced on August 1, 2012 and expires on July 31, 2017. 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) Lease obligations under a lease agreement related to the Company's office equipment, commenced on April 1, 2014 and expires on May 1, 2018. Under the terms of this lease, the Company is required to minimum rental payments of $167 per month. 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 TLC-3000 cancer therapy project. Under the terms of this agreement, the Company is required to pay $126,000 for the period from March 1, 2016 through to February 28, 2017. The Company has paid $105,000 relating to this commitment, in which $14,000 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.

24. Subsequent Events

On April 13, 2017, the Company received cash proceeds of $369,550 from the exercise of 972,501 warrants to purchase common shares.

On April 18, 2017, the Company granted an aggregate of 2,800,000 options to purchase common stock to directors, officers and employees with an exercise price of $0.50, a vesting period of 3 years and a term of 5 years.

On April 26, 2017, the Company received cash proceeds of $168,750 from the exercise of 450,000 warrants to purchase common shares.