Theralase Technologies Inc.

Condensed Interim Consolidated Financial Statements - Unaudited

As at June 30, 2017 and for the six-month period ended June 30, 2017, 2016 and 2015

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

THERALASE® TECHNOLOGIES INC.

Consolidated Balance Sheets
As at June 30, 2017 and December 31, 2016
Stated in Canadian Dollars

	Note	2017	2016
Assets			
Current assets			
Cash and cash equivalents		$ 932,024	$ 2,970,198
Trade and other receivables	5	1,344,684	1,200,082
Inventories	6	1,169,662	1,215,753
Prepaid expenses and other assets		182,067	231,092
Total current assets		3,628,437	5,617,125
Non-Current assets			
Property and equipment	7	707,525	569,679
Intangible assets	8	46,241	53,979
Total non-current assets		753,766	623,658
Total Assets		**$ 4,382,203**	**$ 6,240,783**
Liabilities			
Current liabilities			
Payables and accruals	9	592,622	$ 549,742
Total liabilities		592,622	549,742
Equity attributable to shareholders			
Share capital	10, 13	23,893,224	22,568,232
Common share purchase warrants	10, 12	3,372,203	3,596,395
Contributed surplus	11	5,549,944	5,314,181
Deficit		(29,025,790)	(25,787,767)
Total Equity		3,789,581	5,691,041
Total Shareholders' Equity and Liabilities		**$ 4,382,203**	**$ 6,240,783**

Commitments (Note 21)

Approved on Behalf of the Board

[Roger Dumoulin-White] Director

[Guy Anderson] Director

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Operations

For the three and six-month period ended June 30

Stated in Canadian Dollars

	Note	Three Months Ended June 30			Six Months Ended June 30		
		2017	**2016**	**2015**	**2017**	**2016**	**2015**
Sales		$ 509,306	$ 481,690	$ 309,513	$ 1,016,734	$ 893,138	$ 677,817
Cost of Sales		186,831	171,115	108,238	394,068	302,879	243,394
Gross Margin		322,475	310,575	201,275	622,666	590,259	434,423
Operating Expenses							
Selling expenses	15	$ 487,279	$ 349,473	$ 218,110	$ 898,258	$ 665,727	$ 402,598
Administrative expenses	16	821,992	829,417	526,718	1,522,916	1,452,732	982,841
Research and development expenses	17	765,246	447,915	811,019	1,433,968	925,504	1,356,664
(Gain) Loss on foreign exchange		14,341	(2,681)	2,258	6,822	14,198	(12,970)
Interest expense		40	71	212	72	198	279
Interest income		(583)	(2,944)	(11,569)	(1,349)	(11,684)	(15,872)
		$ 2,088,315	$ 1,621,251	$ 1,546,747	$ 3,860,689	$ 3,046,676	$ 2,713,540
Loss for the year	14	$ (1,765,840)	$ (1,310,676)	$ (1,345,472)	$ (3,238,023)	$ (2,456,417)	$ (2,279,117)
Basic and diluted loss per common share	14	$ (0.02)	$ (0.01)	$ (0.02)	$ (0.03)	$ (0.02)	$ (0.03)
Weighted average number of common shares outstanding (basic and diluted)		116,572,460	106,300,843	90,103,734	116,572,460	106,300,843	90,103,734

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Cash Flows

For the three and six-month period ended June 30

Stated in Canadian Dollars

		Three Months Ended June 30			Six Months Ended June 30		
	Note	2017	2016	2015	2017	2016	2015
Cash flows from operating activities							
Net loss for the period		$ (1,765,840)	$ (1,310,676)	$ (1,345,474)	$ (3,238,023)	$ (2,456,417)	$ (2,279,117)
Items not involving cash							
Amortization of property and equipment	7	51,625	36,123	27,391	98,547	69,635	53,331
Amortization of intangibles	8	4,510	4,509	4,509	7,738	9,019	9,019
Stock-based compensation expense	11	151,351	208,235	2,678	235,762	359,670	123,231
Gain(loss) on foreign exchange		(14,341)	2,681	(2,258)	(6,822)	(14,198)	12,970
Lease inducements		(700)	(700)	(700)	(1,400)	(1,400)	(1,400)
		(1,573,395)	(1,059,828)	(1,313,853)	(2,904,197)	(2,033,690)	(2,081,965)
Change in operating assets and liabilities other than cash							
Trade and other receivables		(111,688)	10,397	71,562	(137,780)	555,040	128,031
Finance receivables		-	-	4,439	-	19,367	7,345
Inventories		(6,060)	(35,126)	(101,761)	46,091	(195,231)	(163,546)
Prepaid expenses and other assets		78,745	(58,554)	(44,453)	50,425	(107,340)	251,467
Payables and accruals		74,593	(347,757)	(119,884)	42,882	(428,973)	(171,997)
		(1,537,805)	(1,490,868)	(1,503,951)	(2,902,579)	(2,190,827)	(2,030,666)
Cash flows from investing activities							
Purchase of property and equipment	7	(229,293)	(42,522)	(21,986)	(236,394)	(74,342)	(98,337)
Proceeds on disposal of property and equipment	8	-	1,780	-	-	1,780	-
		(229,293)	(40,742)	(21,986)	(236,394)	(72,562)	(98,337)
Cash flows from financing activities							
Proceeds from public offering (net of issue costs)		-	-	-	-	-	7,006,618
Proceeds from the exercising of share warrants		1,100,800	-	-	1,100,800	-	210,000
		1,100,800	-	-	1,100,800	-	7,216,618
Increase in cash during the year		$ (666,298)	$ (1,531,610)	$ (1,525,938)	$ (2,038,173)	$ (2,263,389)	$ 5,087,615
Cash, beginning of period		$ 1,598,322	$ 3,609,076	$ 8,536,007	$ 2,970,198	$ 4,340,856	$ 1,922,454
Cash, end of period		$ 932,024	$ 2,077,466	$ 7,010,069	$ 932,024	$ 2,077,466	$ 7,010,069
Supplementary Information							
Interest Paid		$ 40	$ 71	$ 212	$ 72	$ 198	$ 279
Interest Received		$ 583	$ 2,944	$ 11,569	$ 1,349	$ 11,684	$ 15,872

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Changes in Equity
As at June 30, 2017, 2016 and 2015
Stated in Canadian Dollars

	Note	Number of Shares	Share Capital	Contributed Surplus	Common Share Purchase Warrants	Deficit	Total Shareholders' Equity
		#	$	$	$	$	$
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	11	-	-	123,231	-	-	123,231
Exercised share purchase warrants	12	1,050,000	260,109	-	(50,109)	-	210,000
Issued pursuant to public offering	10	18,181,817	4,663,524	-	2,343,092	-	7,006,617
Transaction cost on public offering		-		-		-	-
Loss for the year		-	-	-	-	(2,279,117)	(2,279,117)
Balance, June 30, 2015		104,553,110	19,359,989	4,435,960	2,507,607	(17,937,492)	8,366,065
Balance, December 31, 2015		107,047,360	19,967,937	4,822,699	2,392,342	(20,866,522)	6,316,456
Stock-based compensation expense	11	-	-	359,670	-	-	359,670
Loss for the period		-	-	-	-	(2,456,417)	(2,456,417)
Balance, June 30, 2016		107,047,360	19,967,937	5,182,368	2,392,342	(23,322,939)	4,219,708
Balance, December 31, 2016		121,284,026	22,568,232	5,314,181	3,596,395	(25,787,767)	5,691,041
Stock-based compensation expense	11	-	-	235,763	-	-	235,763
Exercised share purchase warrants	12	2,922,500	1,311,410	-	(210,610)	-	1,100,800
Expired share purchase warrants	12	-	13,582	-	(13,582)	-	-
Loss for the year		-	-	-	-	(3,238,023)	(3,238,023)
Balance, June 30, 2017		124,206,526	23,893,224	5,549,944	3,372,203	(29,025,790)	3,789,581

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

Statement of Compliance

The condensed interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (**"IFRS"**) as issued by the International Accounting Standards Board (**"IASB"**) and interpretations of the IFRS Interpretations Committee.

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard (**"IAS"**) 34 "Interim Financial Reporting". The condensed interim consolidated financial statements do not include all the information and disclosures required in the Company's annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2016.

The condensed interim consolidated financial statements for the six-month period ended June 30, 2017 (including comparatives) were approved and authorized for issue by the board of directors on August 29, 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 six-month period ended June 30, 2017, the Company reported a loss of $3,238,023, and an accumulated deficit of $29,025,790 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 10). 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 (see note 18(i).

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

These condensed interim financial statements have been prepared on a historical basis. In addition, these financial statements have been prepared using the accrual basis of accounting.

Basis of consolidation

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

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

Stated in Canadian Dollars

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

	As at June 30, 2017	As at December 31, 2016
Trade Accounts Receivable (net amount)	$ 639,118	$ 567,725
Government Tax Credits Receivable	691,218	632,357
Other Receivable	14,348	
Total	**$ 1,344,684**	**$ 1,200,082**

Write offs of trade receivables for the six-month period ended June 30, 2017 amounted to $30,809 which was previously provided for (2016 - $nil). In addition, a direct write-off of $nil was made during the year (2016 - $nil). Refer to note 18 (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 18.

6. Inventories

	As at June 30, 2017	As at December 31, 2016
Raw materials	$ 743,483	$ 694,862
Work-in-process	27,969	54,481
Finished goods	398,210	466,410
Total	**$ 1,169,662**	**$ 1,215,753**

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, 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
Balance at January 1, 2017	$ 198,671	$ 2,595	$ 302,678	$ 135,990	$ 117,615	$ 197,003	$ 227,937	$ 1,182,489
Additions	-	-	7,951	1,265	10,063	217,116	-	236,394
Balance at June 30, 2017	$ 198,671	$ 2,595	$ 310,628	$ 137,255	$ 127,677	$ 414,119	$ 227,937	$ 1,418,883

Depreciation

	Tools and Dies	Finance Lease Equipment	Computer Equipment	Furniture and Fixtures	Rental units (1)	Equipment	Leasehold Improvements	Total
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
Balance at January 1, 2017	$ 92,411	$ 2,595	$ 128,392	$ 87,224	$ 27,641	$ 113,745	$ 160,802	$ 612,810
Depreciation for the year	13,174		26,601	4,911	9,751	15,140	28,972	98,547
Balance at June 30, 2017	$ 105,585	$ 2,595	$ 154,992	$ 92,135	$ 37,392	$ 128,885	$ 189,774	$ 711,358

Carrying Amounts

	Tools and Dies	Finance Lease Equipment	Computer Equipment	Furniture and Fixtures	Rental units (1)	Equipment	Leasehold Improvements	Total
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
At June 30, 2017	$ 93,086	$0	$ 155,636	$ 45,120	$ 90,285	$285,234	$38,163	$ 707,525

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

Stated in Canadian Dollars

8. Intangible Assets

Cost

	Patents	Trademarks	Development Costs	FDA Clinical Study Costs(1)	Total
Balance at December 31, 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
Balance at June 30, 2017	$ 199,622	$ 58,346	$ 344,093	$ 509,649	$ 1,111,710

Amortization

	Patents	Trademarks	Development Costs	FDA Clinical Study Costs(1)	Total
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
Balance at January 1, 2017	$ 152,749	$ 51,240	$ 344,093	$ 509,649	$ 1,057,731
Amortization for the year	6,022	1,716	-	-	7,738
Balance at June 30, 2017	$ 158,771	$ 52,956	$ 344,093	$ 509,649	$ 1,065,469

Carrying Amounts

	Patents	Trademarks	Development Costs	FDA Clinical Study Costs(1)	Total
At December 31, 2015	$ 80,295	$ 13,970	$ -	$ -	$ 94,265
At December 31, 2016	$ 46,873	$ 7,106	$ -	$ -	$ 53,979
At June 30, 2017	$ 40,851	$ 5,390	$ -	$ -	$ 46,241

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

9. Payables and Accruals

	As at June 30, 2017	As at December 31, 2016
Trade payables	$ 448,650	$ 311,905
Salaries, employment taxes, and benefits	75,356	65,994
Current portion of warranty liability	1,100	1,100
Audit fees and contract payments	67,516	170,743
Total	**$ 592,622**	**$ 549,742**

10. 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.

Stated in Canadian Dollars

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 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

11. 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 or 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 six-month period ended June 30, 2017 and years ended December 31, 2016 and 2015 is provided below.

	Common shares under option	Weighted average exercised price $
Outstanding, December 31, 2014	5,095,000	0.50
Granted (1)	5,340,000	0.50
Forfeited (2)	(330,000)	0.50
Outstanding, December 31, 2015	10,105,000	0.50
Granted (3)	380,000	0.50
Forfeited (4)	(1,310,000)	0.50
Expired (5)	(1,765,000)	0.50
Outstanding, December 31, 2016	7,410,000	0.50
Forfeited (6)	(30,000)	0.50
Granted (7)	3,220,000	0.50
Outstanding, June 30, 2017	**10,600,000**	**0.50**

1) On May 28, July 27, October 13 and November 2, 2016 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.
2) During 2016 a board member resigned from the employment of the Company and forfeited all non-vested options totaling 330,000.
3) 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.
4) 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.
5) On October 25, 2016, certain stock options previously issued to employees and consultants expired.
6) During 2017 certain employees and consultants were terminated and/or resigned from the employment of the Company and forfeited all non-vested options totaling 30,000.
7) On April 18, 2017 options were granted to certain employees and consultants of the Company totaling 3,220,000 for $0.50 vesting in three tranches with tranches vesting in one year, two years and three years respectively

The following table summarizes information on the stock options outstanding as at June 30, 2017:

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 $**
2,420,000	2.0	$	0.50	2,420,000	0.50
80,000	2.3	$	0.50	53,333	0.50
4,460,000	2.9	$	0.50	2,973,333	0.50
110,000	3.1	$	0.50	-	-
50,000	3.3	$	0.50	-	-
20,000	3.8	$	0.50	-	-
10,000	3.9	$	0.50	-	-
230,000	4.3	$	0.50	-	-
3,220,000	4.8	$	0.50		
10,600,000		**$**	**0.50**	**5,446,668**	**$ 0.50**

Stated in Canadian Dollars

Under the stock option plan, the stock options vest over a three year period, commencing one year after the grant. As at June 30, 2017, 5,446,668 of the stock options were vested. All outstanding stock options as at June 30, 2017 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:

	2017	2016	2015
Risk-free interest rate	0.98%	0.68%	0.94%
Expected volatility*	72.59%	63.28%	78.88%
Expected life	5 years	5 years	5 years
Expected dividends	Nil	Nil	Nil
Weighted average grant date fair value	$0.20	$0.20	$0.20
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:

	2017	2016	2015
Risk-free interest rate	1.17%	0.84%	0.81%
Expected volatility*	64.13%	71.07%	78.47%
Expected life	5 years	5 years	5 years
Expected dividends	Nil	Nil	Nil
Weighted average grant date fair value	$0.24	$0.24	$0.20
Weighted average exercise price	$0.50	$0.50	$0.50
Forfeiture rate	18%	18%	18%

For the six-month period ended June 30, 2017, the Company recognized stock-based compensation expense of $235,762 (2016 - $151,435, 2015 - $120,553) for stock options issued to directors, employees, medical scientific and advisory board, marketing and media relation consultants and business development consultants, of which $201,203 is included in administrative expenses, $8,270 in selling expenses and $26,288 is included in research and development expenses.

*Based on historical volatility

Stated in Canadian Dollars

12. Common Share Purchase Warrants

As at June 30, common share purchase warrants consisted of the following:

	Number outstanding	Weighted average exercised price $	Fair value at date of grant $
Outstanding, January 1, 2015	5,034,250	0.25	214,624
Issued with shares	19,071,940	0.54	2,351,587
Exercised	(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	12,813,599	0.38	1,204,053
Outstanding December 31, 2016	33,340,539		3,596,395
Exercised	(2,922,500)	0.38	(210,610)
Expired	(482,500)	0.38	(13,582)
Outstanding June 30, 2017	**29,935,539**		**3,372,203**

The following table summarizes information on the common share purchase warrants outstanding for the six-month period ended June 30, 2017

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)
$0.38	1,455,000	482,500	972,500	-	-	-
$0.54	19,071,940	-	-		19,071,940	2.67
$0.375	14,763,599	-	1,950,000	-	12,813,599	4.36
	20,526,940	482,500	2,922,500	-	31,885,539	-

13. Share Capital

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

14. Loss Per Common Share

Basic loss per common share has been calculated based on the weighted average number of common shares outstanding during each of the years presented in the consolidated financial statements.

Stock options to purchase 10,600,000 (2016 – 10,035,000, 2015 – 5,095,000) common shares and common share purchase warrants totaling 31,885,539 (2016 – 20,526,940, 2015 – 23,029,523) 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

15. Selling Expenses

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

		2017		**2016**		**2015**
Sales salaries	$	593,924	$	420,038	$	246,087
Advertising		129,543		88,214		29,979
Commission		47,200		40,823		40,813
Travel		72,775		82,025		62,802
Stock based compensation		8,270		9,885		4,760
Amortization and depreciation allocation		46,546		24,742		18,157
Total selling expenses		**$898,258**		**$665,727**		**$402,598**

16. Administrative Expenses

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

		2017		**2016**		**2015**
Insurance	$	51,047	$	39,907	$	31,191
Professional fees		246,902		117,195		140,509
Rent		40,600		40,600		40,600
General and administrative expenses		415,046		470,590		295,450
Administrative salaries		501,358		433,458		290,236
Director and advisory fees		42,620		39,301		46,389
Stock based compensation		201,203		292,870		124,924
Amortization and depreciation allocation		24,140		18,810		13,542
Total administrative expenses		**$1,522,916**		**$1,452,732**		**$982,841**

17. Research and Development Expenses

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

		2017		**2016**		**2015**
Research and development (net of investm	$	1,372,081	$	833,486	$	1,332,466
Stock based compensation		26,288		56,915		(6,453)
Amortization and depreciation allocation		35,599		35,103		30,651
Total research and development expenses		**$1,433,968**		**$925,504**		**$1,356,664**

18. Financial Instruments – Fair Value and Risks

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

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

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

Stated in Canadian Dollars

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 June 30, 2017 and December 31, 2016, 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 June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
Trade and other receivables	$ 639,188	$ 567,725
Percentage outstanding more than 30 days	11%	16%
Percentage outstanding more than 120 days	12%	10%

The following table reflects the changes in the allowance for trade receivables the six month period ended June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
Allowance for trade receivables - beginning of period	$ 139,627	$ 139,627
Allowance recorded against current period sales	-	-
Adjustment based on collection experience	-	10,479
Amounts written off	(30,809)	(10,478)
Allowance for trade receivables - end of period	**$ 108,818**	**$ 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	$	592,622	$	592,622	$	-
Commitments	$	171,480	$	65,200	$	106,280
Total contractual obligations	**$**	**764,102**	**$**	**657,822**	**$**	**106,280**

The Company also has contractual obligations (note 21) in the form of lease obligations related to the Company's premises and research and development commitments.

iii Interest rate risk

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

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

iv Foreign currency exchange risk

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

Accounts exposed to foreign currency exchange risk as at June 30, 2017 and December 31, 2016 are as follows:

		June 30, 2017		December 31, 2016
Cash	$	36,399	$	50,977
Trade and other receivables		306,051		131,159
Payables and accruals		(180,460)		(112,979)
Total	**$**	**161,990**	**$**	**69,157**

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

Stated in Canadian Dollars

v Foreign currency exchange risk sensitivity analysis

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

	June 30, 2017	December 31, 2016
Cash	$ 3,640	$ 5,098
Trade and other receivables	30,605	13,116
Payables and accruals	(18,046)	(11,298)
Total	**$ 16,199**	**$ 6,916**

19. 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.

	2017	2016	2015
Short-term compensation	$350,000	$250,000	$200,000
Stock-based compensation	161,972	203,214	138,121
Total	**$511,972**	**$453,214**	**$338,121**

Key management personnel were not paid post-employment benefits, termination benefits or other long term benefits during the six-month period ended June 30, 2017, 2016 and 2015. Fees paid to directors have been disclosed in note 16.

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

20. 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.

Stated in Canadian Dollars

The following table displays revenue and direct expenses from the TLT and PDT division for the six-month period ended June 30:

	2017			2016			2015		
	TLT	PDT	Total	TLT	PDT	Total	TLT	PDT	Total
Sales	$ 1,016,734	$ -	$ 1,016,734	$ 893,138	$ -	$ 893,138	$ 677,817	$ -	$ 677,817
Cost of Sales	394,068	-	394,068	302,879	-	302,879	243,394	-	243,394
Gross Margin	622,666	-	622,666	590,259	-	590,259	434,423	-	434,423
Operating Expenses									
Selling expenses	898,258	-	898,258	665,727	-	665,727	402,598	-	402,598
Administrative expenses	1,044,665	478,251	1,522,916	715,447	737,285	1,452,732	570,512	412,329	982,841
Research and development expenses	399,635	1,034,335	1,433,968	-	925,504	925,504	288,132	1,068,532	1,356,664
(Gain) loss on foreign exchange	6,822	-	6,822	7,099	7,099	14,198	(12,970)	-	(12,970)
Interest expense	36	36	72	99	99	198	140	140	280
Interest income	(1,349)	-	(1,349)	(11,684)	-	(11,684)	(15,872)	-	(15,872)
	2,348,067	1,512,622	3,860,689	1,376,687	1,669,988	3,046,675	1,232,539	1,481,002	2,713,540
Loss for the period	$ (1,725,401)	$ (1,512,622)	$ (3,238,023)	$ (786,429)	$ (1,669,988)	$ (2,456,417)	$ (798,116)	$ (1,481,002)	$ (2,279,117)
Total Assets	$ 4,532,537	$ 288,763	$ 4,821,300	$ 4,582,404	$ 123,067	$ 4,705,471	$ 8,348,906	$ 356,912	$ 10,167,305
Total Liabilities	389,683	128,349	518,032	335,710	82,747	418,457	255,500	85,446	340,946

The following table displays revenue and direct expenses from TLT division product sales by geographic area for the six-month periods ended June 30:

	2017			2016			2015		
	Canada	USA	International	Canada	USA	International	Canada	USA	International
Sales	$ 769,840	$ 211,453	$ 35,441	$ 497,378	$ 316,756	$ 79,004	$ 562,890	$ 99,343	$ 15,584
Cost of Sales	323,540	57,061	13,467	160,420	107,697	34,762	202,134	35,674	5,586
Selling Expenses	557,731	329,383	11,144	427,653	226,929	11,144	385,870	15,793	935
	$ (111,431)	**$ (174,990)**	**$ 10,829**	**$ (90,695)**	**$ (17,870)**	**$ 33,098**	**$ (25,114)**	**$ 47,876**	**$ 9,063**

As at June 30, 2017 and December 31, 2016, the Company's long-lived assets used in operations are all located in Canada.

21. Commitments

The Company's commitments consist of the following:

		Total	2017	2018	2019	2020	2021
Lease obligations	(a)	$ 7,000	7,000				
Lease obligations	(b)	$ 1,800	1,080	720			
Research Agreement	(c)	$ 76,160	57,120	19,040			
Research Agreement	(d)	$ 54,015	30,682	23,333			
Research Agreement	(e)	$ 262,080		86,520	58,520	58,520	58,520
Total		$ 401,055	95,882	129,613	58,520	58,520	58,520

a) Lease obligations under a lease agreement related to the Company's premises, commenced on August 1, 2012 and expires on July 31, 2017. The Company is required to pay $49,000 for the period from January 1, 2017 through to July 31, 2017. The Company has paid $42,000 in the first six months of 2017, only $7,000 is the remaining commitment. 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 new lease agreement related to the Company's office equipment, commenced on May 1, 2017 and expires on May 1, 2018. Under the terms of this lease, the Company is required to minimum rental payments of $180 per month. This new lease agreement supersedes the old agreement in which the minimum monthly rental payment was $167. 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 $156,240 for the period from March 1, 2017 through to February 28, 2018. The Company has paid $80,080 relating to this commitment, in which $76,160 is the remaining commitment.

d) Research Commitments under a research collaboration agreement with a clinical research organization for the TLC-3000 cancer therapy project. Under the terms of this agreement, the Company is required to pay $70,000 for the period from April 25, 2017 through to April 25, 2018. The Company has paid $15,985 relating to this commitment, in which $54,015 is the remaining commitment.

e) Research Commitments under a research collaboration agreement with University Health Network for the TLC-3000 cancer therapy project. Under the terms of this agreement, the Company is required to pay $348,600 for the period from June 1, 2017 through to June 1, 2021. The Company has paid $86,520 in June 2017 relating to this commitment, in which $262, 080 is the remaining commitment.

The Company indemnifies its directors and officers against any and all costs, charges and expenses, including settlements of claims in respect of any civil, criminal or administrative action incurred in the performance of their service to the company to the extent permitted by law. The Company maintains liability insurance for its officers and directors.

22. Subsequent Events

On July 27, 2017, the Company received cash proceeds of $9,375 from the exercise of 25,000 warrants to purchase common shares.

On August 4, 2017, the Company received cash proceeds of $375,000 from the exercise of 1,000,000 warrants to purchase common shares.

On August 24, 2017, the Company received cash proceeds of $468,750 from the exercise of 1,250,000 warrants to purchase common shares.