Theralase Technologies Inc.

Audited Consolidated Financial Statements

As at December 31, 2017 and 2016

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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 directors. The Audit Committee reviews the Company’s annual consolidated financial statements and has recommended their approval to 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 years ended December 31, 2017 and 2016 and Collins Barrow Toronto LLP has issued a report on the consolidated financial statements for the year ended December 31, 2015.

[*signed*]
Arkady Mandel
Interim Chief Executive Officer & CSO
Theralase Technologies Inc.

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Directors of
Theralase Technologies Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying financial statements of Theralase Technologies Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, the consolidated statements of operations, cash flows and changes in equity for the years then ended, and the related notes, comprising a summary of significant accounting policies and other explanatory information (collectively referred to as the financial statements).

In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Material Uncertainty Related to Going Concern

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which indicates that the Company incurred a consolidated net loss of $6,093,596 during the year ended December 31, 2017 and, has historically used net cash in operations. As stated in Note 1 to the financial statements, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that casts substantial doubt on the Company's ability to continue as a going concern.

Basis for Opinion

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to error or fraud. Those standards also require that we comply with ethical requirements, including independence. We are required to be independent with respect to the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We are a public accounting firm registered with the PCAOB.

An audit includes performing procedures to assess the risks of material misstatements of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included obtaining and examining, on a test basis, audit evidence regarding the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal control relevant to the Company's reparation 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 Company's internal control. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies and principles 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 audits is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Other Matter

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

Marcum LLP

Marcum LLP

We have served as the Company's auditor since 2017.

New York, NY
April 30, 2018

THERALASE® TECHNOLOGIES INC.

Consolidated Balance Sheets

As at December 31, 2017 and December 31, 2016

Stated in Canadian Dollars

	Note	2017	2016
Assets			
Current assets			
Cash and cash equivalents		$ 253,902	$ 2,970,198
Trade and other receivables	4	1,164,469	1,200,082
Inventories	5	1,046,459	1,215,753
Prepaid expenses and other assets		77,787	231,092
Total current assets		2,542,617	5,617,125
Non-Current assets			
Property and equipment	6	744,149	569,679
Intangible assets	7	35,941	53,979
Total non-current assets		780,090	623,658
Total Assets		**$ 3,322,707**	**$ 6,240,783**
Liabilities			
Current liabilities			
Payables and accruals	8	1,277,142	$ 549,742
Total liabilities		1,277,142	549,742
Equity attributable to shareholders			
Share capital	10, 13	24,907,688	22,568,232
Common share purchase warrants	10, 12	3,210,867	3,596,395
Contributed surplus	11	5,808,373	5,314,181
Deficit		(31,881,363)	(25,787,767)
Total Equity		2,045,565	5,691,041
Total Shareholders' Equity and Liabilities		**$ 3,322,707**	**$ 6,240,783**

Commitments (Note 22)

Approved on Behalf of the Board

[Randy Bruder] Director

[Guy Anderson] Director

THERALASE® TECHNOLOGIES INC.

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

	Note	2017	2016	2015
Sales		$ 2,342,508	$ 1,918,893	$ 1,945,246
Cost of Sales		945,010	796,569	629,607
Gross Margin		1,397,498	1,122,324	1,315,639
Operating Expenses				
Selling expenses	15	$ 1,917,106	$ 1,614,680	$ 1,086,354
Administrative expenses	16	2,912,170	2,546,706	2,452,328
Research and development expenses	17	2,652,969	1,867,621	3,029,369
(Gain) Loss on foreign exchange		15,376	29,796	(7,891)
Interest expense		87	198	795
Interest income		(6,614)	(15,429)	(37,171)
		$ 7,491,094	$ 6,043,572	$ 6,523,784
Loss for the year	14	$ (6,093,596)	$ (4,921,248)	$ (5,208,145)
Basic and diluted loss per common share	14	$ (0.049)	$ (0.045)	$ (0.054)
Weighted average number of common shares outstanding (basic and diluted)		124,094,079	109,035,634	95,957,158

THERALASE® TECHNOLOGIES INC.

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

	Note	2017	2016	2015
Cash flows from operating activities				
Net loss for the period		$ (6,093,596)	$ (4,921,248)	$ (5,208,144)
Items not involving cash				
Amortization of property and equipment	6	235,896	129,977	114,030
Amortization of intangibles	7	18,038	19,320	20,967
Stock-based compensation expense	11	494,191	491,482	508,273
Provision for inventory reserve		-	3,756	-
Gain(loss) on foreign exchange		15,376	(29,796)	7,891
loss on sale of property and equipment		-	181	-
Lease inducements		(1,400)	(1,400)	(2,800)
Change in operating assets and liabilities other than cash				
Trade and other receivables		20,238	9,557	(557,634)
Finance receivables		-	30,321	(1,301)
Inventories		169,294	(305,993)	(617,896)
Prepaid expenses and other assets		154,705	(70,628)	418,597
Payables and accruals		727,400	(235,922)	273,916
		(4,259,858)	(4,880,393)	(5,044,101)
Cash flows from investing activities				
Purchase of property and equipment	6	(410,376)	(296,212)	(248,496)
Proceeds on disposal of property and equipment	6	10	1,600	-
		(410,366)	(294,612)	(248,496)
Cash flows from financing activities				
Proceeds from public offering (net of issue costs)		-	3,804,348	7,002,149
Proceeds from the exercising of share warrants		1,953,928	-	708,850
		1,953,928	3,804,348	7,710,999
Increase in cash during the year		$ (2,716,296)	$ (1,370,658)	$ 2,418,402
Cash, beginning of period		$ 2,970,198	$ 4,340,856	$ 1,922,454
Cash, end of period		$ 253,902	$ 2,970,198	$ 4,340,856

Supplementary Information			
Interest Paid	$ 87	$ 198	$ 795
Interest Received	$ 6,614	$ 15,429	$ 37,171

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Changes in Equity
As at December 31, 2017, 2016, 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	-	-	508,273	-	-	508,273
Exercised share purchase warrants	12	3,544,250	881,019	-	(172,171)	-	708,848
Expired share purchase warrants	12	-	-	1,697	(1,697)	-	-
Issued pursuant to public offering	10	18,181,817	5,357,144	-	2,642,856	-	8,000,000
Transaction cost on public offering	10	-	(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	11	-	-	491,482	-	-	491,482
Issued pursuant to public offering	10	14,236,666	2,933,752	-	1,337,248	-	4,271,000
Transaction cost on public offering	10	-	(333,457)	-	(133,195)	-	(466,652)
Loss for the period		-	-	-	-	(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
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	-	-	494,192	-	-	494,192
Exercised share purchase warrants	12	5,197,500	2,325,874	-	(371,946)	-	1,953,928
Expired share purchase warrants	12	-	13,582	-	(13,582)	-	-
Loss for the year		-	-	-	-	(6,093,596)	(6,093,596)
Balance, December 31, 2017		126,481,526	24,907,688	5,808,373	3,210,867	(31,881,363)	2,045,565

1. Nature of Operations

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

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. The Therapeutic Laser Technology ("**TLT**") division designs, develops, manufactures and markets patented and proprietary super-pulsed laser technology indicated and cleared by Health Canada and the Food and Drug Administration ("**FDA**") for the healing of chronic knee pain. The technology has been used off-label for healing numerous nerve, muscle and joint conditions.

The Company develops products both internally and using the assistance of specialist external resources. Successful financing enables the commercialization of the Company's current and future product offerings, which is further supported through the Company's established network of direct sales and indirect distribution networks.

Theralase was incorporated by articles of incorporation in the province of Ontario in September 2004. The Company's common shares trade on the Toronto Stock Venture Exchange under the symbol TLT. The registered office is 41 Hollinger Road, Toronto, Ontario, Canada M4B 3G4.

Going Concern, Capital Disclosures and Statement of Compliance

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (**"IFRS"**) as issued by the International Accounting Standards Board (**"IASB"**) and including interpretations of the IFRS Interpretations Committee (**"IFRISIC"**) on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. For the year ended December 31, 2017, the Company had a net loss of $6,093,596 (2016 - $4,921,248, 2015 - $5,208,145), an accumulated deficit of $31,881,363 (2016 - $25,787,767) and has historically used net cash in operations. These conditions indicate the existence of material uncertainties that casts substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon achieving a profitable level of operations and obtaining additional financing, neither of which is assured. The Company has been able to raise capital to continue to market its products and continues to develop sales opportunities that could result in additional sales of its products in the future. These consolidated financial statements do not give effect to any adjustments which may be necessary should the Company be unable to continue as a going concern and be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying consolidated financial statements. These adjustments could be material.

The Company's objective is to maintain a sufficient capital base to support future research, development and strategic business initiatives allowing the Company to invest in its future and maintain investor, creditor and market confidence.

The Company's capital is composed of total shareholders' equity. For the year ended December 31, 2017, the Company reported a loss of $6,093,596, and an accumulated deficit of $31,881,363 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) however, there is no guarantee that the Company will be able to raise additional capital on terms and conditions agreeable to the Company.

The Company is not subject to any externally imposed capital requirements and the Company does not use financial ratios to manage capital. There were no changes in the Company's approach to capital management during the years presented.

The Company is not subject to any externally imposed capital requirements and the company does not use financial ratios to manage capital. There were no changes in the Company's approach to capital management during the years presented.

Approval of Financial Statements

The consolidated financial statements for the year ended December 31, 2017 (including comparatives) were approved and authorized for issue by the board of directors on April 27, 2018.

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, 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:

- <u>Valuation of deferred income tax assets</u> – 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).

- <u>Warrants and share-based payments</u> – 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:

- <u>Allowance for doubtful accounts</u> - 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).

- 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 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:

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

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.

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 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 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.

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:

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.

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.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the potential impact on its consolidated financial statements and plans to complete the assessment prior to issuing its first interim financial statements for the year ending December 31, 2018.

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.

Stated in Canadian Dollars

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.

4. Trade and Other Receivables

		2017		2016
Trade Accounts Receivable, net	$	719,569	$	567,725
Government Tax Credits Receivable		444,900		632,357
Total	**$**	**1,164,469**	**$**	**1,200,082**

Write offs of trade receivables for the year ended December 31, 2017 amounted to $33,629 which was previously provided for (2016 - $10,478, 2015 - $nil). In addition, a direct write-off of $nil was made during the year (2016 - $nil, 2015 - $nil). Refer to note 20 (i) for the continuity schedule of allowance for trade receivables.

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

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

5. Inventories

		2017		2016
Raw materials	$	661,085	$	694,862
Work-in-process		3,494		54,481
Finished goods		381,880		466,410
Total	**$**	**1,046,459**	**$**	**1,215,753**

During the year, inventories amounting to $508,298 (2016 - $310,275, 2015 - $283,434) were incurred as expense in cost of sales in the Statement of Operations. In 2017, there were inventories written-off amounting to $9,231 (2016 - $3,756, 2015 - $22,331).

Stated in Canadian Dollars

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, 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	8,828	-	9,707	7,275	41,562	217,116	125,888	410,376
Disposals	-	-	-	(199)	(6,734)	-	(227,937)	(234,870)
Balance at December 31, 2017	$ 207,499	$ 2,595	$ 312,385	$ 143,066	$ 152,443	$ 414,119	$ 125,888	$ 1,357,995

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	27,176	-	54,222	10,238	21,918	52,997	69,345	235,896
Disposals	-	-	-	(189)	(6,734)	-	(227,937)	(234,860)
Balance at December 31, 2017	$ 119,587	$ 2,595	$ 182,614	$ 97,273	$ 42,825	$ 166,742	$ 2,210	$ 613,846

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	-	$174,286	$48,766	$89,973	$83,258	$67,135	$569,679
At December 31, 2017	$ 87,912	-	$ 129,771	$ 45,793	$ 109,617	$247,377	$123,678	$ 744,149

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

In 2017, there was amortization included in cost of sales amounting to $27,917 (2016- $34,977, 2015 - $875).

Stated in Canadian Dollars

7. 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 December 31, 2017	$ 199,622	$ 58,346	$ 344,093	$ 509,649	$ 1,111,710
Amortization					
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	14,606	3,432	-	-	18,038
Balance at December 31, 2017	$ 167,355	$ 54,672	$ 344,093	$ 509,649	$ 1,075,769
Carrying Amounts					
At December 31, 2015	$ 62,762	$ 10,537	$ -	$ -	$ 73,299
At December 31, 2016	$ 46,873	$ 7,106	$ -	$ -	$ 53,979
At December 31, 2017	$ 32,267	$ 3,674	$ -	$ -	$ 35,941

(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.

8. Payables and Accruals

	2017	2016
Trade payables	$ 1,089,297	$ 311,905
Salaries, employment taxes, and benefits	102,701	65,994
Current portion of warranty liability	1,100	1,100
Audit fees and contract payments	84,044	170,743
Total	**$ 1,277,142**	**$ 549,742**

Stated in Canadian Dollars

9. Income Taxes

	2017	2016	2015
Current income taxes			
Loss before income taxes	$ (6,093,596)	$ (4,921,428)	$ (5,208,143)
Combined Federal and Provincial tax rate	26.50%	26.50%	26.50%
Provision for tax at statutory tax rate	$ (1,614,803)	$ (1,304,178)	$ (1,380,158)
Permanent differences	138,572	187,379	138,521
Federal and provincial investment tax credits	(361,042)	(389,251)	(411,583)
Expiry of non-capital losses	-	59,062	21,383
True-up adjustment	(264,078)	503,177	(210,578)
Change in tax rate and other	-	-	(2,383)
Change in unrecognized deferred tax asset	2,101,351	943,811	1,844,798
Deferred income tax recovery	**$ -**	**$ -**	**$ -**

	2017	2016	2015
Deferred Income tax assets			
Non-capital loss carry forwards	$ 2,855,598	$ 2,096,036	$ 1,769,085
Property, plant and equipment	231,729	56,917	132,750
Share issuance costs	189,033	-	(48,861)
Patents and trademarks	40,211	31,967	47,071
Development costs	2,947,565	2,388,168	1,893,249
Federal and provincial investment tax credits	2,079,704	1,668,871	1,504,041
Reserves	4,569	5,099	5,912
Deferred Income tax assets	**$ 8,348,409**	**$ 6,247,058**	**$ 5,303,247**
Net future deferred income tax assets	8,348,409	6,247,058	5,303,247
Less: unrecognized deferred tax asset	(8,348,409)	(6,247,058)	(5,303,247)
Deferred Income tax assets	**$ -**	**$ -**	**$ -**

The Company's 2015 SR&ED tax credit claims are currently being audited by the Canada Revenue Agency.

Non-capital loss carry-forwards

The Company has non-capital losses available for carry forward of approximately $10,775,842` (2016 - $8,397,889, 2015 - $5,567,848). 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

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	2,889,103
2037	2,377,953
	$ 10,775,842

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.

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.

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 warrants granted was estimated on the dates of the grant using the Black-Scholes option pricing model with the following assumptions:

Stated in Canadian Dollars

	November 10, 2016	March 3, 2015
Expected volatility (based on historical share prices)	66.09%	68.27%
Risk-free interest rate	0.87%	0.81%
Expected life	5 years	5 years
Expected dividends	Nil	Nil
Strike Price	$0.375	$0.54
Share Price	$0.25	$0.395

11. Stock Options

The Company has a rolling stock option plan reserving for issue under this plan up to 10% (12,648,153 common shares) of the outstanding common shares at a purchase price not less than the fair market value of the Company`s stock at the grant date. Under the Company's stock option plan, the board of directors may grant, at its discretion, stock options to purchase common shares to certain employees, officers, directors and consultants of the Company. Terms and conditions of the stock option and vesting provisions are at the discretion of the board of directors.

A summary of stock options issued under the stock option plan for years ended December 31, 2017, 2016 and 2015 is provided below.

	Common shares under option	Weighted average exercised price $
Outstanding, January 1, 2015	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)	(320,000)	0.50
Granted (7)	3,220,000	0.50
Outstanding, December 31, 2017	**10,310,000**	**0.50**

1) 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 at $0.50 each vesting in three tranches with tranches vesting in one, two and three years respectively and expiring five years from date of issue.
2) During 2015 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 at $0.50 each vesting in three tranches with tranches vesting in one, two and three years respectively and expiring five years from date of issue.
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 totaling 1,765,000.
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 320,000.
7) On April 18, 2017 options were granted to certain employees and consultants of the Company totaling 3,220,000 at $0.50 each vesting in three tranches with tranches vesting in one, two and three years respectively and expiring five years from date of issue.

Stated in Canadian Dollars

The following table summarizes information on the stock options outstanding as at December 31, 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	1.5	$	0.50	2,420,000		0.50
80,000	1.8	$	0.50	80,000		0.50
4,450,000	2.4	$	0.50	2,966,667		0.50
100,000	2.6	$	0.50	66,667		0.50
50,000	2.8	$	0.50	33,333		0.50
10,000	3.8	$	0.50	3,333		-
3,200,000	4.3	$	0.50	-		-
10,310,000		**$**	**0.50**	**5,570,000**	**$**	**0.50**

Under the stock option plan, the stock options vest over a three year period, commencing one year after the grant. As at December 31, 2017, 5,570,000 of the stock options were vested. All outstanding stock options as at December 31, 2017 will be fully vested by April 18, 2020.

Options to employees are measured at the fair value of the equity instruments granted on the grant date 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	1.73%	0.84%	0.81%
Expected volatility*	61.40%	71.07%	78.47%
Expected life	5 years	5 years	5 years
Expected dividends	Nil	Nil	Nil
Weighted average grant date fair value	$0.28	$0.24	$0.20
Weighted average exercise price	$0.50	$0.50	$0.50
Forfeiture rate	18%	18%	18%

Stated in Canadian Dollars

For the year ended December 31, 2017, the Company recognized stock-based compensation expense of $494,191 (2016 - $491,482, 2015 - $508,273) for stock options issued to directors, officers, employees and consultants, of which $429,120 is included in administrative expenses, $13,413 in selling expenses and $51,657 is included in research and development expenses.

*Based on historical volatility

12. Common Share Purchase Warrants

Common share purchase warrants consisted of the following:

	Number outstanding	Weighted average exercised price $	Fair value at date of grant $
Outstanding, January 1, 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	14,763,599	0.38	1,204,053
Outstanding December 31, 2016	35,290,539		3,596,395
Exercised	(5,197,500)	0.38	(371,947)
Expired	(482,500)	0.38	(13,582)
Outstanding December 31, 2017	**29,610,539**		**3,210,866**

1) During 2015, 3,544,250 warrants were exercised. The share price at the exercise date was $0.20
2) During 2016, 5,197,500 warrants were exercised. The share price at the exercise date was $0.38
3) During 2017, 482,500 warrants expired unexercised.

The following table summarizes information on the common share purchase warrants outstanding for the year ended and as of December 31, 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	2.17
$0.38	14,763,599	-	4,225,000	-	10,538,599	3.86
	35,290,539	482,500	5,197,500	-	29,610,539	-

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.

Stated in Canadian Dollars

Stock options to purchase 10,310,000 (2016 - 7,410,000, 2015 – 10,105,000) common shares and common share purchase warrants totaling 29,610,539 (2016 - 35,290,539, 2015 – 20,526,940) were not included in the computation of diluted loss and comprehensive loss per common share due to their anti-dilutive nature.

15. Selling Expenses

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

	2017	2016	2015
Sales salaries	$ 1,279,507	$ 946,319	$ 622,633
Advertising	237,866	300,931	140,411
Commission	121,117	94,159	133,111
Travel	163,427	193,718	135,397
Stock based compensation	13,413	21,756	16,875
Amortization and depreciation allocation	101,776	57,797	37,927
Total selling expenses	**$1,917,106**	**$ 1,614,680**	**$1,086,354**

16. Administrative Expenses

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

	2017	2016	2015
Insurance	$ 105,590	$ 83,147	$ 64,384
Professional fees	668,211	304,249	284,715
Rent	108,781	93,513	93,707
General and administrative expenses	548,566	674,578	846,986
Administrative salaries	936,808	865,465	698,001
Director and advisory fees	62,140	82,896	75,104
Stock based compensation	429,120	413,585	361,446
Amortization and depreciation allocation	52,954	29,273	27,985
Total administrative expenses	**$ 2,912,170**	**$ 2,546,706**	**$2,452,328**

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 investment tax credit)	$ 2,502,107	$ 1,749,253	$ 2,830,332
Stock based compensation	51,657	56,142	129,952
Amortization and depreciation allocation	99,205	62,226	69,085
Total research and development expenses	**$2,652,969**	**$1,867,621**	**$3,029,369**

18. 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 2017, an amount of $182,452 (2016 - $200,000, 2015 - $300,000) 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.

Stated in Canadian Dollars

19. 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, 2017 and 2016, the Company's cash is categorized as Level 1. There were no financial instruments categorized as Level 2 or 3.

i Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's accounts receivable. The amounts reported in the 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:

	2017	2016
Trade receivables	$ 719,569	$ 567,725
Percentage outstanding more than 30 days	7%	16%
Percentage outstanding more than 120 days	7%	10%

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

Stated in Canadian Dollars

	2017	2016	2015
Allowance for trade receivables - beginning of period	$ 139,627	$ 139,627	$ 16,416
Allowance recorded against current period sales	14,331	-	-
Adjustment based on collection experience	13,124	10,478	123,211
Amounts written off	(33,629)	(10,478)	-
Allowance for trade receivables - end of period	**$ 133,453**	**$ 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**	**2018**	**2019**	**2020**	**2021**	**2022**
Payables and accruals	$ 1,277,143	1,277,143	-	-	-	-
Commitments (note 23)	$ 589,989	$ 187,117	$ 116,407	$ 118,317	$ 118,317	$ 49,831
Total contractual obligations	$ 1,867,132	1,464,260	116,407	118,317	118,317	49,831

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.

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

	2017	2016
Cash	$ 89,734	$ 2,183
Trade and other receivables	271,669	247,246
Payables and accruals	(306,521)	(98,440)
Total	**$ 54,882**	**$ 150,989**

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.

	2017	2016
Cash	$ 8,973	$ 218
Trade and other receivables	27,167	24,725
Payables and accruals	(30,652)	(9,844)
Total	**$ 5,488**	**$ 15,099**

20. Related Party Disclosure

The compensation of the directors and other key management of the Company is included in the summary table below. Key management includes those persons having authority and responsibility for planning, directing and controlling the activities, directly or indirectly, of the Company.

	2017	2016	2015
Short-term compensation	$700,000	$700,000	$459,500
Stock-based compensation	367,510	322,376	222,377
Total	**$1,067,510**	**$1,022,376**	**$681,877**

Key management personnel were not paid post-employment benefits, termination benefits or other long term benefits during the years ended December 31, 2017, 2016 and 2015. Fees paid to directors have been disclosed in note 17.

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

21. Segmented Information

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

Stated in Canadian Dollars

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

	2017			2016			2015		
	TLT	**PDT**	**Total**	**TLT**	**PDT**	**Total**	**TLT**	**PDT**	**Total**
Sales	$ 2,342,508	$ -	$ 2,342,508	$ 1,918,893	$ -	$ 1,918,893	$ 1,945,246	$ -	$ 1,945,246
Cost of Sales	945,010	-	945,010	796,569	-	796,569	629,607	-	629,607
Gross Margin	1,397,498	-	1,397,498	1,122,324	-	1,122,324	1,315,639	-	1,315,639
Operating Expenses									
Selling expenses	1,917,106	-	1,917,106	1,614,680	-	1,614,680	1,086,354	-	1,086,354
Administrative expenses	1,760,660	1,151,511	2,912,170	1,278,647	1,268,059	2,546,706	1,380,010	1,072,318	2,452,328
Research and development expenses	817,622	1,835,348	2,652,969	337,296	1,530,325	1,867,621	431,933	2,597,436	3,029,369
(Gain) loss on foreign exchange	7,688	7,688	15,376	14,898	14,898	29,796	(7,891)	-	(7,891)
Interest expense	43	43	86	99	99	198	397	398	795
Interest income	(6,614)	-	(6,614)	(15,429)	-	(15,429)	(37,171)	-	(37,171)
	4,496,504	2,994,590	7,491,094	3,230,191	2,813,381	6,043,572	2,853,632	3,670,152	6,523,784
Loss for the period	$ (3,099,006)	$ (2,994,590)	$ (6,093,596)	$ (2,107,867)	$ (2,813,381)	$ (4,921,248)	$ (1,537,993)	$ (3,670,152)	$ (5,208,145)
Total Assets	$ 3,041,611	$ 281,096	$ 3,322,707	$ 5,951,273	$ 289,510	$ 6,240,783	$ 6,935,393	$ 166,730	$ 7,102,123
Total Liabilities	1,022,023	255,119	1,277,142	495,497	54,245	549,742	545,485	240,179	785,664

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

	2017			2016			2015		
	Canada	**USA**	**International**	**Canada**	**USA**	**International**	**Canada**	**USA**	**International**
Sales	$ 1,942,010	$ 261,833	$ 138,665	$ 1,423,181	$ 416,812	$ 78,900	$ 1,691,087	$ 214,744	$ 39,415
Cost of Sales	798,322	98,697	47,991	590,789	173,027	32,753	543,245	69,019	17,343
Selling Expenses	1,432,315	390,989	93,802	1,305,151	309,529	-	948,570	117,113	20,671
	$ (288,627)	**$ (227,853)**	**$ (3,128)**	**$ (472,759)**	**$ (65,744)**	**$ 46,147**	**$ 199,272**	**$ 28,612**	**$ 1,401**

As at December 31, 2017, 2016 and 2015, the Company's long-lived assets used in operations are all located in Canada.

22. Commitments

The Company's commitments consist of the following:

			Total	**2018**	**2019**	**2020**	**2021**	**2022**
Lease obligations	(a)	$	284,816	57,504	57,887	59,797	59,797	49,831
Lease obligations	(b)	$	720	720	-	-	-	-
Research Agreement	(c)	$	19,040	19,040	-	-	-	-
Research Agreement	(d)	$	23,333	23,333	-	-	-	-
Research Agreement	(e)	$	262,080	86,520	58,520	58,520	58,520	-
Total		**$**	**589,989**	**187,117**	**116,407**	**118,317**	**118,317**	**49,831**

a) Lease obligations under a lease agreement related to the Company's premises, commenced on October 1, 2017 and expires on September 30, 2022. Under the terms of this lease, the Company is required to pay a proportionate share of operating costs, realty taxes and utilities, in addition to the minimum rental payments. The future minimum lease payments are shown in the table above.

b) 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 pay 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 $137,200 relating to this commitment, in which $19,040 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 $46,667 relating to this commitment, in which $23,333 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.

23. Subsequent Events

On March 27, 2018 a former employee of the Company has demanded severance payments totaling $103,731. The Company believes it has meritorious defenses and intends to vigorously defend its position.