Theralase Technologies Inc.

Audited Consolidated Financial Statements

As at December 31, 2019 and 2018

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, Richter LLP In that capacity they have issued a report on the consolidated financial statements for the year ended December 31, 2019 and Marcum LLP has issued a report on the consolidated financial statements for the year ended December 31, 2018.

[*signed*]
Shawn Shirazi
Chief Executive Officer
Theralase Technologies Inc.

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

Independent Auditor's Report

To the Shareholders of
Theralase Technologies Inc.

Opinion

We have audited the consolidated financial statements of Theralase Technologies Inc. (the Company), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRS”).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

Without modifying our opinion, we draw attention to note 1 to the financial statements which explains that the Company has suffered consolidated losses from operations of $7,413,914 and has historically used net cash in operations. This raises doubt about the Company’s ability to continue as a going concern. The consolidated financial statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty.

Other information

The financial statements for the year ended December 31, 2018, were audited by another auditor who expressed an unmodified opinion on those statements on April 17, 2019.

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Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, in Management's Discussion and Analysis of Financial Condition and Operations.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis of Financial Condition and Operations prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Marie-Claude Frigon.

Richter LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
April 27, 2020

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Financial Position
As at December 31, 2019 and 2018
Stated in Canadian Dollars

	Note	2019	2018
Assets			
Current assets			
Cash and cash equivalents		$ 12,548,550	$ 1,033,699
Trade and other receivables	4	824,133	790,455
Inventories	5	722,558	864,261
Prepaid expenses and other assets		95,101	56,373
Total current assets		14,190,342	2,744,788
Non-current assets			
Trade receivables	4	101,626	111,957
Property and equipment	6	1,013,381	672,690
Right-of-use-assets	8	141,247	-
Intangible assets	7	6,512	18,002
Rent deposit		16,982	16,982
Total non-current assets		1,279,748	819,631
Total Assets		**$ 15,470,090**	**$ 3,564,419**
Liabilities			
Current liabilities			
Payables and accruals	9	$ 1,470,025	$ 2,565,780
Current portion of lease liabilities	8	50,147	-
Total current liabilities		1,520,172	2,565,780
Non-current liabilities			
Lease liabilities	8	94,475	-
Total non-current liabilities		94,475	-
Total liabilities		1,614,647	2,565,780
Equity attributable to shareholders			
Share capital	11, 14	42,120,213	26,434,938
Contributed surplus	11, 12	6,990,821	5,989,332
Common share purchase warrants	11, 13	7,396,563	3,812,609
Accumulated deficit		(42,652,154)	(35,238,240)
Total Equity		13,855,443	998,639
Total Shareholders' Equity and Liabilities		**$ 15,470,090**	**$ 3,564,419**

Commitments (Note 23)

Approved on Behalf of the Board

[Randy Bruder] Director

[Guy Anderson] Director

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

THERALASE® TECHNOLOGIES INC.

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

	Note	2019	2018
Sales		$ 964,051	$ 1,734,072
Cost of Sales		903,296	786,433
Gross Margin		60,755	947,639
Operating Expenses			
Selling expenses	16	716,343	871,405
Administrative expenses	17	2,604,808	1,739,665
Research and development expenses	18	4,159,724	1,703,803
Loss on foreign exchange		15,041	7,606
Interest accretion on lease liabilities		12,356	-
Interest expense		-	663
Interest income		(33,603)	(18,626)
		7,474,669	4,304,516
Net loss and comprehensive loss for the year		$ (7,413,914)	(3,356,877)
Basic and diluted loss per common share	15	(0.051)	(0.026)
Weighted average number of common		144,681,053	130,488,190

THERALASE® TECHNOLOGIES INC.

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

	2019	2018
Cash flows from operating activities		
Net loss for the year	$ (7,413,914)	$ (3,356,877)
Items not involving cash		
Amortization of property and equipment	192,517	204,991
Amortization of right-of-use assets	51,254	-
Amortization of intangibles	11,490	17,939
Stock-based compensation expense	394,566	180,959
Loss on foreign exchange	15,041	7,606
Interest accretion from lease liabilities	12,356	-
Lease inducements	-	(1,679)
	(6,736,690)	(2,947,061)
Change in operating assets and liabilities other than cash		
Current trade and other receivables	(48,719)	238,942
Non-current trade receivables	10,331	15,509
Inventories	141,703	182,198
Prepaid expenses and other assets	(38,728)	4,432
Payables and accruals	105,641	1,290,317
	(6,566,462)	(1,215,663)
Cash flows from investing activities		
Purchase of property and equipment	(533,208)	(133,532)
	(533,208)	(133,532)
Cash flows from financing activities		
Payment of Lease Liabilities	(60,235)	-
Proceeds from public offering	17,481,910	2,125,771
Transaction cost on public offering	(1,596,694)	(37,247)
Proceeds from the exercise of share warrants	2,789,540	40,468
	18,614,521	2,128,992
Increase (decrease) in cash during the year	11,514,851	779,797
Cash, beginning of year	1,033,699	253,902
Cash, end of year	$ 12,548,550	$ 1,033,699
Supplementary Information		
Interest Paid	$ 12,356	$ 663
Interest Received	$ 33,603	$ 18,626

THERALASE® TECHNOLOGIES INC.

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

	Note	Number of Shares	Share Capital	Contributed Surplus	Common Share Purchase Warrants	Deficit	Total Shareholders' Equity
		#	$	$	$	$	$
Balance, December 31, 2017		126,481,526	24,907,688	5,808,373	3,210,867	(31,881,363)	2,045,565
Stock-based compensation expense	12	-	-	180,959	-	-	180,959
Exercised share purchase warrants	13	135,000	48,285	-	(7,817)	-	40,468
Issued pursuant to private placement	11	8,261,059	1,505,733	-	620,038	-	2,125,771
Transaction cost on private placement	11	-	(26,768)	-	(10,479)	-	(37,247)
Loss for the year		-	-	-	-	(3,356,877)	(3,356,877)
Balance, December 31, 2018		134,877,585	26,434,938	5,989,332	3,812,609	(35,238,240)	998,639
Balance, December 31, 2018		134,877,585	26,434,938	5,989,332	3,812,609	(35,238,240)	998,639
Stock-based compensation expense	12	-	-	394,566	-	-	394,566
Exercised share purchase warrants	13	7,802,633	3,382,853	-	(593,313)	-	2,789,540
Issued pursuant to private placement	11	4,095,157	1,017,289	-	416,017	-	1,433,306
Transaction cost on private placement	11	-	(6,096)	-	(2,493)	-	(8,589)
Issued pursuant to public offering	11	57,500,000	12,937,500	-	4,312,500	-	17,250,000
Transaction cost on public offering	11	-	(1,191,079)	-	(397,026)	-	(1,588,105)
Broker compensation units	11	2,023,077	(455,192)	606,923	(151,731)	-	-
Loss for the year		-	-	-	-	(7,413,914)	(7,413,914)
Balance, December 31, 2019	3	206,298,452	42,120,213	6,990,821	7,396,563	(42,652,154)	13,855,443

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, 2019, the Company had a net loss of $7,413,914 (2018 - $3,356,877), an accumulated deficit of $42,652,154 (2018 - $35,238,240) 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.

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 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.

Approval of Financial Statements

The consolidated financial statements for the year ended December 31, 2019 (including comparatives) were approved and authorized for issue by the board of directors on April 27, 2020.

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:

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

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

- Lease term - The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The consolidated entity reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

Financial statement items subject to significant management estimates include:

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

- Allowance for inventory obsolescence – The Company estimates inventory obsolescence allowances for potential losses resulting from inventory that cannot be processed and/or sold to customers. Additional allowances may be required if the physical condition of inventory deteriorates or customer requirements change (see note 5).

- 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.

- Incremental borrowing rate – Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such rate is based on what the consolidated entity estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

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, except for inventory which is recorded at historical cost and not adjusted. 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.

I. Classification

The Company classifies its financial instruments in the following categories: at Fair Value Through Profit and Loss ("**FVTPL**"), at Fair Value Through Other Comprehensive Income (loss) ("**FVTOCI**") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

II. Measurement

Financial assets and liabilities at amortized cost: Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL: Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of operations. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of operations in the period in which they arise.

III. Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of operations, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

IV. Derecognition

Financial assets - The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

Inventories

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 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%

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.

Leases

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. Interest accretion is recorded as interest expense in finance costs. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

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

The Company designs, develops, manufactures and markets patented and proprietary super-pulsed laser technology. In accordance with IFRS 15, sales are recognized when control of the products has transferred to the Company's customers, being when the products are shipped to the customer. Once products are shipped to the Company's customers, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales order, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied. A portion of the Company's sales take place on a trial basis, where the Company will deliver inventory to customer locations that has not yet been purchased. The revenue from these sales is recognized when the customer purchases the inventory. A portion of the Company's sales are financed by the Company and the revenue from these sales is recognized when the products are shipped to the customer.

The Company's obligation to provide a refund for faulty products under the standard warranty terms is recognized as a provision. Historically, the Company's annual returns for products sold have been negligible.

A receivable is recognized when the goods are shipped as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

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.

Stated in Canadian Dollars

3. Adoption of New Accounting Standards

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 using its incremental borrowing rate, estimated to be 8%.

Operating lease commitments as at January 1, 2019	$ 306,280
Discount based on the weighted average incremental borrowing rate of 8%	(38,484)
Accumulated depreciation as at January 1, 2019	(75,295)
Right-of-use assets	**192,501**
Lease liabilities - current	59,660
Lease liabilities - non-current	132,841

4. Trade and Other Receivables

	2019	2018
Trade receivable (net amount)	$ 380,229	$ 549,689
Government tax credits receivable	545,530	352,723
Total	925,759	902,412
Less: Non-Current trade receivables	(101,626)	(111,957)
Total	**$ 824,133**	**$ 790,455**

Write offs of trade receivables for the year ended December 31, 2019 amounted to $38,872 which was previously provided for (2018 - $28,277). In addition, a direct write-off of $5,662 was made during the year (2018 - $nil). Refer to note 20 (i) for the continuity schedule of allowance for trade receivables.

Stated in Canadian Dollars

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 represent 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 20.

5. Inventories

	2019	2018
Raw materials	$ 337,536	$ 449,703
Work-in-process	10,120	10,594
Finished goods	374,902	403,964
Total	**$ 722,558**	**$ 864,261**

During the year, inventories amounting to $322,726 (2018 - $400,712) were incurred as expense in cost of sales in the Statements of Operations. In 2019, there were inventories written-off amounting to $nil (2018 - $2,592) and an inventory provision of $277,896 (2018 - $nil).

6. Property and Equipment

Cost

	Tools and Dies	Computer Equipment	Furniture and Fixtures	Rental units (1)	Equipment	Leasehold Improvements	Total
Balance at January 1, 2018	$ 207,499	$ 312,385	$ 143,066	$ 152,443	$ 414,119	$ 125,888	$ 1,355,400
Additions	-	35,568	4,875	-	6,423	86,666	133,532
Disposals	-	-	-	(12,623)	-	-	(12,623)
Balance at December 31, 2018	$ 207,499	$ 347,953	$ 147,941	$ 139,820	$ 420,542	$ 212,554	$ 1,476,309
Balance at January 1, 2019	$ 207,499	$ 347,953	$ 147,941	$ 139,820	$ 420,542	$ 212,554	$ 1,476,309
Additions	1,150	59,505	1,090	-	441,811	29,652	533,208
Disposals	-	-	-	(5,891)	-	-	(5,891)
Balance at December 31, 2019	$ 208,649	$ 407,458	$ 149,031	$ 133,929	$ 862,353	$ 242,206	$ 2,003,626

Stated in Canadian Dollars

Depreciation

	Tools and Dies	Computer Equipment	Furniture and Fixtures	Rental units (1)	Equipment	Leasehold Improvements	Total
Balance at January 1, 2018	$ 119,587	$ 182,614	$ 97,273	$ 42,825	$ 166,742	$ 2,210	$ 611,251
Depreciation for the year	21,978	46,511	9,335	27,375	62,025	37,767	204,991
Disposals	-	-	-	(12,623)	-	-	(12,623)
Balance at December 31, 2018	$ 141,565	$ 229,125	$ 106,608	$ 57,577	$ 228,767	$ 39,977	$ 803,619
Balance at January 1, 2019	$ 141,565	$ 229,125	$ 106,608	$ 57,577	$ 228,767	$ 39,977	$ 803,619
Depreciation for the year	16,500	38,049	8,681	26,786	52,501	50,000	192,517
Disposals	-	-	-	(5,891)	-	-	(5,891)
Balance at December 31, 2019	$ 158,065	$ 267,174	$ 115,289	$ 78,472	$ 281,268	$ 89,977	$ 990,245
Carrying Amounts							
At December 31, 2018	$ 65,934	$ 118,828	$ 41,333	$ 82,243	$ 191,775	$ 172,577	$ 672,690
At December 31, 2019	$ 50,584	$ 140,284	$ 33,742	$ 55,457	$ 581,085	$ 152,229	$ 1,013,381

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

In 2019, there was amortization included in cost of sales amounting to $9,492 (2018 - $22,533). As at December 31, 2019, research and development equipment included assets not available for use with a cost of $397,339 (2018 - $nil).

7. Intangible Assets

Cost

	Patents	Trademarks	Development Costs	FDA Clinical Study Costs(1)	Total
Balance at December 31, 2018	$ 199,622	$ 58,346	$ 344,093	$ 509,649	$ 1,111,710
Balance at December 31, 2019	$ 199,622	$ 58,346	$ 344,093	$ 509,649	$ 1,111,710
Amortization					
Balance at January 1, 2018	$ 167,355	$ 54,671	$ 344,093	$ 509,649	$ 1,075,768
Amortization for the year	14,508	3,432	-	-	17,940
Balance at December 31, 2018	$ 181,863	$ 58,103	$ 344,093	$ 509,649	$ 1,093,708
Balance at January 1, 2019	$ 181,863	$ 58,103	$ 344,093	$ 509,649	$ 1,093,708
Amortization for the year	11,353	137	-	-	11,490
Balance at December 31, 2019	$ 193,216	$ 58,240	$ 344,093	$ 509,649	$ 1,105,198
Carrying Amounts					
At December 31, 2018	$ 17,759	$ 243	$ -	$ -	$ 18,002
At December 31, 2019	$ 6,406	$ 106	$ -	$ -	$ 6,512

(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. Lease Liabilities 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%.

Stated in Canadian Dollars

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 Equipment		Total
Right-of-use Assets						
Balance at January 1, 2019	$	185,479	$	7,022	$	192,501
Depreciation charge for the year		49,461		1,793		51,254
Balance at December 31, 2019	**$**	**136,018**	**$**	**5,229**	**$**	**141,247**
Lease Liabilities						
Balance at January 1, 2019	$	185,479	$	7,022	$	192,501
Interest charge for the period		11,905		451		12,356
Lease payments for the year(1)		(58,075)		(2,160)		(60,235)
Balance at December 31, 2019	**$**	**139,309**	**$**	**5,313**	**$**	**144,622**
Current portion of lease liabilities	$	48,421	$	1,726	$	50,147
Non-current portion of lease liabilities	$	90,888	$	3,587	$	94,475

(1) Lease payments does not include variable property lease payments of $51,250.

Principal repayments of the Company's leased premises and office equipment until maturity are as follows:

		Property		Office Equipment		Total
2020	$	48,421	$	1,726	$	50,147
2021		52,294		1,864		54,158
2022		38,594		1,723		40,317
	$	**139,309**	**$**	**5,313**	**$**	**144,622**

9. Payables and Accruals

		2019		2018
Trade payables	$	525,195	$	1,020,389
Salaries, employment taxes, and benefits		613,170		280,860
Accrued liabilities		331,660		63,135
Investor deposits		-		1,201,396
Total	**$**	**1,470,025**	**$**	**2,565,780**

Stated in Canadian Dollars

10. Income Taxes

		2019		2018
Current income taxes				
Loss before income taxes	$	(7,413,914)	$	(3,356,877)
Combined Federal and Provincial tax rate		26.50%		26.50%
Recovery of tax at statutory tax rate	$	(1,964,687)	$	(889,572)
Permanent differences		110,017		49,640
Federal and provincial investment tax credits		(480,391)		(276,094)
Expiry of non-capital losses		-		-
True-up adjustment		(165,017)		23,174
Change in tax rate and other		-		-
Change in unrecognized deferred tax asset		2,500,078		1,092,852
Deferred income tax recovery	**$**	**-**	**$**	**-**
Deferred Income tax assets				
Non-capital loss carry forwards	$	4,457,917	$	3,264,453
Property, plant and equipment		305,766		280,458
Share issuance costs		370,250		115,410
Patents and trademarks		41,510		43,606
Development costs		3,840,221		3,398,231
Federal and provincial investment tax credits		2,925,939		2,334,798
Reserves		(265)		4,304
Deferred Income tax assets	**$**	**11,941,338**	**$**	**9,441,260**
Net future deferred income tax assets		11,941,338		9,441,260
Less: unrecognized deferred tax asset		(11,941,338)		(9,441,260)
Deferred Income tax assets	**$**	**-**	**$**	**-**

Non-capital loss carry-forwards

The Company has non-capital losses available for carry forward of approximately $16,822,329 (2018 - $12,318,690). The income tax benefit of this income tax recovery has not been recorded. These non-capital losses will expire as follows:

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		2,929,100
2037		3,338,197
2038		1,818,376
2039		3,227,870
	$	**16,822,329**

11. Public Offering and Private Placement

On May 14, 2018, the Company completed a financing by way of a private placement, where 5,104,000 Units were issued at a price of $0.20 per unit for gross proceeds of $1,020,800, of which 750,000 units were purchased by certain insiders of the Corporation. 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 $0.30, expiring on May 14, 2020. In connection with the offering, the Company incurred financing costs of $9,816, of which $9,574 was paid in cash and $242 was paid through issuance of 9,300 broker warrants. Each broker warrant is exercisable into one common share at an exercise price of $0.30 per share for a period of 24 months after the closing of the offering.

The purchase price of $0.20 per Unit was allocated between the common shares ($0.14 per share) and common share purchase warrants ($0.06 per warrant), based on their relative fair values. Management determined that the allocation of the net proceeds of $1,011,226 was $714,934 for the common shares issued and $296,292 for the common share purchase warrants issued.

On October 3, 2018, the Company completed a financing by way of a private placement, where 3,157,059 units were issued at a price of $0.35 per unit for gross proceeds of $1,104,970. 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 October 3, 2020. In connection with the offering, the Company incurred financing costs of $27,947, of which $27,673 was paid in cash and $274 was paid through issuance of 7,950 broker warrants. Each broker warrant is exercisable into one common share at an exercise price of $0.50 per share for a period of sixty months after the closing of the offering.

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 net proceeds of $1,077,297 was $764,031 for the common shares issued and $313,266 for the common share purchase warrants issued.

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 $1,433,306 ($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 $8,589.

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 $1,433,306 was $1,017,289 for the common shares issued and $416,017 for the common share purchase warrants issued.

On August 22, 2019, the Company closed a public offering of units. On closing, the Company issued an aggregate of 57,500,000 Units, of which 502,000 units were purchased by certain insiders of the Company, at a price of $0.30 per Unit for aggregate gross proceeds of $17,250,000. Each Unit consisted 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, expiring on August 22, 2024. In connection with this financing the Company incurred financing costs of $2,195,028 of which $1,588,105 was paid in cash and $606,923 was paid through the issuance of 2,023,077 broker compensation units. Each broker compensation unit entitles the holder thereof to acquire one common share and one common share purchase warrant on the same terms as the unit common shares and common share purchase warrants issued pursuant to the financing. The broker compensation units were valued based on the fair value of services rendered.

Stated in Canadian Dollars

The purchase price of $0.30 per unit was allocated between the common shares ($0.23 per share) and common share purchase warrants ($0.07 per warrant), based on their relative fair values. Management determined that the allocation of the gross proceeds of $17,250,000 was $12,937,500 for the common shares issued and $4,312,500 for the common share purchase warrants issued.

The fair value of each common share purchase warrants granted, with the exception of the August 22, 2019 public offering, was estimated on the dates of the grant using the Black-Scholes option pricing model with the following assumptions:

	January 9, 2019	October 3, 2018	May 14, 2018
Expected volatility (based on historical share prices)	96.04%	101.77%	92.97%
Risk-free interest rate	1.91%	2.30%	1.99%
Expected life	2 Years	2 Years	2 Years
Expected dividends	Nil	Nil	Nil
Strike Price	$0.50	$0.50	$0.30
Share Price	$0.33	$0.29	$0.22

The August 22, 2019 public offering common share purchase warrants were valued based on the market value at time of grant which was $0.07. As at December 31, 2019, 2,023,077 broker compensation units were outstanding.

12. Stock Options

The Company has a rolling stock option plan reserving for issue under this plan up to 10% (20,427,537 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, 2019 and 2018 is provided below.

	Common shares under option	Weighted average exercised price $
Outstanding, January 1, 2017	10,310,000	0.50
Forfeited (1)	(4,540,000)	0.50
Outstanding, December 31, 2018	**5,770,000**	**0.50**
Expired during year (2)	(1,250,000)	0.50
Forfeited during year (3)	(880,000)	0.50
Granted during year (4)	12,370,000	0.30
Outstanding, December 31, 2019	**16,010,000**	**0.35**

1) During 2018, certain employees forfeited all non-exercised and non-vested options totaling 4,300,000 and certain employees were terminated and/or resigned from the employment of the Company and forfeited all non-vested options and non-exercised totaling 240,000.

Stated in Canadian Dollars

2) On July 10 and November 1, 2019 certain stock options previously issued to employees and consultants expired totaling 1,250,000
3) During 2019, certain employees and consultants were terminated and/or resigned from the employment of the Company and forfeited all non-vested options totaling 880,000.
4) On September 11, 2019 options were granted to certain directors and officers, employees and consultants of the Company for 10,000,000 at $0.25 each and 2,370,000 at $0.50 each for a total of 12,370,000 options vesting in three tranches with tranches vesting in one, two and three years respectively and expiring five years from date of issue.

The following table summarizes information on the stock options outstanding as at December 31, 2019:

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 $**
1,250,000	0.4	0.50	1,250,000	0.50
50,000	0.8	0.50	50,000	0.50
20,000	1.3	0.50	20,000	0.50
3,080,000	2.3	0.50	2,053,333	0.50
11,610,000	4.7	0.28	-	0.30
16,010,000			**3,373,333**	

Under the stock option plan, the stock options vest over a three year period, commencing one year after the grant. As at December 31, 2019, 3,373,333 of the stock options were vested. All outstanding stock options as at December 31, 2019 will be fully vested by September 11, 2022.

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:

	2019
Risk-free interest rate	1.43%
Expected volatility*	86.28%
Expected life	5 years
Expected dividends	Nil
Weighted average grant date fair value	$0.14
Weighted average exercise price	$0.30
Weighted average forfeiture rate	15%

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:

	2018
Risk-free interest rate	1.93%
Expected volatility*	61.50%
Expected life	3 Years
Expected dividends	Nil
Weighted average grant date fair value	$0.26
Weighted average exercise price	$0.50
Forfeiture rate	18%

Stated in Canadian Dollars

For the year ended December 31, 2019, the Company recognized stock-based compensation expense of $394,566 (2018 - $180,959) for stock options issued to directors, officers, employees and consultants, of which $363,274 (2018 - $153,091) is included in administrative expenses, $2,813 (2018 - $1,888) in selling expenses and $28,479 (2018 – $123, 627) is included in research and development expenses. The remaining stock based compensation amount to be expensed on non-vested options, net of forfeiture, is $1,210,779.

*Based on historical volatility

13. 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, 2017	29,610,539		3,210,867
Issued with shares	5,113,300	0.30	296,292
Issued with shares	3,165,008	0.50	313,267
Exercised	(135,000)	0.30	(7,817)
Outstanding December 31, 2018	37,753,847		3,812,609
Issued with shares	4,095,157	0.50	413,524
Issued with shares	57,500,000	0.35	3,763,743
Exercised	(7,802,633)	0.36	(593,313)
Outstanding December 31, 2019	**91,546,371**		**7,396,563**

1) During 2018, 135,000 warrants were exercised. The share price at the exercise date was $0.30
2) During 2019, 7,802,633 warrants were exercised. The share price at the exercise date was $0.36

The following table summarizes information on the common share purchase warrants outstanding for the year ended and as of December 31, 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	0.17
$0.375	10,538,599	-	5,983,333	-	4,555,266	1.86
$0.300	4,978,300	-	1,819,300	-	3,159,000	0.37
$0.500	3,165,008	-	-	-	3,165,008	0.76
$0.500	-	-	-	4,095,157	4,095,157	1.02
$0.350	-	-	-	57,500,000	57,500,000	4.64
	37,753,847	**-**	**7,802,633**	**61,595,157**	**91,546,371**	-

14. Share Capital

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

15. Loss Per Common Share

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

Stated in Canadian Dollars

Stock options to purchase 16,010,000 (2018 – 5,770,000) common shares and common share purchase warrants totaling 91,546,371 (2018 – 37,753,847) were not included in the computation of diluted loss and comprehensive loss per common share due to their anti-dilutive nature.

16. Selling Expenses

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

	2019	2018
Sales salaries	$ 404,608	$ 542,033
Advertising	161,777	100,754
Commission	55,892	89,186
Travel	53,740	55,922
Stock based compensation	2,813	1,888
Amortization and depreciation allocation	37,513	81,622
Total selling expenses	**$ 716,343**	**$ 871,405**

17. Administrative Expenses

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

	2019	2018
Insurance	$ 48,993	$ 50,625
Professional fees	316,236	412,633
Rent	50,675	99,061
General and administrative expenses	447,025	247,096
Administrative salaries	1,176,607	692,428
Director and advisory fees	127,247	42,629
Stock based compensation	363,274	153,091
Amortization and depreciation allocation	74,751	42,102
Total administrative expenses	**$ 2,604,808**	**$ 1,739,665**

18. Research and Development Expenses

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

	2019	2018
Research and development (net of investment tax credit)	$ 3,997,739	$ 1,578,619
Stock based compensation	28,479	25,980
Amortization and depreciation allocation	133,506	99,204
Total research and development expenses	**$ 4,159,724**	**$ 1,703,803**

19. Government Assistance

The Company is eligible to receive grants and investment tax credits from the federal government related to research and development activities. All such amounts are applied against related research and development expenses when received or collection is reasonably assured. In 2019, an amount of $255,000 (2018 - $140,000) 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

20. Financial Instruments – Fair Value and Risks

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

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

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

Level 3 inputs for the asset or liability that are not based upon observable market data

The carrying amounts of cash and cash equivalents, trade and other receivable and payables 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, 2019 and 2018, the Company's financial instruments are 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 trade and other 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:

	2019	2018
Trade receivables (net amount)	$ 380,229	$ 549,689
Percentage outstanding more than 30 days	21%	24%
Percentage outstanding more than 120 days	21%	23%

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

Stated in Canadian Dollars

		2019		2018
Allowance for trade receivables - beginning of year	$	94,012	$	133,453
Allowance recorded against current year sales		1,695		-
Adjustment based on collection experience		13,601		(11,164)
Amounts written off		(38,872)		(28,277)
Allowance for trade receivables - end of year	**$**	**70,436**	**$**	**94,012**

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**	**2020**	**2021**	**2022**	**2023**
Lease liabilities	$ 170,750	$ 61,960	$ 61,960	$ 46,830	-
Payables and accruals	$ 1,470,025	$ 1,470,025	$ -	$ -	-
Commitments (note 23)	$ 966,895	$ 847,245	$ 89,085	$ 30,565	-
Total contractual obligations	$ 2,607,670	$ 2,379,230	$ 151,045	$ 77,395	$ -

The Company also has contractual obligations (note 23) in the form of 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:

Stated in Canadian Dollars

	2019		2018	
	Canadian	**U.S.**	**Canadian**	**U.S.**
Cash	$ 31,223	$ 24,040	$ 24,057	$ 17,635
Trade and other receivables	108,826	86,677	271,481	213,003
Payables and accruals	(201,469)	(166,829)	(237,145)	(173,318)
Total	**$ (61,420)**	**$ (56,112)**	**$ 58,393**	**$ 57,320**

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.

	2019	**2018**
Cash	$ 3,122	$ 2,406
Trade and other receivables	10,883	27,148
Payables and accruals	(20,147)	(23,715)
Total	**$ (6,142)**	**$ 5,839**

21. 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	$2,195,573	$792,788
Stock-based compensation	232,890	133,353
Total	**$2,428,463**	**$926,141**

Key management personnel were not paid post-employment benefits, termination benefits or other long term benefits during the years ended December 31, 2019 and 2018. Fees paid to directors have been disclosed in note 17.

Stock-based compensation paid to key management personnel is the fair value of options that vested to key management personnel during the year. Stock based compensation paid to directors have been disclosed in note 17.

22. Segmented Information

For management purposes, the Company is organized into two separate reportable operating divisions; (1) Photo Dynamic Therapy (PDT) division and (2) Medical Laser Technology (MLT) division. The PDT division is responsible for the research and development of Photo Dynamic Compounds (PDCs) for the treatment of cancer. The MLT 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 MLT and PDT division for the years ended December 31:

	2019			2018		
	MLT	**PDT**	**Total**	**MLT**	**PDT**	**Total**
Sales	$ 964,051	$ -	$ 964,051	$ 1,734,072	$ -	$ 1,734,072
Cost of Sales	903,296	-	903,296	786,433	-	786,433
Gross Margin	60,755	-	60,755	947,639	-	947,639
Operating Expenses						
Selling expenses	716,343	-	716,343	871,405	-	871,405
Administrative expenses	1,742,759	862,049	2,604,808	1,157,101	582,564	1,739,665
Research and development expenses	455,617	3,704,107	4,159,724	255,011	1,448,792	1,703,803
Loss on foreign exchange	7,520	7,521	15,041	3,803	3,803	7,606
Interest expense	6,178	6,178	12,356	331	332	663
Interest income	(33,603)	-	(33,603)	(18,626)	-	(18,626)
	2,894,814	4,579,855	7,474,669	2,269,025	2,035,491	4,304,516
Loss for the period	$ (2,834,059)	$ (4,579,855)	$ (7,413,914)	$(1,321,386)	$(2,035,491)	$(3,356,877)
Total Assets	$ 4,527,182	$10,942,908	$15,470,090	$ 3,356,309	$ 208,110	$ 3,564,419
Total Liabilities	776,651	837,996	1,614,647	2,181,850	383,930	2,565,780

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

	2019			2018		
	Canada	**USA**	**International**	**Canada**	**USA**	**International**
Sales by Product Line						
TLC-1000	$ 264,870	$ 54,345	$ 13,463	$ 418,671	$ 89,352	$ 9,468
TLC-2000	570,532	42,230	18,611	786,641	215,433	214,507
	835,402	96,575	32,074	1,205,312	304,785	223,975
Expenses						
Cost of Sales	782,753	90,490	30,053	559,701	128,229	98,503
Selling Expenses	635,105	50,465	30,773	603,430	139,924	128,051
	1,417,858	140,955	60,826	1,163,131	268,153	226,554
	$ (582,456)	**$ (44,380)**	**$ (28,752)**	**$ 42,181**	**$ 36,632**	**$ (2,579)**

As at December 31, 2019 and 2018, the Company's long-lived assets used in operations are all located in Canada. Timing of revenue is recognized at a point in time.

Stated in Canadian Dollars

23. Commitments

The Company's commitments consist of the following:

	Total	2020	2021	2022	2023
Research Commitments (a)	$ 117,040	$ 58,520	$ 58,520	$ -	-
Research Agreement (b)	$ 91,695	$ 30,565	$ 30,565	$ 30,565	-
Research Agreement (c)	$ 758,160	$ 758,160	-	-	-
Total	**$ 966,895**	**$ 847,245**	**$ 89,085**	**$ 30,565**	**-**

a) Research Commitments under a research collaboration agreement with University Health Network for the Ontario Research Fund 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, of which $117,040 is the remaining commitment.

b) Research Commitments under a research agreement with a Trial Management Organization for the TLC-3000 cancer therapy project. Under the terms of this agreement, the Company is required to pay $126,324 (USD$96,800) for the period from July 23, 2019 through to December 31, 2022. The Company has paid $34,629 (USD$26,200) relating to this commitment, of which $91,695 (USD$70,600) is the remaining commitment.

c) Research Commitments under a research agreement with Alphora Research Inc. for the TLC-3000 cancer therapy project. Under the terms of this agreement, the Company is required to pay $1,000,000 for the period from September 27, 2019 through to April 30, 2020. The Company has paid $241,840 relating to this commitment, of which $758,160 is the remaining commitment.

24. Subsequent Events

Between the period of January 1, 2020 to April 27, 2020, the Company issued 500 common shares for exercises of warrants and received $175 in cash consideration.

Two former employee's of the Company has retained legal counsel and is seeking compensation for wrongful dismissal. The Company believes that the case is without merit and plans to vigorously defend its position in this matter.

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus ("**COVID-19**") as a global pandemic, which continues to spread throughout Canada and around the world. As of April 27, 2020, the Company is aware of changes in its business as a result of COVID-19, notably unavailability of personnel, working remotely or virtually and delays in customer purchase decisions. Management is uncertain of the impacts of those changes on its financial statements and believes that the business disruption caused by COVID-19 could be temporary, however there is uncertainty around its duration and hence the potential impact on the business cannot be estimated as of the date of this report.