

# **Theralase Technologies Inc.**

## **Condensed Interim Consolidated Financial Statements - Unaudited**

As at June 30, 2019 and for the six-month period ended June 30, 2019, and 2018

### **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.

Condensed Consolidated Balance Sheets

As at June 30, 2019 and December 31, 2018

Stated in Canadian Dollars

|   |      | Unaudited           |                     |
|---|------|---------------------|---------------------|
|   | Note | 2019                | 2018                |
| <b>Assets</b>                                     |      |                     |                     |
| Current assets                                    |      |                     |                     |
| Cash  |      | \$ 1,134,725        | \$ 1,033,699        |
| Trade and other receivables                       | 4    | 721,455             | 790,455             |
| Inventories                                       | 5    | 936,982             | 864,261             |
| Prepaid expenses and other assets                 |      | 159,073             | 56,373              |
| <b>Total current assets</b>                       |      | <b>2,952,235</b>    | <b>2,744,788</b>    |
| Non-current assets                                |      |                     |                     |
| Trade receivables                                 | 4    | 76,141              | 111,957             |
| Property and equipment                            |      | 609,536             | 672,690             |
| Right-of-use-asset                                | 7    | 166,874             | -                   |
| Intangible assets                                 |      | 11,057              | 18,002              |
| Rent deposit                                      |      | 16,982              | 16,982              |
| <b>Total non-current assets</b>                   |      | <b>880,590</b>      | <b>819,631</b>      |
| <b>Total Assets</b>                               |      | <b>\$ 3,832,825</b> | <b>\$ 3,564,419</b> |
| <b>Liabilities</b>                                |      |                     |                     |
| Current liabilities                               |      |                     |                     |
| Payables and accruals                             | 6    | \$ 1,109,876        | \$ 2,565,780        |
| Current portion of lease liability                | 7    | 59,660              | -                   |
| <b>Total current liabilities</b>                  |      | <b>1,169,536</b>    | <b>2,565,780</b>    |
| Non-current liabilities                           |      |                     |                     |
| Lease liability                                   | 7    | 109,012             | \$ -                |
| <b>Total non-current liabilities</b>              |      | <b>109,012</b>      | <b>-</b>            |
| <b>Total liabilities</b>                          |      | <b>1,278,548</b>    | <b>2,565,780</b>    |
| <b>Equity attributable to shareholders</b>        |      |                     |                     |
| Share capital                                     | 8,10 | 30,705,706          | 26,434,938          |
| Contributed surplus                               | 9    | 6,044,689           | 5,989,332           |
| Common share purchase warrants                    | 8,10 | 3,654,390           | 3,812,609           |
| Accumulated deficit                               |      | (37,850,508)        | (35,238,240)        |
| <b>Total Equity</b>                               |      | <b>2,554,277</b>    | <b>998,639</b>      |
| <b>Total Shareholders' Equity and Liabilities</b> |      | <b>\$ 3,832,825</b> | <b>\$ 3,564,419</b> |

Commitments (Note 19)

Approved on Behalf of the Board

[Randy Bruder]

Director

[Guy Anderson]

Director

# THERALASE® TECHNOLOGIES INC.

Condensed Consolidated Statements of Operations (Unaudited)

For the three and six month periods ended June 30

Stated in Canadian Dollars

|  | Note | Three Months Ended June 30 |             | Six Months Ended June 30 |             |
|--|------|----------------------------|-------------|--------------------------|-------------|
|  |      | 2019                       | 2018        | 2019                     | 2018        |
| Sales  |      | \$ 249,257                 | \$ 469,497  | \$ 370,436               | \$ 910,690  |
| Cost of Sales                                  |      | 183,393                    | 189,464     | 267,644                  | 432,321     |
| Gross Margin                                   |      | 65,864                     | 280,033     | 102,792                  | 478,369     |
| <b>Operating Expenses</b>                      |      |                            |             |                          |             |
| Selling expenses                               | 13   | 165,694                    | 218,330     | 344,501                  | 499,204     |
| Administrative expenses                        | 14   | 530,530                    | 588,105     | 1,062,087                | 1,143,191   |
| Research and development expenses              | 15   | 855,624                    | 365,149     | 1,303,375                | 730,104     |
| (Gain) Loss on foreign exchange                |      | 1,861                      | (2,520)     | 8,417                    | 2,811       |
| Interest expense                               |      | 3,526                      | 574         | 6,001                    | 662         |
| Interest income                                |      | (4,574)                    | (4,322)     | (9,321)                  | (8,252)     |
|  |      | 1,552,661                  | 1,165,316   | 2,715,060                | 2,367,720   |
| Net loss and comprehensive loss for the period |      | (1,486,797)                | (885,283)   | \$ (2,612,268)           | (1,889,351) |
| Basic and diluted loss per common share        |      | (0.01)                     | (0.01)      | (0.02)                   | (0.01)      |
| Weighted average number of common              |      | 144,818,890                | 129,117,658 | 142,759,478              | 127,806,874 |

# THERALASE® TECHNOLOGIES INC.

Condensed Consolidated Statements of Cash Flows (Unaudited)

For the six month periods ended June 30

Stated in Canadian Dollars

|  | 2019           | 2018           |
|--|----------------|----------------|
| <b>Cash flows from operating activities</b>                |                |                |
| Net loss for the year                                      | \$ (2,612,268) | \$ (1,889,351) |
| Items not involving cash                                   |                |                |
| Amortization of property and equipment                     | 92,014         | 96,175         |
| Amortization of right-of-use asset                         | 25,627         | -              |
| Amortization of intangibles                                | 6,945          | 8,993          |
| Stock-based compensation expense                           | 55,357         | 48,126         |
| Provision for inventory reserve                            | -              | -              |
| Loss on foreign exchange                                   | 8,417          | 2,811          |
| Lease inducements  | (420)          | (840)          |
|  | (2,424,327)    | (1,734,086)    |
| Change in operating assets and liabilities other than cash |                |                |
| Current trade and other receivables                        | 60,583         | 341,102        |
| Non-current trade receivables                              | 35,816         | -              |
| Inventories  | (72,721)       | 150,156        |
| Prepaid expenses and other assets                          | (102,700)      | (22,032)       |
| Payables and accruals                                      | (254,090)      | 184,109        |
|  | (2,757,440)    | (1,080,751)    |
| <b>Cash flows from investing activities</b>                |                |                |
| Purchase of property and equipment                         | (28,859)       | (100,125)      |
|  | (28,859)       | (100,125)      |
| <b>Cash flows from financing activities</b>                |                |                |
| Payment of Lease Liabilities                               | (23,829)       | -              |
| Proceeds from public offering (net of issuance costs)      | 222,238        | 1,010,448      |
| Proceeds from the exercise of share warrants               | 2,688,915      | -              |
|  | 2,887,324      | 1,010,448      |
| Increase/(decrease) in cash during the year                | 101,026        | (170,428)      |
| Cash, beginning of year                                    | 1,033,699      | 253,902        |
| Cash, end of period  | \$ 1,134,725   | \$ 83,474      |
| <b>Supplementary Information</b>                           |                |                |
| Interest Paid  | \$ 6,001       | \$ 662         |
| Interest Received  | \$ 9,321       | \$ 8,252       |

# THERALASE® TECHNOLOGIES INC.

Condensed Consolidated Statements of Changes in Equity (Unaudited)

For the three-month periods ended March 31, 2019 and 2018

Stated in Canadian Dollars

|                                       |      | Number of<br>Shares | Share Capital | Contributed<br>Surplus | Common<br>Share Purchase<br>Warrants | Deficit      | Total<br>Shareholders'<br>Equity |
|---------------------------------------|------|---------------------|---------------|------------------------|--------------------------------------|--------------|----------------------------------|
|                                       | Note | #                   | \$            | \$                     | \$                                   | \$           | \$                               |
| <b>Balance, December 31, 2017</b>     |      | 126,481,526         | 24,907,688    | 5,808,373              | 3,210,867                            | (31,881,363) | 2,045,565                        |
| Stock-based compensation expense      | 9    | -                   | -             | 48,126                 | -                                    | -            | 48,126                           |
| Issued pursuant to private placement  | 8    | 5,104,000           | 723,683       | -                      | 296,307                              | -            | 1,019,990                        |
| Transaction cost on private placement | 8    | -                   | (9,300)       | -                      | (242)                                | -            | (9,542)                          |
| Loss for the period                   |      | -                   | -             | -                      | -                                    | (1,889,351)  | (1,889,351)                      |
| <b>Balance, June 30, 2018</b>         |      | 131,585,526         | 25,622,071    | 5,856,499              | 3,506,932                            | (33,770,714) | 1,214,788                        |
| <b>Balance, December 31, 2018</b>     |      | 134,877,585         | 26,434,938    | 5,989,332              | 3,812,609                            | (35,238,240) | 998,639                          |
| Stock-based compensation expense      | 9    | -                   | -             | 55,357                 | -                                    | -            | 55,357                           |
| Exercised share purchase warrants     | 10   | 7,534,300           | 3,260,344     | -                      | (571,429)                            | -            | 2,688,915                        |
| Issued pursuant to private placement  | 8    | 4,095,157           | 1,017,288     | -                      | 416,017                              | -            | 1,433,305                        |
| Transaction cost on private placement | 8    | -                   | (6,864)       | -                      | (2,807)                              | -            | (9,671)                          |
| Loss for the period                   |      | -                   | -             | -                      | -                                    | (2,612,268)  | (2,612,268)                      |
| <b>Balance, June 30, 2019</b>         | 3    | 146,507,042         | 30,705,706    | 6,044,689              | 3,654,390                            | (37,850,508) | 2,554,277                        |

# ThERALASE<sup>®</sup> TECHNOLOGIES INC.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

Three and Six Month periods ended June 30, 2019 and 2018

Stated in Canadian Dollars

---

### 1. Nature of Operations

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

The Anti-Cancer Therapy (“**ACT**”) division is dedicated to the research and development of light activated Photo Dynamic Compounds (“**PDCs**”) and their associated drug formulations with the intended purpose to safely and effectively destroy cancer. The Medical Laser Technology (“**MLT**”) division designs, develops, manufactures and commercializes medical laser systems and other technologies for the activation of PDCs as well as 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 and when used off-label for healing numerous nerve, muscle and joint conditions.

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

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

### Going Concern, Capital Disclosures and Statement of Compliance

These interim condensed consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”), effective for the reporting period ended June 30, 2019, and have been prepared in accordance with International Accounting Standard (“**IAS**”) 34 “Interim Financial Reporting”. The interim condensed consolidated financial statements follow the same accounting policies and methods of application as those disclosed in the annual consolidated financial statements for the year ended December 31, 2018, but do not include all the information and disclosures required in the Company’s annual financial statements, and with the exception of new accounting policies adopted on January 1, 2019 as described below. The preparation of interim condensed consolidated financial statements in accordance with IAS 34 requires the use of certain accounting estimates, and also requires management to use judgement in applying the Company’s accounting policies. The areas that involve judgement and estimates have been disclosed in Note 2 of the Company’s 2018 consolidated financial statements. These interim condensed consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2018.

The interim condensed consolidated financial statements have been prepared by management in accordance with IFRS as issued by the IASB and including interpretations of the IFRS Interpretations Committee (“**IFRIC**”) on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future.

For the six-month period ended June 30, 2019, the Company had a net loss of \$2,612,268 (2018 - \$1,889,351), an accumulated deficit of \$37,850,508 (2018 - \$35,238,240) and has historically used net cash in operations. Subsequent to June 30, 2019 the company closed a public offering of units for gross proceeds of \$17,250,000 (note 20) and as a result the company believes that it will be able to continue as a going concern for at least 12 months from the date of issuance of these interim condensed consolidated financial statements. The Company’s ability to continue as a going concern is dependent upon achieving a profitable level of operations

# **THERALASE® TECHNOLOGIES INC.**

## **Notes to Condensed Interim Consolidated Financial Statements (Unaudited)**

**Three and Six-Month periods ended June 30, 2019 and 2018**

**Stated in Canadian Dollars**

---

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.

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 shareholder's equity. 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 2019 and 2018 (note 8 and note 20) 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 periods presented.

### **Approval of Financial Statements**

The condensed interim consolidated financial statements for the six-month period ended June 30, 2019 were approved and authorized for issue by the board of directors on August 29, 2019.

## **2. Summary of Significant Accounting Policies**

### **Basis of presentation**

These condensed interim consolidated financial statements, which are presented in Canadian Dollars (unless otherwise stated), have been prepared under the historical cost convention, as modified by the measurement at fair value of certain financial assets and financial liabilities. Other than the adoption of IFRS 16, Leases ("IFRS 16"), these condensed interim consolidated financial statements have been prepared using the same accounting policies and methods of computation followed in the Company's annual consolidated financial statements for the year ended December 31, 2018.

### **Basis of consolidation**

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

### **Reclassification**

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

# THERALASE® TECHNOLOGIES INC.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

Three and Six-Month periods ended June 30, 2019 and 2018

Stated in Canadian Dollars

---

### 3. Adoption of New Accounting Standard and Restatement

On January 1, 2019, the Company implemented IFRS 16. The impact of implementation of IFRS 16 is described below.

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. The Company applied the cumulative catch-up approach to remaining lease payments as at January 1, 2019, without restatement of comparative figures presented for 2018 as previously reported under IAS 17. Upon the initial application as of January 1, 2019, a right of use asset and lease liability was recorded with respect to the Company's leased premises, with no net impact on retained earnings. As this lease was previously classified as an operating lease under IAS 17, the lease liability has been measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as at the date of initial application. Additionally, the right of use asset has been measured at an amount equal to the lease liability. The result of the initial application of IFRS 16 on January 1, 2019 was to record a right of use asset of \$192,501 and a lease liability of \$192,501. When measuring the lease liability, the Company discounted the remaining lease payments (the operating lease commitments as of December 31, 2018 of \$226,013), using its incremental borrowing rate, estimated to be 8%.

### 4. Trade and Other Receivables

|                                     | As at June 30,<br>2019 | As at December 31,<br>2018 |
|-------------------------------------|------------------------|----------------------------|
| Trade receivable (net amount)       | \$ 427,640             | \$ 549,689                 |
| Government tax credits receivable   | 369,956                | 352,723                    |
| Total                               | 797,596                | 902,412                    |
| Less: Non-Current trade receivables | (76,141)               | (111,957)                  |
| <b>Total</b>                        | <b>\$ 721,455</b>      | <b>\$ 790,455</b>          |

Write-offs of trade receivables for the six-month period ended June 30, 2019 amounted to \$nil which was previously provided for (2018 - \$nil). In addition, a direct write-off of \$nil was made during the year (2018 - \$nil). Refer to note 16 (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.

Non-current trade receivables represents receivables from customers to whom the Company sold products under payment plans with payment terms ranging from 24 to 72 months. Receivables under payment plans are recorded at time of origination or purchase at fair value of products sold and are subsequently reported at amortized cost, net of any allowance for credit losses.

The Company's exposure to credit and currency risks related to trade and other receivables is presented in note 16.



# THERALASE® TECHNOLOGIES INC.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

Three and Six-Month periods ended June 30, 2019 and 2018

Stated in Canadian Dollars

### 5. Inventories

|                 | As at June 30,<br>2019 | As at December<br>31, 2018 |
|-----------------|------------------------|----------------------------|
| Raw materials   | \$ 590,759             | \$ 449,703                 |
| Work-in-process | 7,815                  | 10,594                     |
| Finished goods  | 338,408                | 403,964                    |
| <b>Total</b>    | <b>\$ 936,982</b>      | <b>\$ 864,261</b>          |

### 6. Payables and Accruals

|  | As at June 30,<br>2019 | As at December<br>31, 2018 |
|--|------------------------|----------------------------|
| Trade payables                           | \$ 983,764             | \$ 1,062,411               |
| Salaries, employment taxes, and benefits | 125,012                | 280,860                    |
| Current portion of warranty liability    | 1,100                  | 1,100                      |
| Audit fees and contract payments         | -                      | 20,013                     |
| Investor deposits (note 8)               | -                      | 1,201,396                  |
| <b>Total</b>                             | <b>\$ 1,109,876</b>    | <b>\$ 2,565,780</b>        |

### 7. Lease Liability and Right-of-use-Assets

The Company leases premises consisting of its office and manufacturing facilities. On adoption of IFRS 16, as of January 1, 2019, a liability of \$185,479 was established, representing the lease payments of \$58,075 in 2019, \$59,800 in 2020, \$59,800 in 2021 and \$44,850 in 2022, discounted using an incremental borrowing rate of 8.0%.

The Company leases office equipment. On adoption of IFRS 16, as of January 1, 2019, a liability of \$7,022 was established, representing the lease payments of \$2,160 in 2019, \$2,160 in 2020, \$2,160 in 2021 and \$1,980 in 2022, discounted using an incremental borrowing rate of 8.0%

|  | Property          | Office<br>Equipment | Total             |
|--|-------------------|---------------------|-------------------|
| <b>Right-of-use Assets</b>                   |                   |                     |                   |
| Balance at January 1, 2019                   | \$ 185,479        | \$ 7,022            | \$ 192,501        |
| Depreciation charge for the period           | 24,731            | 896                 | 25,627            |
| <b>Balance at March 31, 2019</b>             | <b>\$ 160,748</b> | <b>\$ 6,126</b>     | <b>\$ 166,874</b> |
| <b>Lease Liability</b>                       |                   |                     |                   |
| Balance at January 1, 2019                   | \$ 185,479        | \$ 7,022            | \$ 192,501        |
| Interest charge for the period               | 5,782             | 219                 | 6,001             |
| Lease payments for the period <sup>(1)</sup> | (28,750)          | (1,080)             | (29,830)          |
| <b>Balance at March 31, 2019</b>             | <b>\$ 162,510</b> | <b>\$ 6,161</b>     | <b>\$ 168,672</b> |

1) Lease payments for the period does not include variable property lease payments of \$21,884.

# THERALASE® TECHNOLOGIES INC.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

Three and Six-Month periods ended June 30, 2019 and 2018

Stated in Canadian Dollars

### 8. Public Offering and Private Placement

On January 9, 2019, the Company completed a financing by way of a private placement, where 4,095,157 units were issued at a price of \$0.35 per unit for gross proceeds of \$1,433,305 (\$1,201,396 received in 2018, see note 6), of which 542,857 units were purchased by certain insiders of the Company. Each unit consisted of one common share and one non-transferable common share purchase warrant. Each whole warrant entitles the holder thereof to acquire one common share at a price of \$0.50, expiring on January 9, 2021. In connection with the offering, the Company incurred financing costs of \$9,671.

The purchase price of \$0.35 per unit was allocated between the common shares (\$0.25 per share) and common share purchase warrants (\$0.10 per warrant), based on their relative fair values. Management determined that the allocation of the gross proceeds of \$1,433,305 was \$1,017,288 for the common shares issued and \$416,017 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:

|  | <b>January 9, 2019</b> |
|--|------------------------|
| Expected volatility (based on historical share prices) | 96.04%                 |
| Risk-free interest rate                                | 1.91%                  |
| Expected life  | 2 Years                |
| Expected dividends                                     | Nil                    |
| Strike Price   | \$0.300                |
| Share Price  | \$0.330                |

### 9. Stock Options

The Company has a rolling stock option plan reserving for issue under this plan up to 10% (14,413,204 common shares at June 30, 2019) 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 the six-month period ended June 30, 2019 is provided below.

|                                | <b>Common shares under<br/>option</b> | <b>Weighted average exercised<br/>price \$</b> |
|--------------------------------|---------------------------------------|--|
| Outstanding, December 31, 2018 | 5,770,000                             | \$ 0.50  |
| Outstanding, June 30, 2019     | 5,770,000                             | \$ 0.50  |

The following table summarizes information on the stock options outstanding as at June 30, 2019:

# THERALASE® TECHNOLOGIES INC.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

Three and Six-Month periods ended June 30, 2019 and 2018

Stated in Canadian Dollars

| 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 \$ |  |
| 1,190,000                 | 0.0                                     | \$ 0.50                            | 1,190,000                 | \$ 0.50                            |  |
| 70,000                    | 0.3                                     | 0.50                               | 70,000                    | 0.50                               |  |
| 1,350,000                 | 0.9                                     | 0.50                               | 1,350,000                 | 0.50                               |  |
| 50,000                    | 1.3                                     | 0.50                               | 50,000                    | 0.50                               |  |
| 20,000                    | 1.8                                     | 0.50                               | 13,333                    | 0.50                               |  |
| 3,090,000                 | 2.8                                     | 0.50                               | 2,060,000                 | 0.50                               |  |
| <b>5,770,000</b>          |   | <b>\$ 0.50</b>                     | <b>4,733,333</b>          | <b>\$ 0.50</b>                     |  |

Under the stock option plan, the stock options vest over a three year period, commencing one year after the grant. As at June 30, 2019, 4,733,333 of the stock options were vested. All outstanding stock options as at June 30, 2019 will be fully vested by April 18, 2020.

For the six-month period ended June 30, 2019, the Company recognized stock-based compensation expense of \$55,357 (2018 – \$48,126) for stock options issued to directors, officers, employees and consultants, of which \$47,503 is included in administrative expenses, \$478 in selling expenses and \$7,376 is included in research and development expenses. The remaining stock-based compensation expense is \$78,853.

### 10. Common Share Purchase Warrants

Common share purchase warrants consisted of the following:

|                                  | Number outstanding | Weighted average exercised price \$ | Fair value at date of grant \$ |
|----------------------------------|--------------------|-------------------------------------|--------------------------------|
| Outstanding December 31, 2018    | 37,753,848         |                                     | 3,812,609                      |
| Issued with shares               | 4,095,157          | 0.50                                | 413,210                        |
| Exercised                        | (7,534,300)        | 0.35                                | (571,429)                      |
| <b>Outstanding June 30, 2019</b> | <b>34,314,705</b>  |                                     | <b>3,654,390</b>               |

- 1) During 2019, 4,095,157 warrants were issued (see note 8)
- 2) During 2019, 7,534,300 warrants were exercised

The following table summarizes information on the common share purchase warrants outstanding for the six-month period ended June 30, 2019:

| 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) |
|----------------|-----------------------------------|---------------------------|-----------------------------|---------------------------|---------------------------|---|
| \$0.540        | 19,071,940                        | -                         | -                           | -                         | 19,071,940                | 0.67  |
| \$0.375        | 10,538,599                        | -                         | 5,715,000                   | -                         | 4,823,599                 | 2.36  |
| \$0.300        | 4,978,300                         | -                         | 1,819,300                   | -                         | 3,159,000                 | 0.87  |
| \$0.500        | 3,165,009                         | -                         | -                           | -                         | 3,165,009                 | 1.26  |
| \$0.500        | -                                 | -                         | -                           | 4,095,157                 | 4,095,157                 | 1.53  |
|                | <b>37,753,848</b>                 | <b>-</b>                  | <b>7,534,300</b>            | <b>4,095,157</b>          | <b>34,314,705</b>         | <b>-</b>  |

# THERALASE® TECHNOLOGIES INC.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

Three and Six-Month periods ended June 30, 2019 and 2018

Stated in Canadian Dollars

---

### 11. Share Capital

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

### 12. 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 six-month periods presented in the condensed interim consolidated financial statements.

Stock options to purchase 5,770,000 (2018 – 5,835,000) common shares and common share purchase warrants totaling 34,314,705 (2018 – 34,723,839) were not included in the computation of diluted loss per common share due to their anti-dilutive nature.

### 13. Selling Expenses

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

|  | <b>2019</b>       |           | <b>2018</b>    |
|--|-------------------|-----------|----------------|
| Sales salaries                           | \$ 202,152        | \$        | 361,707        |
| Advertising                              | 59,987            |           | 38,245         |
| Commission                               | 22,463            |           | 38,516         |
| Travel                                   | 22,147            |           | 27,493         |
| Stock based compensation                 | 478               |           | 1,516          |
| Amortization and depreciation allocation | 37,274            |           | 31,727         |
| <b>Total selling expenses</b>            | <b>\$ 344,501</b> | <b>\$</b> | <b>499,204</b> |

### 14. Administrative Expenses

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

|  | <b>2019</b>         |           | <b>2018</b>      |
|--|---------------------|-----------|------------------|
| Insurance                                | \$ 24,455           | \$        | 26,170           |
| Professional fees                        | 163,913             |           | 419,511          |
| Rent                                     | 21,884              |           | 49,531           |
| General and administrative expenses      | 270,918             |           | 210,739          |
| Administrative salaries                  | 456,895             |           | 371,054          |
| Director and advisory fees               | 30,889              |           | 18,078           |
| Stock based compensation                 | 47,503              |           | 33,102           |
| Amortization and depreciation allocation | 45,630              |           | 15,006           |
| <b>Total administrative expenses</b>     | <b>\$ 1,062,087</b> | <b>\$</b> | <b>1,143,191</b> |

# THERALASE® TECHNOLOGIES INC.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

Three and Six-Month periods ended June 30, 2019 and 2018

Stated in Canadian Dollars

---

### 15. Research and Development Expenses

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

|   | 2019      |                  | 2018      |                |
|---|-----------|------------------|-----------|----------------|
| Research and development (net of investment tax credit) | \$        | 1,254,317        | \$        | 658,161        |
| Stock based compensation                                |           | 7,376            |           | 13,508         |
| Amortization and depreciation allocation                |           | 41,682           |           | 58,435         |
| <b>Total research and development expenses</b>          | <b>\$</b> | <b>1,303,375</b> | <b>\$</b> | <b>730,104</b> |

### 16. Financial Instruments – Fair Value and Risks

IFRS 7 - Financial Instruments: Disclosures establish 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 June 30, 2019 and December 31, 2018, 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 and estimates of future economic conditions. The Company has applied the simplified approach to IFRS 9 to measure the loss allowance for trade receivable. The Company reviews its trade receivable accounts regularly and reduces amounts to their expected realizable values by adjusting the allowance for doubtful accounts when management determines that the account may not be fully collectible. The Company has adopted credit policies in an effort to minimize those risks. The carrying value of trade and other receivables represent the Company's maximum exposure to credit risk.

The following table reflects the balance and age of trade receivables as at June 30:

# THERALASE® TECHNOLOGIES INC.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

Three and Six-Month periods ended June 30, 2019 and 2018

Stated in Canadian Dollars

|   | As at June 30,<br>2019 | As at December 31,<br>2018 |
|---|------------------------|----------------------------|
| Trade receivables (net amount)            | \$ 427,640             | \$ 549,689                 |
| Percentage outstanding more than 30 days  | 12%                    | 24%                        |
| Percentage outstanding more than 120 days | 5%                     | 23%                        |

The following table reflects the changes in the allowance for trade receivables during the six-month period ended June 30, 2019 and the year ended December 31:

|  | 2019             | 2018             |
|--|------------------|------------------|
| Allowance for trade receivables - beginning of year  | \$ 94,012        | \$ 133,453       |
| Allowance recorded against current year sales        | -                | -                |
| Adjustment based on collection experience            | -                | (11,164)         |
| Amounts written off                                  | -                | (28,277)         |
| <b>Allowance for trade receivables - end of year</b> | <b>\$ 94,012</b> | <b>\$ 94,012</b> |

### 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:

| Contractual Obligations       | Total        | Payments Due by Period |            |            |           |      |
|-------------------------------|--------------|------------------------|------------|------------|-----------|------|
|                               |              | 2019                   | 2020       | 2021       | 2022      | 2023 |
| Payables and accruals         | \$ 1,109,876 | \$ 1,109,876           | \$ -       | \$ -       | \$ -      | -    |
| Commitments                   | \$ 351,795   | \$ 64,005              | \$ 120,480 | \$ 120,480 | \$ 46,830 | -    |
| Total contractual obligations | \$ 1,461,671 | \$ 1,173,881           | \$ 120,480 | \$ 120,480 | \$ 46,830 | -    |

The Company also has contractual obligations (note 19) 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.

# THERALASE® TECHNOLOGIES INC.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

Three and Six-Month periods ended June 30, 2019 and 2018

Stated in Canadian Dollars

### iv Foreign currency exchange risk

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

|                             | As at June 30,<br>2019 | As at December 31,<br>2018 |
|-----------------------------|------------------------|----------------------------|
| Cash                        | \$ 1,602               | \$ 24,057                  |
| Trade and other receivables | 191,649                | 271,481                    |
| Payables and accruals       | (324,614)              | (237,145)                  |
| <b>Total</b>                | <b>\$ (131,363)</b>    | <b>\$ 58,393</b>           |

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 June 30,<br>2019 | As at December 31,<br>2018 |
|-----------------------------|------------------------|----------------------------|
| Cash                        | \$ 160                 | \$ 2,406                   |
| Trade and other receivables | 19,165                 | 27,148                     |
| Payables and accruals       | (32,461)               | (23,715)                   |
| <b>Total</b>                | <b>\$ (13,135)</b>     | <b>\$ 5,839</b>            |

## 17. 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.

|                          | 2019             | 2018             |
|--------------------------|------------------|------------------|
| Short-term compensation  | \$424,359        | \$383,333        |
| Stock-based compensation | 12,874           | 7,534            |
| <b>Total</b>             | <b>\$437,233</b> | <b>\$390,867</b> |

Key management personnel were not paid post-employment benefits, termination benefits or other long term benefits during the six-month periods ended June 30, 2019 and 2018. Fees paid to directors have been disclosed in note 14.

Stock-based compensation paid to directors and officers is the fair value of options that vested to key

# THERALASE® TECHNOLOGIES INC.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

Three and Six-Month periods ended June 30, 2019 and 2018

Stated in Canadian Dollars

management personnel during the year.

### 18. Segmented Information

For management purposes, the Company is organized into two separate reportable operating divisions; (1) ACT division and (2) MLT division. The ACT division is responsible for the research and development of PDCs for the treatment of cancer. The MLT division is responsible for the Company's medical laser business, which researches, develops, commercializes and manufactures lasers used by the ACT division to activate PDCs and researches, develops, manufactures and distributes therapeutic laser to healthcare practitioners predominantly for the healing of pain.

The following table displays revenue and direct expenses from the MLT and ACT division for the six-month periods ended June 30:

|                                   | 2019           |                |                | 2018         |              |                |
|-----------------------------------|----------------|----------------|----------------|--------------|--------------|----------------|
|                                   | MLT            | ACT            | Total          | MLT          | ACT          | Total          |
| Sales                             | \$ 370,436     | \$ -           | \$ 370,436     | \$ 910,690   | \$ -         | \$ 910,690     |
| Cost of Sales                     | 267,644        | -              | 267,644        | 432,321      | -            | 432,321        |
| Gross Margin                      | 102,792        | -              | 102,792        | 478,369      | -            | 478,369        |
| <b>Operating Expenses</b>         |                |                |                |              |              |                |
| Selling expenses                  | 344,501        | -              | 344,501        | 499,204      | -            | 499,204        |
| Administrative expenses           | 692,236        | 369,851        | 1,062,087      | 849,937      | 293,254      | 1,143,191      |
| Research and development expenses | 217,721        | 1,085,654      | 1,303,375      | 69,293       | 660,811      | 730,104        |
| Loss on foreign exchange          | 4,209          | 4,209          | 8,417          | 1,405        | 1,406        | 2,811          |
| Interest expense                  | 6,001          | -              | 6,001          | 331          | 331          | 662            |
| Interest income                   | (9,321)        | -              | (9,321)        | (8,252)      | -            | (8,252)        |
|                                   | 1,255,347      | 1,459,713      | 2,715,060      | 1,411,918    | 955,802      | 2,367,720      |
| Loss for the period               | \$ (1,152,555) | \$ (1,459,713) | \$ (2,612,268) | \$ (933,549) | \$ (955,802) | \$ (1,889,351) |
| Total Assets                      | \$ 3,650,696   | \$ 182,129     | \$ 3,832,825   | \$ 2,433,489 | \$ 241,710   | \$ 2,675,199   |
| Total Liabilities                 | 1,034,486      | 244,062        | 1,278,548      | 1,173,630    | 286,781      | 1,460,411      |

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

|                  | 2019         |           |               | 2018        |            |               |
|------------------|--------------|-----------|---------------|-------------|------------|---------------|
|                  | Canada       | USA       | International | Canada      | USA        | International |
| Sales            | \$ 333,047   | \$ 23,926 | \$ 13,463     | \$ 602,277  | \$ 183,460 | \$ 124,953    |
| Cost of Sales    | 240,630      | 17,287    | 9,727         | 288,596     | 80,467     | 63,258        |
| Selling Expenses | 338,846      | 5,655     | -             | 349,629     | 68,807     | 80,767        |
|                  | \$ (246,429) | \$ 984    | \$ 3,736      | \$ (35,948) | \$ 34,186  | \$ (19,072)   |

As at June 30, 2019 and 2018, the Company's long-lived assets used in operations are all located in Canada.



# THERALASE® TECHNOLOGIES INC.

## Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

Three and Six-Month periods ended June 30, 2019 and 2018

Stated in Canadian Dollars

### 19. Commitments

The Company's commitments consist of the following:

|                          | Total             | 2019             | 2020              | 2021              | 2022             | 2023     |
|--------------------------|-------------------|------------------|-------------------|-------------------|------------------|----------|
| Lease obligations (a)    | \$ 193,775        | \$ 29,325        | \$ 59,800         | \$ 59,800         | \$ 44,850        | -        |
| Lease obligations (b)    | \$ 7,380          | \$ 1,080         | \$ 2,160          | \$ 2,160          | \$ 1,980         | -        |
| Research Commitments (c) | \$ 117,040        | \$ -             | \$ 58,520         | \$ 58,520         | \$ -             | -        |
| Research Agreement (d)   | \$ 33,600         | \$ 33,600        | \$ -              | \$ -              | \$ -             | -        |
| <b>Total</b>             | <b>\$ 351,795</b> | <b>\$ 64,005</b> | <b>\$ 120,480</b> | <b>\$ 120,480</b> | <b>\$ 46,830</b> | <b>-</b> |

- 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 lease agreement related to the Company's office equipment, commenced on May 1, 2017 and expires on November 1, 2022. 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 Ontario Research Fund 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 \$231,560 relating to this commitment, in which \$117,040 is the remaining commitment.
- d) Research Commitments under a sponsored research agreement with University Health Network for the TLC-3000 cancer therapy project. Under the terms of this agreement, the Company is required to pay \$128,800 for the period from November 1, 2018 through to October 31, 2019. The Company has paid \$95,200 relating to this commitment, in which \$33,600 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.

### 20. Subsequent Events

On August 22, 2019, the Company closed a public offering of units. On closing, the Company issued an aggregate of 57,500,000 Units at a price of \$0.30 per Unit for aggregate gross proceeds of approximately \$17,250,000. Each Unit consists of one common share of the Company and one common share purchase warrant. Each Warrant entitles the holder to acquire an additional Common Share at a price of \$0.35 for a period of 60 months following the date of issuance.

Between the period of July 1, 2019 to August 29, 2019, the Company issued 268,333 common shares for exercises of warrants and received \$100,625.