Theralase Technologies Inc.

Interim Consolidated Financial Statements - Unaudited

As at March 31, 2015 and for the three-month period ended March 31, 2015, 2014 and 2013

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

THERALASE® TECHNOLOGIES INC.

Consolidated Balance Sheets
As at March 31, 2015 and December 31, 2014
Stated in Canadian Dollars

	Note	2015	2014
Assets			
Current assets			
Cash		$ 8,536,007	$ 1,922,454
Trade and other receivables	4	557,914	630,106
Inventories	5	357,405	295,620
Prepaid expenses and other assets		278,941	574,861
Total current assets		9,730,267	3,423,041
Non-Current assets			
Finance receivable		26,114	29,020
Property and equipment	6	321,169	270,758
Intangible assets	7	89,755	94,265
Total non-current assets		437,038	394,043
Total Assets		**$ 10,167,305**	**$ 3,817,084**
Liabilities			
Current liabilities			
Payables and accruals	8	$ 474,165	$ 511,750
Total liabilities		474,165	511,750
Equity attributable to shareholders			
Share capital	12	19,336,043	14,436,356
Common share purchase warrants	11	2,515,833	214,624
Contributed surplus		4,433,282	4,312,729
Deficit		(16,592,018)	(15,658,375)
Total Equity		9,693,140	3,305,334
Total Shareholders' Equity and Liabilities		**$ 10,167,305**	**$ 3,817,084**

Commitments (Note 23)
Subsequent events (Note 24)

Approved on Behalf of the Board

[Roger Dumoulin-White] Director

[Randy Bruder] Director

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Operations and Comprehensive Loss

For the three-month period ended March 31

Stated in Canadian Dollars

	Note	2015	2014	2013
Sales		$ 368,304	$ 361,179	$ 342,900
Cost of Sales		135,156	121,546	106,978
Gross Margin		233,148	239,633	235,922
Operating Expenses				
Selling expenses	14	$ 184,488	$ 122,278	$ 109,391
Administrative expenses	15	456,123	240,373	249,767
Research and development expenses	16	545,645	197,792	199,597
(Gain) Loss on foreign exchange		(15,228)	14,271	5,384
Interest expense		67	10,847	6,176
Interest income		(4,303)	(1,853)	(1,958)
		$ 1,166,791	$ 583,707	$ 568,357
Loss and comprehensive loss for the year		$ (933,643)	$ (344,074)	$ (332,435)
Basic and diluted loss and comprehensive loss per common share	13	$ (0.01)	$ (0.01)	$ (0.01)
Weighted average number of common shares outstanding (basic and diluted)	13	81,392,501	47,853,882	43,819,961

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

THERALASE® TECHNOLOGIES INC.

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

	Note	2015	2014	2013
Cash flows from operating activities				
Net loss for the year		$ (933,643)	$ (344,074)	$ (332,435)
Items not involving cash				
Amortization of property and equipment	6	25,940	17,172	16,249
Amortization of intangibles	7	4,510	3,228	4,674
Stock-based compensation expense	10	120,553	10,468	41,990
Gain (loss) on foreign exchange		15,228	(14,271)	(5,384)
Write-off of property and equipment		-	-	-
Lease inducements		(700)	(700)	(700)
		(768,112)	(328,177)	(275,606)
Change in operating assets and liabilities other than cash				
Trade and other receivables		57,665	(134,084)	35,043
Finance receivables		2,906	4,878	9,006
Inventories		(61,785)	(2,483)	16,472
Prepaid expenses and other assets		295,920	(191,311)	(13,598)
Payables and accruals		(52,113)	(287,840)	273,376
		(510,991)	(939,017)	44,693
Cash flows from investing activities				
Purchase of property and equipment	6	(76,351)	(9,621)	(46,242)
Proceeds on disposal of property and equipment	6	-	-	-
		(76,351)	(9,621)	(46,242)
Cash flows from financing activities				
Repayment of capital lease obligation		-	(189)	(150)
(Repayment) Proceeds from officer loan		-	(20,924)	(5,469)
Proceeds from private placement (net of issue costs)		6,990,896	-	-
Proceeds from the exercising of stock options		-	15,000	-
Proceeds from the exercising of share warrants		210,000	144,467	-
		7,200,896	138,354	(5,619)
Increase in cash during the year		$ 6,613,553	$ (810,286)	$ (7,168)
Cash, beginning of year		$ 1,922,454	$ 1,768,329	$ 21,975
Cash, end of year		$ 8,536,007	$ 958,043	$ 14,807
Supplementary Information				
Interest Paid		$ 67	$ 10,847	$ 6,176
Interest Received		$ 4,303	$ 1,853	$ 1,958

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Changes in Equity
As at March 31, 2015, December 31, 2014 and December 31, 2013
Stated in Canadian Dollars

	Note	Number of Shares	Share Capital	Contributed Surplus	Common Share Purchase Warrants	Deficit	Total Shareholders' Equity
		#	$	$	$	$	$
Balance, December 31, 2012		44,682,975	7,843,502	3,721,051	289,339	(11,918,622)	(64,730)
Stock-based compensation expense	10	-	-	150,972	-	-	150,972
Expired share purchase warrants	11	-	-	247,115	(247,115)		-
Issued pursuant to private placement (net of share issue costs)	9	21,043,334	1,648,930	-	1,180,925	-	2,829,855
Loss for the year		-	-	-	-	(1,152,209)	(1,152,209)
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	10	-	-	206,894	-	-	206,894
Loss for the year		-	-	-	-	(2,587,540)	(2,587,540)
Balance, December 31, 2014		85,321,293	14,436,356	4,312,729	214,624	(15,658,371)	3,305,336
Balance, December 31, 2014		85,321,293	14,436,356	4,312,729	214,624	(15,658,371)	3,305,336
Stock-based compensation expense	10	-	-	120,553	-	-	120,553
Exercised share purchase warrants	11	1,050,000	260,109		(50,109)		210,000
Issued pursuant to public offering (net of share issue costs)	12	18,181,817	4,639,578		2,351,318 -	-	6,990,896
Loss for the period		-	-			(933,643)	(933,643)
Balance, March 31, 2015		104,553,110	19,336,043	4,433,282	2,515,833	(16,592,014)	9,693,140

The company had a nil balance of accumulated other comprehensive income at each of the dates presented above.

1. Nature of Operations

Theralase Technologies Inc. (the "Company" or "Theralase") designs, develops, manufactures and markets patented, super-pulsed laser technology used in biostimulative and biodestructive clinical applications. The Theralase technology platform targets several health-care sectors: first, for non-invasive pain management and clinical therapy, used in neural muscular skeletal conditions, including arthritis and osteoarthritis; second, wound care and healing (including non-healing fractures and bone fracture regeneration); and third, research and development into combining patented photodynamic compounds with patented, super-pulsed, biofeedback laser technology to attack specifically targeted cancers, bacteria and viruses.

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, distribution and strategic alliance sales.

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 interpretations of the IFRS Interpretations Committee ("IFRIC").

The consolidated financial statements for the three-month ended March 31, 2015 (including comparatives) were approved and authorized for issue by the board of directors on May 29, 2015.

2. 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 and third parties are recognized at fair value at the date of grant.

2. Summary of Significant Accounting Policies (continued)

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:

- 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.

- 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.

- 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.

- 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.

- 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 11).

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

3. 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:

Stated in Canadian Dollars

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.

IFRS 15 is effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

4. Trade and Other Receivables

	As at March 31, 2015	As at December 31, 2014
Trade Accounts Receivable (net amount)	$ 301,021	$ 393,823
Government Tax Credits Receivable	255,743	234,475
Interest Receivable	1,151	1,808
Total	**$ 557,914**	**$ 630,106**

Write offs of trade receivables for the three-month period ending March 31, 2015 amounted to $nil (December 31, 2014 - $14,678, December 31, 2013 - $8,031). Refer to note 19 (i) for the continuity schedule of allowance for trade receivables.

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

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

Stated in Canadian Dollars

5. Inventories

	As at March 31, 2015	As at December 31, 2014
Raw materials	$ 214,950	$ 164,074
Work-in-process	11,313	31,254
Finished goods	131,142	100,292
Total	**$ 357,405**	**$ 295,620**

6. 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, 2013	$ 39,653	$ 32,351	$ 91,141	$ 95,021	$ 40,794	$ 62,717	$ 128,256	$ 489,932
Additions	-	-	2,607	714	5,890	-	84,079	93,290
Disposals	-	(29,756)	(2,007)	-	(21,436)	-	-	(53,199)
Balance at December 31, 2013	$ 39,653	$ 2,595	$ 91,741	$ 95,735	$ 25,248	$ 62,717	$ 212,335	$ 530,023
Balance at January 1, 2014	$ 39,653	$ 2,595	$ 91,741	$ 95,735	$ 25,248	$ 62,717	$ 212,335	$ 530,023
Additions	-	-	27,004	1,372	-	80,306	5,432	114,115
Disposals	-	-	-	-	-	-	-	-
Balance at December 31, 2014	$ 39,653	$ 2,595	$ 118,745	$ 97,107	$ 25,248	$ 143,023	$ 217,767	$ 644,138
Balance at January 1, 2015	$ 39,653	$ 2,595	$ 118,745	$ 97,107	$ 25,248	$ 143,023	$ 217,767	$ 644,138
Additions	42,995	-	-	-	-	33,356	-	76,351
Disposals	-	-	-	-	-	-	-	-
Balance at March 31, 2015	$ 82,648	$ 2,595	$ 118,745	$ 97,107	$ 25,248	$ 176,379	$ 217,767	$ 720,489

Depreciation

	Tools and Dies	Finance Lease Equipment	Computer Equipment	Furniture and Fixtures	Rental units [1]	Equipment	Leasehold Improvements	Total
Balance at January 1, 2013	$ 39,179	31,061	$ 74,503	$ 71,117	$ 35,827	$ 49,791	$ -	$ 301,478
Depreciation for the period	118	567	4,911	4,970	3,541	3,129	42,176	59,413
Disposals	-	(29,756)	(1,171)	-	(21,436)	-	-	(52,363)
Balance at December 31, 2013	$ 39,297	$ 1,872	$ 78,243	$ 76,087	$ 17,932	$ 52,920	$ 42,176	$ 308,528
Balance at January 1, 2014	$ 39,297	$ 1,872	$ 78,243	$ 76,087	$ 17,932	$ 52,920	$ 42,176	$ 308,528
Depreciation for the period	88	532	5,678	4,002	3,089	4,943	46,523	64,852
Disposals	-	-	-	-	-	-	-	-
Balance at December 31, 2014	$ 39,385	$ 2,404	$ 83,921	$ 80,089	$ 21,022	$ 57,862	$ 88,699	$ 373,382
Balance at January 1, 2015	$ 39,385	$ 2,404	$ 83,921	$ 80,089	$ 21,022	$ 57,862	$ 88,699	$ 373,382
Depreciation for the period	2,704	57	3,019	851	347	7,068	11,894	25,940
Disposals	-	-	-	-	-	-	-	-
Balance at March 31, 2015	$ 42,089	$ 2,461	$ 86,940	$ 80,940	$ 21,369	$ 64,931	$ 100,593	$ 399,321

Carrying Amounts

	Tools and Dies	Finance Lease Equipment	Computer Equipment	Furniture and Fixtures	Rental units [1]	Equipment	Leasehold Improvements	Total
At December 31, 2013	356	723	13,498	19,648	7,315	9,797	170,159	221,495
At December 31, 2014	268	191	34,825	17,019	4,226	85,161	129,068	270,758
At March 31, 2015	40,559	135	31,805	16,167	3,880	111,448	117,174	321,169

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

Stated in Canadian Dollars

7. Intangible Assets

	Patents	Trademarks	Development Costs	FDA Clinical Study Costs (1)	Total
Balance at January 1, 2013	$ 199,622	$ 58,346	$ 344,093	$ 509,649	$ 1,111,710
Balance at December 31, 2013	$ 199,622	$ 58,346	$ 344,093	$ 509,649	$ 1,111,710
Balance at December 31, 2014	$ 199,622	$ 58,346	$ 344,093	$ 509,649	$ 1,111,710
Balance at March 31, 2015	$ 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, 2013	$ 90,115	$ 37,511	$ 344,093	$ 509,649	$ 981,368
Amortization for the period	14,606	3,433	-	-	18,039
Balance at December 31, 2013	$ 104,721	$ 40,944	$ 344,093	$ 509,649	$ 999,407
Balance at January 1, 2014	$ 104,721	$ 40,944	$ 344,093	$ 509,649	$ 999,407
Amortization for the period	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 period	3,652	858	-	-	4,510
Balance at March 31, 2015	$ 122,979	$ 45,234	$ 344,093	$ 509,649	$ 1,021,955

Carrying Amounts

At December 31, 2013	94,901	17,402	-	-	112,303
At December 31, 2014	80,295	13,970	-	-	94,265
At March 31, 2015	76,643	13,112	-	-	89,755

(1) FDA clinical study cost 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.

8. Payables and Accruals

	As at March 31, 2015	**As at December 31, 2014**
Trade payables	$ 188,986	$ 289,312
Salaries, employment taxes, and benefits	26,893	27,218
Current portion of warranty liability	1,100	1,100
Audit fees, contract payments and other	257,186	194,120
Total	**$ 474,165**	**$ 511,750**

Stated in Canadian Dollars

9. 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 consists of 1 common share and 1 non-transferable common share purchase warrant. Each whole warrant entitled 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 paid certain finders cash commissions totaling $626,646 (8% of referred business) and issued an aggregate of 890,123 finder warrants, each finder warrant 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 Company receved net proceeds of $6,990,896 (gross proceeds of $8,000,000 less expenses of $1,009,104). The purchase price of $0.44 per unit was allocated between the common shares ($0.29 per share) and common share purchase warrants ($0.15 per warrant), based on their relative fair values. Management determined that the allocation of the proceeds was $4,639,578 for the common shares issued and $2,351,318 for the common share purchase warrants issued.

The fair value of each common share purchase warrant granted was estimated on the date of 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	$0.39

10. Stock Options

The Company has a rolling stock option plan reserving for issue under this plan 10% (10,455,311 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 three-months ended March 31, 2015 and the years ended December 31, 2014 and December 31, 2013 is provided below.

Stated in Canadian Dollars

	Common shares under option	Weighted average exercised price $
Outstanding, January 1, 2013	2,556,666	0.44
Forfeited (1)	(170,000)	0.50
Expired (2)	(166,666)	0.45
Outstanding, December 31, 2013	2,220,000	0.46
Granted (3)	3,320,000	0.50
Forfeited (4)	(45,000)	0.50
Expired (5)	(100,000)	0.15
Expired (6)	(300,000)	0.35
Outstanding, December 31, 2014	5,095,000	0.50
Outstanding, March 31, 2015	5,095,000	0.50

1) During 2013 certain employees were terminated and/or resigned from the employment of the Company and forfeited all non-vested options totaling 170,000 in which $31,761 of stock based compensation recognized in prior years was reversed.

2) On November 18, 2013 and December 31, 2013 certain stock options expired.

3) 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.

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

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

6) On August 11, 2014 certain stock options expired.

The following table summarizes information on the stock options outstanding as at March 31, 2015:

Stock Options Outstanding			Stock Options Exercisable	
Stock Options Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price $	Stock Options Exercisable	Weighted Average Exercise Price $
1,775,000	1.8	$ 0.50	1,775,000	$ 0.50
2,650,000	4.3	$ 0.50	-	$ -
670,000	4.6	$ 0.50	-	-
5,095,000		$ 0.50	1,775,000	$ 0.50

Under the stock option plan, the stock options vest over a three year period, commencing one year after the grant. As at March 31, 2015, 1,775,000 of the stock options were vested. All outstanding stock options as at March 31, 2015 will be fully vested by November 11, 2017.

Stated in Canadian Dollars

11. Stock Options (continued)

Options to employees and non-employees are measured at the fair value of the equity instruments granted on the grant date, using the following weighted average assumptions:

	2014
Risk-free interest rate	1.16%
Expected volatility*	81.79%
Expected life	5 Years
Expected dividends	Nil
Weighted average grant date fair value	$0.19
Weighted average exercise price	$0.50
Forfeiture rate	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 on March 31, 2015 using the following assumptions:

	2015	2014
Risk-free interest rate	0.49%	1.06%
Expected volatility*	78.50%	83.70%
Expected life	5 Years	5 years
Expected dividends	Nil	Nil
Weighted average grant date fair value	$0.38	$0.38
Weighted average exercise price	$0.50	$0.50
Forfeiture rate	18%	18%

For the three-month ended March 31, 2015, the Company recognized stock-based compensation expense of $120,552 (December 31, 2014 - $206,894, December 31, 2013 - $150,972) for stock options issued to directors, employees, medical scientific and advisory board, marketing and media relation consultants and business development consultants, of which $57,582 is included in administrative expenses, $1,244 in selling expenses and $61,726 is included in research and development expenses.

*Based on historical volatility

11. Warrants

As at March 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	(19,494,984)	0.20	(1,008,525)
Outstanding, December 31, 2014	4,990,916	0.25	214,624
Issued with shares	19,071,940	0.54	2,351,319
Exercised	(1,033,333)	0.20	(50,109)
Outstanding March 31, 2015	**23,029,523**		**2,515,834**

Stated in Canadian Dollars

The following table summarizes information on the common share purchase warrants outstanding as of March 31, 2015

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	2.04
$0.20	3,535,916	-	1,050,000	-	2,485,916	0.60
$0.54	-	-	-	19,071,940	19,071,940	5.00
	4,990,916	-	1,050,000	19,071,940	23,012,856	4.34

12. Share Capital

Authorized

Unlimited number of common shares

Issued

	As at March 31, 2015		As at December 31, 2014	
	Number	Amount	Number	Amount
Balance, beginning of year	85,321,293	$ 14,436,356	65,726,309	$ 9,492,432
Issued during year	19,231,817	4,914,214	19,594,984	4,943,924
Balance, ending of year	**$ 104,553,110**	**$ 19,350,570**	**$ 85,321,293**	**$ 14,436,356**

1) The common shares issued during 2015 were issued for gross proceeds of $0.44 (2014 – Nil)
2) The common shares issued during 2015 upon conversion of warrants were issued for gross proceeds of $0.20 (2014-$0.20 and $0.38) (see note 11).
3) The common shares issued during 2014 upon conversion of options were issued for gross proceeds of $ 0.15 per common share for cash (see note 10).

13. Loss and Comprehensive Loss Per Common Share

Basic loss and comprehensive 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.

Basic and diluted loss and comprehensive loss per common share for the 3 month periods ended March 31 are as follows:

	2015	2014	2013
Loss for the year	$ (933,643)	$ (344,074)	$ (332,435)
Weighted average number of common shares	81,392,501	47,853,882	43,819,961
Basic and diluted loss and comprehensive loss per share	**$ (0.01)**	**$ (0.01)**	**$ (0.01)**

Stated in Canadian Dollars

Stock options to purchase 5,095,000 (December 31, 2014 – 5,095,000, December 31, 2013 - 2,220,000) common shares and common share purchase warrants totaling 23,029,523 (December 31, 2014 - 4,990,916, December31, 2013 – 24,485,900) were not included in the computation of diluted loss and comprehensive loss per common share due to their anti-dilutive nature.

14. Selling Expenses

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

	2015	2014	2013
Sales salaries	$ 104,029	$ 53,495	$ 78,393
Advertising	12,781	23,671	3,213
Commission	22,596	7,068	6,679
Travel	35,670	30,716	12,993
Amortization and depreciation allocation	9,412	7,328	8,113
Total selling expenses	**$184,488**	**$122,278**	**$109,391**

15. Administrative Expenses

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

	2015	2014	2013
Insurance	$ 15,338	$ 12,419	$ 14,374
Professional fees	77,385	17,804	14,213
Rent	20,300	20,300	20,300
General and administrative expenses	115,462	57,573	13,497
Administrative salaries	139,437	116,633	131,362
Director and advisory fees	23,387	-	8,450
Stock based compensation	57,582	10,468	41,990
Amortization and depreciation allocation	7,232	5,176	5,581
Total administrative expenses	**$456,123**	**$240,373**	**$249,767**

16. Research and Development Expenses

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

	2015	2014	2013
Research and development (net of investment tax credit)	$ 531,839	$ 189,895	$ 193,093
Amortization and depreciation allocation	13,806	7,897	6,504
Total research and development expenses	**$545,645**	**$197,792**	**$199,597**

Stated in Canadian Dollars

17. 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 collection is reasonably assured. In 2015, an amount of $Nil (December 31, 2014 - $173,041 December 31, 2013 - $73,419) 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.

18. Financial Instruments

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

19. Financial Instruments (continued)

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As at March 31, 2015 and December 31, 2014, 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 following table reflects the balance and age of trade receivables as at March 31, 2015 and December 31, 2014:

	As at March 31, 2015	As at December 31, 2014
Trade and other receivables and finance receivables	$ 302,171	$ 395,542
Percentage outstanding more than 30 days	61%	57%
Percentage outstanding more than 120 days	34%	26%

Stated in Canadian Dollars

19. Financial Instruments (continued)

i Credit risk (continued)

The remaining balance of $255,743 pertains to government receivables and does not present a significant credit risk.

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

	As at March 31, 2015		As at December 31, 2014
Allowance for trade receivables - beginning of year	$	16,416	$ 25,001
Allowance recorded against current year's sales			
Adjustment based on collection experience			6,093
Amounts written off			(14,678)
Allowance for trade receivables - end of year	**$**	**16,416**	**$ 16,416**

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**	**2015**	**2016**
Payables and accruals	$ 511,750	$ 511,750	$ -
Total contractual obligations	**$ 511,750**	**$ 511,750**	**$ -**

The Company also has significant contractual obligations (note 24) 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. The Company is subject to interest rate risk on its due to officer; however, there is limited exposure due to fixed interest rates.

19. Financial Instruments (continued)

iv Foreign currency exchange risk

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

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

	As at March 31, 2015	As at December 31, 2014
Cash	$ (3,220)	$ (3,966)
Trade and other receivables	123,303	288,489
Payables and accruals	(82,706)	(77,452)
Total	**$ 37,377**	**$ 207,071**

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

v Foreign currency exchange risk sensitivity analysis

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

	As at March 31, 2015	As at December 31, 2014
Cash	$ (322)	$ (397)
Trade and other receivables	12,330	28,849
Payables and accruals	(8,271)	(7,745)
Total	**$ 3,738**	**$ 20,707**

20. 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.

	2015	2014	2013
Short-term compensation	$87,500	$66,250	$ 66,246
Stock-based compensation	60,792	10,722	26,351
Total	$148,292	$76,972	$92,597

Key management personnel were not paid post-employment benefits, termination benefits or other long term benefits during the years ended December 31, 2014, 2013 and 2012. 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.

21. Capital Disclosures

The Company's objective is to maintain a sufficient capital base to support future research, development and strategic business initiatives allowing us to invest in our 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 three-month ended March 31, 2015, the Company reported a loss of $933,643, and an accumulated deficit of $16,592,018 as at that date. Sales of the TLC-1000, the company's existing product line, 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 that are similar to the financing secured through the private placement that took place on March 3, 2015 (note 11). Nevertheless, there is no assurance that these initiatives will be successful.

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.

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 three-month period ended March 31:

Stated in Canadian Dollars

	2015			2014			2013		
	TLT	**PDT**	**Total**	**TLT**	**PDT**	**Total**	**TLT**	**PDT**	**Total**
Sales	$ 368,304	$ -	$ 368,304	$ 361,179	$ -	$ 361,179	$ 342,900	$ -	$ 342,900
Cost of Sales	135,156	-	135,156	121,546	-	121,546	106,978	-	106,978
Gross Margin	233,148	-	233,148	239,633	-	239,633	235,922	-	235,922
Operating Expenses									
Selling expenses	184,488	-	184,488	122,278	-	122,278	109,391	-	109,391
Administrative expenses	250,105	206,018	456,123	187,439	52,952	240,391	222,081	27,686	249,767
Research and development expenses	200,117	345,528	545,645	69,787	132,868	202,655	-	199,597	199,597
(Gain) loss on foreign exchange	(15,228)	-	(15,228)	4,465	9,806	14,271	5,384	-	5,384
Interest expense	34	34	67	5,423	5,423	10,846	3,088	3,088	6,176
Interest income	(4,303)	-	(4,303)	(1,853)	-	(1,853)	(1,958)	-	(1,958)
	615,212	551,580	1,166,792	387,538	201,050	588,588	337,986	230,371	568,357
Loss and comprehensive loss for the year	$ (382,064)	$ (551,580)	$ (933,643)	$ (147,905)	$ (201,050)	$ (348,954)	$ (102,064)	$ (230,371)	$ (332,434)
Total Assets	$ 9,832,999	$ 334,306	$ 10,167,305	$ 2,108,553	$ 92,530	$ 2,201,083	$ 1,003,575	$ 105,691	$ 1,109,266
Total Liabilities	283,551	176,086	459,637	611,336		611,336	1,464,441		1,464,441

22. Segmented Information (continued)

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

	2015			2014			2013		
	Canada	**USA**	**International**	**Canada**	**USA**	**International**	**Canada**	**USA**	**International**
Sales	344,351	8,369	15,584	187,810	80,936	92,433	250,422	36,339	56,140
Cost of Sales	126,342	3,071	5,743	56,578	24,281	40,671	71,850	10,426	24,702
Selling Expenses	183,051	502	935	68,809	49,299	4,170	66,155	43,237	-
	34,958	4,796	8,906	62,423	7,356	47,592	112,417	(17,324)	31,438

As at March 31, 2015, December 31 ,2014 and December 31 2013, 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	2015	2016	2017
Lease obligations (a)	$ 196,000	$ 84,000	$ 84,000	$ 28,000
Lease obligations (b)	6,012	2,004	2,004	2,004
Lease obligations (c)	47,808	15,936	15,936	15,936
Research Agreement (d)	73,409	73,409	-	-
Research Agreement (e)	373,116	298,493	74,623	-
Research Agreement (f)	608,472	608,472	-	-
Research Agreement (g)	597,920	597,920		
Total	$ 1,902,737	$ 1,680,234	$ 176,563	$ 45,940

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) Lease obligations under a lease agreement related to the Company's production equipment, commenced on April 1, 2014 and expires on May 18, 2018. Under the terms of this lease, the Company is required to minimum rental payments of $1,328 per month. The future minimum lease payments are shown in the table above.

d) 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 $168,000 for the period from May 1, 2014 through May 1, 2015. The Company has paid $63,000 relating to this commitment, in which $105,000 is the remaining commitment for 2015.

e) Research Commitments under a research collaboration agreement with JSS Medical Research Inc. for the TLC-3000 cancer therapy project. Under the terms of this agreement, the Company is required to pay $497,488 for the period from September 9, 2014 through to April 9, 2016. The Company has paid $124,372 relating to this commitment, in which $373,116 is the remaining commitment.

f) Research Commitments under a research collaboration agreement with SAFC for the TLC-3000 cancer therapy project. Under the terms of this agreement, the Company is required to pay USD$895,000 for the period from September 9, 2014 through to May 9, 2015. The Company has paid USD$370,500 relating to this commitment, in which USD$524,500 is the remaining commitment.

g) Research Commitments under a research collaboration agreement with CiToxLab for the TLC-3000 cancer therapy project. Under the terms of this agreement, the Company is required to pay $597,920 for the period from April 1, 2015 through to August 31, 2015. The Company has paid $Nil relating to this commitment, in which $597,920 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.