# Theralase Technologies Inc.

## Audited Consolidated Financial Statements

As at December 31, 2018 and 2017

## 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 ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**") 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 independent directors. The Audit Committee reviews the Company's annual consolidated financial statements and has recommended their approval to the Board of Directors. The shareholders' auditors and Audit Committee meet with and without management being present.

The consolidated financial statements have been audited by the independent registered public accounting firm appointed by the shareholders, Marcum LLP. In that capacity they have issued a report on the consolidated financial statements for the years ended December 31, 2018, 2017 and 2016.

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

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

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Theralase Technologies Inc.:

## Report on the Audit of the Financial Statements

### Opinion

We have audited the consolidated financial statements of Theralase Technologies Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, the consolidated statements of operations, cash flows and changes in equity for the years then ended and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### Material Uncertainty Related to Going Concern

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which indicates that the Company incurred a consolidated net loss of $3,356,877 during the year ended December 31, 2018 and has historically used net cash in operations. As stated in Note 1 to the financial statements, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that casts substantial doubt on the Company's ability to continue as a going concern.

### Basis for Opinion

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 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 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.

## Other Information

Management is responsible for the other information. The other information comprises the information included in the Company’s Management Discussion and Analysis.

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 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the 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.

## Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ 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 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 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 auditors' report to the related disclosures in the 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 auditors' 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 auditors' report is Jeff Houston.

Marcum LLP

Marcum LLP

Houston, Texas
April 17, 2019

172911 audit report 2018

# THERALASE® TECHNOLOGIES INC.

Consolidated Balance Sheets

As at December 31, 2018 and 31, 2017

Stated in Canadian Dollars

| | Note | 2018 | 2017 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash | | $ 1,033,699 | $ 253,902 |
| Trade and other receivables | 5 | 790,455 | 1,037,003 |
| Inventories | 6 | 864,261 | 1,046,459 |
| Prepaid expenses and other assets | | 56,373 | 60,805 |
| Total current assets | | 2,744,788 | 2,398,169 |
| Non-current assets | | | |
| Trade receivables | 5 | 111,957 | 127,466 |
| Property and equipment | 7 | 672,690 | 744,149 |
| Intangible assets | 8 | 18,002 | 35,941 |
| Rent deposit | | 16,982 | 16,982 |
| Total non-current assets | | 819,631 | 780,090 |
| **Total Assets** | | **$ 3,564,419** | **$ 3,322,707** |
| **Liabilities** | | | |
| Current liabilities | | | |
| Payables and accruals | 9 | 2,565,780 | $ 1,277,142 |
| Total liabilities | | 2,565,780 | 1,277,142 |
| **Equity attributable to shareholders** | | | |
| Share capital | 11, 14 | 26,434,938 | 24,907,688 |
| Contributed surplus | 12 | 5,989,332 | 5,808,373 |
| Common share purchase warrants | 11, 13 | 3,812,609 | 3,210,867 |
| Accumulated deficit | | (35,238,240) | (31,881,363) |
| Total Equity | | 998,639 | 2,045,565 |
| **Total Shareholders' Equity and Liabilities** | | **$ 3,564,419** | **$ 3,322,707** |

Commitments (Note 23)

Approved on Behalf of the Board

*[Randy Bruder]* Director

*[Guy Anderson]* Director

# THERALASE® TECHNOLOGIES INC.

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

| | Note | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Sales | | $ 1,734,072 | $ 2,342,508 | $ 1,918,893 |
| Cost of Sales | | 786,433 | 945,010 | 796,569 |
| Gross Margin | | 947,639 | 1,397,498 | 1,122,324 |
| **Operating Expenses** | | | | |
| Selling expenses | 16 | 871,405 | 1,917,106 | 1,614,680 |
| Administrative expenses | 17 | 1,739,665 | 2,912,170 | 2,546,706 |
| Research and development expenses | 18 | 1,703,803 | 2,652,969 | 1,867,621 |
| (Gain) Loss on foreign exchange | | 7,606 | 15,376 | 29,796 |
| Interest expense | | 663 | 87 | 198 |
| Interest income | | (18,626) | (6,614) | (15,429) |
| | | 4,304,516 | 7,491,094 | 6,043,572 |
| Net loss and comprehensive loss for the year | 14 | $ (3,356,877) | $ (6,093,596) | $ (4,921,248) |
| Basic and diluted loss per common share | 14 | $ (0.026) | $ (0.049) | $ (0.045) |
| Weighted average number of common shares outstanding (basic and diluted) | | 130,488,190 | 124,094,079 | 109,035,634 |

# THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Cash Flows

For the year ended December 31

Stated in Canadian Dollars

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net loss for the year | $ (3,356,877) | $ (6,093,596) | $ (4,921,248) |
| Items not involving cash | | | |
| Amortization of property and equipment | 204,991 | 235,896 | 129,977 |
| Amortization of intangibles | 17,939 | 18,038 | 19,320 |
| Stock-based compensation expense | 180,959 | 494,192 | 491,482 |
| Provision for inventory reserve | - | - | 3,756 |
| Gain(loss) on foreign exchange | 7,606 | 15,376 | 29,796 |
| Loss on sale of property and equipment | - | - | 181 |
| Lease inducements | (1,679) | (1,401) | (1,400) |
| Change in operating assets and liabilities other than cash | | | |
| Current trade and other receivables | 238,942 | 147,704 | (50,035) |
| Non-current trade receivables | 15,509 | (127,466) | 30,321 |
| Inventories | 182,198 | 169,294 | (305,993) |
| Prepaid expenses and other assets | 4,432 | 154,705 | (70,628) |
| Payables and accruals | 1,290,317 | 727,400 | (235,922) |
| | (1,215,663) | (4,259,858) | (4,880,393) |
| **Cash flows from investing activities** | | | |
| Purchase of property and equipment | (133,532) | (410,376) | (296,212) |
| Proceeds on disposal of property and equipment | - | 10 | 1,600 |
| | (133,532) | (410,366) | (294,612) |
| **Cash flows from financing activities** | | | |
| Proceeds from public offering (net of issuance costs) | 2,088,524 | - | 3,804,348 |
| Proceeds from the exercise of share warrants | 40,468 | 1,953,928 | - |
| | 2,128,992 | 1,953,928 | 3,804,348 |
| Increase in cash during the year | 779,797 | (2,716,295) | (1,370,658) |
| Cash, beginning of year | 253,902 | 2,970,198 | 4,340,856 |
| Cash, end of year | $ 1,033,699 | $ 253,903 | $ 2,970,198 |
| **Supplementary Information** | | | |
| Interest Paid | $ 663 | $ 87 | $ 198 |
| Interest Received | $ 18,626 | $ 6,614 | $ 15,429 |

## 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, 2015** | | 107,047,360 | 19,967,937 | 4,822,699 | 2,392,342 | (20,866,519) | 6,316,459 |
| Stock-based compensation expense | 11 | - | - | 491,482 | - | - | 491,482 |
| Exercised share purchase warrants | 12 | - | - | - | - | - | - |
| Expired share purchase warrants | 12 | - | - | - | - | - | - |
| Issued pursuant to public offering | 10 | 14,236,666 | 2,933,752 | - | 1,337,248 | - | 4,271,000 |
| Transaction cost on public offering | 10 | - | (333,457) | - | (133,195) | - | (466,652) |
| Loss for the year | | - | - | - | - | (4,921,248) | (4,921,248) |
| **Balance, December 31, 2016** | | 121,284,026 | 22,568,232 | 5,314,181 | 3,596,395 | (25,787,767) | 5,691,041 |
| | | | | | | | |
| **Balance, December 31, 2016** | | 121,284,026 | 22,568,232 | 5,314,181 | 3,596,395 | (25,787,767) | 5,691,041 |
| Stock-based compensation expense | 12 | - | - | 494,192 | - | - | 494,192 |
| Exercised share purchase warrants | 12 | 5,197,500 | 2,325,874 | - | (371,946) | - | 1,953,928 |
| Expired share purchase warrants | 12 | - | 13,582 | - | (13,582) | - | - |
| Loss for the year | | - | - | - | - | (6,093,596) | (6,093,596) |
| **Balance, December 31, 2017** | | 126,481,526 | 24,907,688 | 5,808,373 | 3,210,867 | (31,881,363) | 2,045,565 |
| | | | | | | | |
| **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 | 12 | 135,000 | 48,285 | - | (7,817) | - | 40,468 |
| Issued pursuant to private placement | 10 | 8,261,059 | 1,505,733 | - | 620,038 | - | 2,125,770 |
| Transaction cost on private placement | 10 | - | (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 |

## 1. Nature of Operations

Theralase Technologies Inc. (the "**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

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 (**"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 year ended December 31, 2018, the Company had a net loss of $3,356,877 (2017 - $6,093,596, 2016 - $4,921,248), an accumulated deficit of $35,238,240 (2017 - 31,881,363) and has historically used net cash in operations. These conditions indicate the existence of material uncertainties that cast substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon achieving a profitable level of operations and obtaining additional financing, neither of which is assured. The Company has been able to raise capital to continue to market its products and continues to develop sales opportunities that could result in additional sales of its products in the future. These consolidated financial statements do not give effect to any adjustments which may be necessary should the Company be unable to continue as a going concern and be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying consolidated financial statements. These adjustments could be material.

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

The Company's capital is composed of total shareholders' equity. For the year ended December 31, 2018, the Company reported a loss of $3,356,877, and an accumulated deficit of $35,238,240 as at that date. Sales of the TLC-1000 and TLC-2000, the Company's existing product lines, have not met expectations and have not been sufficient in and of themselves to enable the Company to fund all its continuing development and commercialization efforts and, accordingly, management is pursuing alternate financing sources to fund the Company's development and commercialization efforts. The Company has successfully raised capital through equity offerings in 2018 and 2016 (note 11) however, there is no guarantee that the Company will be able to raise additional capital on terms and conditions agreeable to the Company.

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

**Approval of Financial Statements**

The consolidated financial statements for the year ended December 31, 2018 were approved and authorized for issue by the board of directors on April 16, 2019.

## 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 be 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 12).

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 6).

- Measurement of impairment in assets – The active market or a binding sale agreement provides the best evidence for determination of fair value, but where neither exists, fair value is based on the best information available to reflect the amount the Company could receive for the assets or its value in use which is equal to the present value of future cash flows expected to be derived from the use and sale of the assets. Management exercises judgment to determine whether indicators of impairment exist, and if so, management must estimate the timing and amount of future cash flows from sales.

- Warranty reserves – The valuation for warranty reserves requires assumptions regarding estimated warranty claims against product sales. Uncertainty relates to the actual warranty claims against product sales that can vary from management's estimates.

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

**Basis of consolidation**

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

**Foreign currency**

The functional and presentation currency of the Company and its subsidiaries is the Canadian dollar. Transactions which are denominated in other currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction date. The carrying values of monetary assets and liabilities denominated in foreign currencies are adjusted at each balance sheet date to reflect exchange rates prevailing at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year adjusted for effective interest and payments during the year, and the amortized cost in the foreign currency translated at the exchange rate at the end of the year. Foreign exchange gains and losses are recognized in the statement of operations.

Revenues and expenses are converted at transaction date rates prevailing during the year, except for amortization, which is converted at historical rates. The average exchange rate used by the Company is from the Bank of Canada.

**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**

Effective January 1, 2018, the Company adopted IFRS 9, Financial Instruments ("**IFRS 9**") (note 3). The Company's accounting policy prior to the adoption of IFRS 9 was as follows:

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

a) Financial assets and liabilities at fair value through profit or loss:
A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Cash is included in this category. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of operations. Gains and losses arising from changes in fair value are presented in the statement of operations in the year in which they arise.

b) Available-for-sale investments:
Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company does not have any instruments classified in this category.

c) Loans and receivables:
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise of trade and other receivables and finance receivables. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

d) Financial liabilities at amortized cost:
Financial liabilities at amortized cost include payables and accruals. Financial liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently financial liabilities are measured at amortized cost using the effective interest method.

**Inventory**

Raw materials are valued at the lower of cost or net realizable value. Finished goods and work in process are valued at the lower of cost or net realizable value and consist of the following costs: raw materials, subcontracting, direct and indirect labour and the applicable share of manufacturing overhead. Net realizable value is estimated based on the amount at which inventories are expected to be sold, taking into account estimated costs necessary to make the sale. Finished goods are determined on a first-in, first-out basis. Raw materials are recorded on weighted average basis.

**Property and equipment**

Property and equipment are recorded at cost net of accumulated depreciation and impairment charges. Depreciation of property and equipment, other than finance lease equipment, leasehold improvements and rental units, is calculated using the declining balance basis to depreciate the cost of the assets over their estimated useful lives using the following annual rates:

| | |
|---|---|
| Tools and dies | 25% |
| Computer equipment | 30% |
| Furniture and fixtures | 20% |
| Equipment | 25% |

Finance lease equipment and leasehold improvements are depreciated on a straight-line basis over the shorter of the useful life of the leasehold or the initial lease term.

Rental units are depreciated on a straight-line basis over five years based on the estimated useful life.

**Intangible assets**

Intangible assets are recorded at cost including professional fees incurred in connection with the filing of the patents and the registration of the trademarks for product marketing and manufacturing purposes net of accumulated amortization and impairment charges. Costs incurred to maintain patents and trademarks for intellectual property are expensed in the year incurred. Amortization of intangible assets is recorded on a straight-line basis over the estimated useful lives of the related assets as follows:

| | |
|---|---|
| Patents | 10 to 17 years |
| Trademarks | 17 years |

**Impairment of assets**

Items of property and equipment and intangible assets with finite lives, subject to depreciation or amortization, respectively, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Management is required to assess at each reporting date whether there is any indication that an asset may be impaired. Where such an indication exists, the asset's recoverable amount is compared to its carrying value, and an impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows, or Cash-Generating Units ("**CGU**"). In determining value in use of a given asset or CGU, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Items of property and equipment and amortizable identifiable intangible assets with finite lives that suffered impairment are reviewed for possible reversal of the impairment if there has been a change, since the date of the most recent impairment test, in the estimates used to determine the impaired asset's recoverable amount. However, an asset's carrying amount, increased due to the reversal of a prior impairment loss, must not exceed the carrying amount that would have been determined, net of depreciation or amortization, had the original impairment not occurred.

**Lease and Lease inducements**

Leases are classified as either capital or operating based on their nature. Leases that transfer substantially all of the benefits and risks of ownership of the asset to the Company are accounted for as finance leases. At the time a finance lease is entered into, an asset is recorded together with its related long-term obligation, reflecting the fair value of future lease payments, discounted at the appropriate interest rates. Finance lease assets are amortized over their estimated useful lives at the same rates used for other equipment and fixtures. All other leases are classified as operating leases and expensed on a straight line basis.

Lease inducements received by the Company as free rent periods are deferred and amortized on a straight-line basis over the term of the lease and recorded as a reduction in rental expense within administrative expenses.

**Research and development expenditures**

Research expenditures are expensed in the year incurred. Product development expenditures are expensed in the year incurred unless the product candidate meets the following criteria for deferral and amortization:

- the technical feasibility of completing the intangible asset so it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably the expenditure during development.

The Company's policy is to amortize deferred product development expenditures over the expected future life of the product once product revenues or royalties are recorded. No product development expenditures have been deferred during the year.

**Investment tax credits and government assistance**

The Company is entitled to refundable and non-refundable Canadian federal and provincial investment tax credits, which are earned as a percentage of eligible research and development expenditures incurred in each taxation year.

Investment tax credits are accounted for as a reduction of the related expenditure for items of a current nature and as a reduction of the related asset's cost for items of a long-term nature in the year the expenses are incurred, when received or when the Company has reasonable assurance that investment tax credits will be realized.

**Revenue recognition**

**Policy applicable after January 1, 2018**
On January 1, 2018, the Company adopted IFRS 15 Revenue from Contracts with Customers ("**IFRS 15**"). 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.

**Policy applicable before January 1, 2018**
Sales include product sales revenue, product services revenue and clinic services revenue. Product sales revenue is recognized when there is an unconditional sales order, title passes to the customer, the fee is fixed and can be measured reliably and ultimate collection of the consideration is probable. Some product sales include an extended warranty however, they are de minimus. In the case of such sales arrangements, the individual deliverables are accounted for separately based on their relative fair values and are recognized as the product or service is delivered, if all other criteria are met.

Some product sales have a non-monetary amount attached to it representing an amount in exchange for goods and services. The related revenues are measured at the more reliable measure of the fair value of the asset given up and the fair value of the service received.

Product services and clinic services revenue is recognized when the service is delivered to the customer or patient and collection is probable.

**Share-based payment**

The share-based payment plan, described in note 12, allows Company employees and consultants to acquire shares of the Company. The fair value of share-based payment awards granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The Company uses the fair value based method of accounting for employee stock options. Under the fair value based method, compensation costs are measured at fair value at the date of grant and are expensed using the graded vesting method over the stock options' vesting periods. The fair value of granted stock options is determined using the Black-Scholes valuation model. Any consideration received by the Company in connection with the exercise of stock options is credited to share capital.

For equity-settled share-based payment transactions with non-employees, the Company measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which cases, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

**Share capital**

The proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option and warrant enabled the holder to purchase a share in the Company. Commissions paid to underwriters, and other related share issue costs, such as legal fees, 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.

**Reclassification**

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

Stated in Canadian Dollars

## 3. Adoption of New Accounting Standards

On January 1, 2018, the Company implemented IFRS 15, "Revenue From Contracts with Customers" ("**IFRS 15**") and IFRS 9, "Financial Instruments" ("**IFRS 9**"), in accordance with IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors". The impacts on implementation of IFRS 15 and IFRS 9 are described below.

**IFRS 15**
The Company adopted all the requirements of IFRS 15 Revenue from Contracts with Customers ("**IFRS 15**") as of January 1, 2018 using the modified prospective approach. IFRS 15 utilizes a methodical framework for entities to follow in order to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The change did not impact the cumulated revenue recognized or the related assets and liabilities on the transition date. The adoption also resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated comprehensive income on January 1, 2018.

**IFRS 9**
The Company adopted all of the requirements of IFRS 9 Financial Instruments ("**IFRS 9**") as of January 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement ("**IAS 39**"). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking"expected loss" impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is unchanged.

As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date. The following is the Company's accounting policy for financial instruments under IFRS 9:

(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. The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

| Financial assets/liabilities | Original classification (IAS 39) | New classification (IFRS 9) | Original carrying amount (IAS 39) | New carrying amount (IFRS 9) |
|---|---|---|---|---|
| Accounts receivables | Amortized cost | Amortized cost | 1,164,469 | 1,164,469 |
| Accounts payable and accrued liabilities | Amortized cost | Amortized cost | 1,277,142 | 1,277,142 |

The Company did not restate prior periods as it recognized the effects of retrospective application to stockholders' equity at the beginning of the 2018 annual reporting period, which also includes the date of initial application. The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit nor to the opening balance on January 1, 2018.

(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. Gains and losses on derecognition are generally recognized in the consolidated statements of operations.

## 4. Accounting Standards Issued but Not Yet Applied

The IASB has issued the following standard which has not yet been adopted by the Company.

***IFRS 16, Leases ("IFRS 16")*** was issued in January 2016 and specifies how to recognize, measure, present and disclose leases. The standard provides a single lease accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting; however, remains largely unchanged from IAS 17 and the distinction between operating and finance leases is retained. The standard will affect primarily the accounting for the Company's operating leases. This will result in additional right-to-use assets, as well as lease liabilities, for which management is in the process of finalizing the valuation. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

**Stated in Canadian Dollars**

## 5. Trade and Other Receivables

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Trade receivable (net amount) | $ | 549,689 | $ | 719,569 |
| Government tax credits receivable | | 352,723 | | 444,900 |
| Total | | 902,412 | | 1,164,469 |
| Less: Non-Current trade receivables | | (111,957) | | (127,466) |
| **Total** | **$** | **902,412** | **$** | **1,037,003** |

Write offs of trade receivables for the year ended December 31, 2018 amounted to $28,277 which was previously provided for (2017 - $33,629, 2016 - $10,478). In addition, a direct write-off of $nil was made during the year (2017 - $nil, 2016 - $nil). Refer to note 20 (i) for the continuity schedule of allowance for trade receivables.

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

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 20.

## 6. Inventories

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Raw materials | $ | 449,703 | $ | 661,085 |
| Work-in-process | | 10,594 | | 3,494 |
| Finished goods | | 403,964 | | 381,880 |
| **Total** | **$** | **864,261** | **$** | **1,046,459** |

During the year, inventories amounting to $400,712 (2017 - $508,298, 2016 - $310,275) were incurred as expense in cost of sales in the Statement of Operations. Other costs in cost of sales include freight, indirect labour and overhead expense. In 2018, there were inventories written-off amounting to $2,592 (2017 - $9,231, 2016 - $3,756). Amount written off in 2018 and 2017 had previously been reserved.

Stated in Canadian Dollars

## 7. Property and Equipment

**Cost**

| | Tools and Dies | Computer Equipment | Furniture and Fixtures | Rental units (1) | Equipment | Leasehold Improvements | Total |
|---|---|---|---|---|---|---|---|
| Balance at January 1, 2016 | $ 187,821 | $ 151,374 | $ 113,066 | $ 28,148 | $ 191,863 | $ 217,767 | $ 890,039 |
| Additions | 10,850 | 151,304 | 29,281 | 89,467 | 5,140 | 10,170 | 296,212 |
| Disposals | - | - | (6,357) | - | - | - | (6,357) |
| Balance at December 31, 2016 | $ 198,671 | $ 302,678 | $ 135,990 | $ 117,615 | $ 197,003 | $ 227,937 | $ 1,179,894 |
| Balance at January 1, 2017 | $ 198,671 | $ 302,678 | $ 135,990 | $ 117,615 | $ 197,003 | $ 227,937 | $ 1,179,894 |
| Additions | 8,828 | 9,707 | 7,275 | 41,562 | 217,116 | 125,888 | 410,376 |
| Disposals | - | - | (199) | (6,734) | - | (227,937) | (234,870) |
| Balance at December 31, 2017 | $ 207,499 | $ 312,385 | $ 143,066 | $ 152,443 | $ 414,119 | $ 125,888 | $ 1,355,400 |
| Balance at January 1, 2018 | $ 207,499 | $ 312,385 | $ 143,066 | $ 152,443 | $ 414,119 | $ 125,888 | $ 1,355,400 |
| Additions | - | 35,568 | 4,874 | - | 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 |

**Depreciation**

| | Tools and Dies | Computer Equipment | Furniture and Fixtures | Rental units (1) | Equipment | Leasehold Improvement s | Total |
|---|---|---|---|---|---|---|---|
| Balance at January 1, 2016 | $ 58,290 | $ 97,819 | $ 84,068 | $ 22,304 | $ 86,126 | $ 136,275 | $ 487,411 |
| Depreciation for the year | 34,121 | 30,573 | 7,734 | 5,337 | 27,619 | 24,527 | 129,977 |
| Disposals | - | - | (4,578) | - | - | | (4,578) |
| Balance at December 31, 2016 | $ 92,411 | $ 128,392 | $ 87,224 | $ 27,641 | $ 113,745 | $ 160,802 | $ 612,810 |
| Balance at January 1, 2017 | $ 92,411 | $ 128,392 | $ 87,224 | $ 27,641 | $ 113,745 | $ 160,802 | $ 612,810 |
| Depreciation for the year | 27,176 | 54,222 | 10,238 | 21,918 | 52,997 | 69,345 | 235,896 |
| Disposals for the year | - | - | (189) | (6,734) | - | (227,937) | (234,860) |
| Balance at December 31, 2017 | $ 119,587 | $ 182,614 | $ 97,273 | $ 42,825 | $ 166,742 | $ 2,210 | $ 613,846 |
| 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 | $ 106,609 | $ 57,577 | $ 228,767 | $ 39,977 | $ 803,619 |

**Carrying Amounts**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| At December 31, 2016 | $106,260 | $174,286 | $48,766 | $89,973 | $83,258 | $67,135 | $567,084 |
| At December 31, 2017 | $87,912 | $129,771 | $45,793 | $109,617 | $247,377 | $123,678 | $741,553 |
| At December 31, 2018 | $ 65,934 | $ 118,829 | $ 41,332 | $ 82,242 | $191,775 | $172,577 | $ 672,690 |

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

In 2018, there was amortization included in cost of sales amounting to $22,534 (2017- $27,917, 2016- $34,977).

**Stated in Canadian Dollars**

## 8. Intangible Assets

### Cost

| | Patents | Trademarks | Development Costs | FDA Clinical Study Costs(1) | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2016 | $ 199,622 | $ 58,346 | $ 344,093 | $ 509,649 | $ 1,111,710 |
| Balance at December 31, 2017 | $ 199,622 | $ 58,346 | $ 344,093 | $ 509,649 | $ 1,111,710 |
| Balance at December 31, 2018 | $ 199,622 | $ 58,346 | $ 344,093 | $ 509,649 | $ 1,111,710 |

### Amortization

| | Patents | Trademarks | Development Costs | FDA Clinical Study Costs(1) | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2016 | $ 136,860 | $ 47,809 | $ 344,093 | $ 509,649 | $ 1,038,411 |
| Amortization for the year | 15,889 | 3,431 | - | - | 19,320 |
| Balance at December 31, 2016 | $ 152,749 | $ 51,240 | $ 344,093 | $ 509,649 | $ 1,057,731 |
| Balance at January 1, 2017 | $ 152,749 | $ 51,240 | $ 344,093 | $ 509,649 | $ 1,057,731 |
| Amortization for the year | 14,606 | 3,432 | - | - | 18,038 |
| Balance at December 31, 2017 | $ 167,355 | $ 54,672 | $ 344,093 | $ 509,649 | $ 1,075,769 |
| Balance at January 1, 2018 | $ 167,355 | $ 54,672 | $ 344,093 | $ 509,649 | $ 1,075,769 |
| Amortization for the year | 14,507 | 3,432 | - | - | 17,939 |
| Balance at December 31, 2018 | $ 181,862 | $ 58,104 | $ 344,093 | $ 509,649 | $ 1,093,708 |

### Carrying Amounts

| | Patents | Trademarks | Development Costs | FDA Clinical Study Costs(1) | Total |
|---|---|---|---|---|---|
| At December 31, 2016 | $ 46,873 | $ 7,106 | $ - | $ - | $ 53,979 |
| At December 31, 2017 | $ 32,267 | $ 3,674 | $ - | $ - | $ 35,941 |
| At December 31, 2018 | $ 17,760 | $ 242 | $ - | $ - | $ 18,002 |

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

## 9. Payables and Accruals

| | **2018** | **2017** |
|---|---|---|
| Trade payables | 1,062,411 | 1,089,297 |
| Salaries, employment taxes, and benefits | 280,860 | 102,701 |
| Current portion of warranty liability | 1,100 | 1,100 |
| Audit fees and contract payments | 20,013 | 84,044 |
| Investor deposits (note 24) | 1,201,396 | - |
| **Total** | **2,565,780** | **1,277,142** |

**Stated in Canadian Dollars**

## 10. Income Taxes

| | | 2018 | | 2017 | | 2016 |
|---|---|---|---|---|---|---|
| **Current income taxes** | | | | | | |
| Loss before income taxes | $ | (3,356,877) | $ | (6,093,596) | $ | (4,921,428) |
| Combined Federal and Provincial tax rate | | 26.50% | | 26.50% | | 26.50% |
| | | | | | | |
| Provision for tax at statutory tax rate | $ | (889,572) | $ | (1,614,803) | $ | (1,304,178) |
| Permanent differences | | 49,640 | | 138,572 | | 187,379 |
| Federal and provincial investment tax credits | | (276,094) | | (361,042) | | (389,251) |
| Expiry of non-capital losses | | - | | - | | 59,062 |
| True-up adjustment | | 23,173 | | (264,078) | | 503,177 |
| Change in tax rate and other | | - | | - | | - |
| Change in unrecognized deferred tax asset | | 1,092,853 | | 2,101,351 | | 943,811 |
| **Deferred income tax recovery** | **$** | **-** | **$** | **-** | **$** | **-** |
| | | | | | | |
| **Deferred Income tax assets** | | | | | | |
| Non-capital loss carry forwards | $ | 3,264,453 | $ | 2,855,598 | $ | 2,096,036 |
| Property, plant and equipment | | 280,458 | | 231,729 | | 56,917 |
| Share issuance costs | | 115,410 | | 189,033 | | - |
| Patents and trademarks | | 43,606 | | 40,211 | | 31,967 |
| Development costs | | 3,398,231 | | 2,947,565 | | 2,388,168 |
| Federal and provincial investment tax credits | | 2,334,798 | | 2,079,704 | | 1,668,871 |
| Reserves | | 4,304 | | 4,569 | | 5,099 |
| **Deferred Income tax assets** | **$** | **9,441,261** | **$** | **8,348,409** | **$** | **6,247,058** |
| | | | | | | |
| Net future deferred income tax assets | | 9,441,261 | | 8,348,409 | | 6,247,058 |
| Less: unrecognized deferred tax asset | | (9,441,261) | | (8,348,409) | | (6,247,058) |
| **Deferred Income tax assets** | **$** | **-** | **$** | **-** | **$** | **-** |

### Non-capital loss carry-forwards

The Company has non-capital losses available for carry forward of approximately $12,318,690 (2017 - $10,775,842, 2016 - $8,397,889). The income tax benefit of this income tax recovery has not been recorded.

**Stated in Canadian Dollars**

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** | | 2,889,103 |
| **2037** | | 2,377,953 |
| **2038** | | 1,542,848 |
| | **$** | **12,318,690** |

## 11. Public Offering and Private Placement

On November 10, 2016, the Company completed a financing by way of a public offering, where 14,236,666 units were issued at a price of $0.30 per unit for gross proceeds of $4,271,000. Each unit consisted of 1 common share and 1 non-transferable common share purchase warrant. Each whole warrant entitles the holder thereof to acquire 1 common share at a price of $0.375, expiring on November 10, 2021. In connection with the offering, the Company incurred financing costs of $485,452, of which $466,652 was paid in cash and $18,800 was paid through issuance of 526,933 broker warrants. Each broker warrant is exercisable into one common share at an exercise price of $0.375 per share for a period of 60 months after the closing of the offering.

The purchase price of $0.30 per unit was allocated between the common shares ($0.21 per share) and common share purchase warrants ($0.09 per warrant), based on their relative fair values. Management determined that the allocation of the net proceeds of $3,804,348 was $2,600,295 for the common shares issued and $1,204,053 for the common share purchase warrants issued.

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 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 $0.30, 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.

**Stated in Canadian Dollars**

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 24 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.

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:

| | October 3, 2018 | May 14, 2018 | November 10, 2016 |
|---|---|---|---|
| Expected volatility (based on historical share prices) | 101.77% | 92.97% | 66.09% |
| Risk-free interest rate | 2.30% | 1.99% | 0.87% |
| Expected life | 2 years | 2 years | 5 years |
| Expected dividends | Nil | Nil | Nil |
| Strike Price | $0.500 | $0.300 | $0.375 |
| Share Price | $0.29 | $0.22 | $0.25 |

## 12. Stock Options

The Company has a rolling stock option plan reserving for issue under this plan up to 10% (13,487,758 common shares at December 31, 2018) 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, 2018, 2017 and 2016 is provided below.

**Stated in Canadian Dollars**

| | Common shares under option | Weighted average exercised price $ |
|---|---|---|
| Outstanding, January 1, 2016 | 10,105,000 | 0.50 |
| Granted (1) | 380,000 | 0.50 |
| Forfeited (2) | (1,310,000) | 0.50 |
| Expired (3) | (1,765,000) | 0.50 |
| Outstanding, December 31, 2016 | 7,410,000 | 0.50 |
| Granted (4) | 3,220,000 | 0.50 |
| Forfeited (5) | (320,000) | 0.50 |
| Outstanding, December 31, 2017 | 10,310,000 | 0.50 |
| Forfeited (6) | (4,540,000) | 0.50 |
| **Outstanding, December 31, 2018** | **5,770,000** | **0.50** |

1) On January 1, April 4, April 18, May 16 and November 2, 2016, options were granted to certain employees and consultants of the Company totaling 380,000 at $0.50 each vesting in three tranches with tranches vesting in one, two and three years respectively and expiring five years from date of issue.
2) During 2016, certain employees and consultants were terminated and/or resigned from the employment of the Company and forfeited all non-vested options totaling 1,310,000.
3) On October 25, 2016, certain stock options previously issued to employees and consultants expired totaling 1,765,000.
4) During 2017, certain employees and consultants were terminated and/or resigned from the employment of the Company and forfeited all non-vested options totaling 320,000.
5) On April 18, 2017 options were granted to certain employees and consultants of the Company totaling 3,220,000 at $0.50 each vesting in three tranches with tranches vesting in one, two and three years respectively and expiring five years from date of issue.
6) 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 and non-exercised options totaling 240,000.

The following table summarizes information on the stock options outstanding as at December 31, 2018:

| 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 | 0.5 | $ | 0.50 | 1,190,000 | | 0.50 |
| 70,000 | 0.8 | $ | 0.50 | 70,000 | | 0.50 |
| 1,350,000 | 1.4 | $ | 0.50 | 1,350,000 | | 0.50 |
| 50,000 | 1.8 | $ | 0.50 | 50,000 | | 0.50 |
| 20,000 | 2.3 | $ | 0.50 | 13,333 | | 0.50 |
| 3,090,000 | 3.3 | $ | 0.50 | 1,030,000 | | 0.50 |
| **5,770,000** | | **$** | **0.50** | **3,703,332** | **$** | **0.50** |

Under the stock option plan, the stock options vest over a three year period, commencing one year after the grant. As at December 31, 2018, 3,703,332 of the stock options were vested. All outstanding stock options as at December 31, 2018 will be fully vested by April 18, 2020.

**Stated in Canadian Dollars**

Options to employees are measured at the fair value on the grant date using the following weighted average assumptions:

| | 2017 | 2016 |
|---|---|---|
| Risk-free interest rate | 0.98% | 0.68% |
| Expected volatility* | 72.59% | 63.28% |
| Expected life | 5 years | 5 years |
| Expected dividends | Nil | Nil |
| Weighted average grant date fair value | $0.20 | $0.20 |
| Weighted average exercise price | $0.50 | $0.50 |
| Forfeiture rate | 28% | 28% |

Options to non-employees are measured at the fair value of the equity instruments granted, as the fair market value of the services received cannot be reliably measured. The fair value of non-employee stock options was recalculated using the following assumptions:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Risk-free interest rate | 1.93% | 1.73% | 0.84% |
| Expected volatility* | 61.50% | 64.13% | 71.07% |
| Expected life | 3 Years | 5 Years | 5 years |
| Expected dividends | Nil | Nil | Nil |
| Weighted average grant date fair value | $0.26 | $0.24 | $0.24 |
| Weighted average exercise price | $0.50 | $0.50 | $0.50 |
| Forfeiture rate | 18% | 18% | 18% |

For the year ended December 31, 2018, the Company recognized stock-based compensation expense of $180,959 (2017 - $494,191, 2016 - $491,482) for stock options issued to directors, officers, employees and consultants, of which $153,091 is included in administrative expenses, $1,888 in selling expenses and $25,980 is included in research and development expenses.

*Based on historical volatility

**Stated in Canadian Dollars**

## 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 January 1, 2016 | 20,526,940 | | 2,392,343 |
| Issued with shares | 14,763,599 | 0.38 | 1,204,053 |
| Outstanding December 31, 2016 | 35,290,539 | | 3,596,396 |
| Exercised | (5,197,500) | 0.38 | (352,389) |
| Expired | (482,500) | 0.38 | (13,582) |
| Outstanding December 31, 2017 | 29,610,539 | | 3,210,866 |
| Issued with shares | 5,113,300 | 0.30 | 296,292 |
| Issued with shares | 3,165,009 | 0.50 | 313,266 |
| Exercised | (135,000) | 0.30 | (7,817) |
| **Outstanding December 31, 2018** | **37,753,848** | | **3,812,607** |

1) During 2017, 5,197,500 warrants were exercised. The share price at the exercise date was $0.38
2) During 2017, 482,500 warrants expired unexercised.
3) During 2018, 135,000 warrants were exercised. The share price at the exercise date was $0.30

The following table summarizes information on the common share purchase warrants outstanding as of December 31, 2018:

| 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 | 1.17 |
| $0.375 | 10,538,599 | - | - | - | 10,538,599 | 2.86 |
| $0.300 | - | - | 135,000 | 5,113,300 | 4,978,300 | 1.37 |
| $0.500 | - | - | - | 3,165,009 | 3,165,009 | 1.76 |
| | **29,610,539** | **-** | **135,000** | **8,278,309** | **37,753,848** | - |

## 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.

Stock options to purchase 5,770,000 (2017 - 10,310,000, 2016 - 7,410,000) common shares and common share purchase warrants totaling 37,753,848 (2017 - 29,610,539, 2016 - 35,290,539) were not included in the computation of diluted loss per common share due to their anti-dilutive nature.

**Stated in Canadian Dollars**

## 16. Selling Expenses

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

| | | 2018 | | 2017 | | 2016 |
|---|---|---|---|---|---|---|
| Sales salaries | $ | 542,033 | $ | 1,279,507 | $ | 946,319 |
| Advertising | | 100,754 | | 237,866 | | 300,931 |
| Commission | | 89,186 | | 121,117 | | 94,159 |
| Travel | | 55,922 | | 163,427 | | 193,718 |
| Stock based compensation | | 1,888 | | 13,413 | | 21,756 |
| Amortization and depreciation allocation | | 81,622 | | 101,776 | | 57,797 |
| **Total selling expenses** | **$** | **871,405** | **$** | **1,917,106** | **$** | **1,614,680** |

## 17. Administrative Expenses

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

| | | 2018 | | 2017 | | 2016 |
|---|---|---|---|---|---|---|
| Insurance | $ | 50,625 | $ | 105,590 | $ | 83,147 |
| Professional fees | | 412,633 | | 668,211 | | 304,249 |
| Rent | | 99,061 | | 108,781 | | 93,513 |
| General and administrative expenses | | 247,096 | | 548,566 | | 674,578 |
| Administrative salaries | | 692,428 | | 936,808 | | 865,465 |
| Director and advisory fees | | 42,629 | | 62,140 | | 82,896 |
| Stock based compensation | | 153,091 | | 429,120 | | 413,585 |
| Amortization and depreciation allocation | | 42,102 | | 52,954 | | 29,273 |
| **Total administrative expenses** | **$** | **1,739,665** | **$** | **2,912,170** | **$** | **2,546,706** |

## 18. Research and Development Expenses

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

| | | 2018 | | 2017 | | 2016 |
|---|---|---|---|---|---|---|
| Research and development (net of investment tax credit) | $ | 1,578,619 | $ | 2,502,107 | $ | 1,749,253 |
| Stock based compensation | | 25,980 | | 51,657 | | 56,142 |
| Amortization and depreciation allocation | | 99,204 | | 99,205 | | 62,226 |
| **Total research and development expenses** | **$** | **1,703,803** | **$** | **2,652,969** | **$** | **1,867,621** |

## 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 2018, an amount of $140,000 (2017 - $182,452 (2016 - $200,000) 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 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 December 31, 2018 and 2017, 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 December 31:

| | 2018 | 2017 |
|---|---|---|
| Trade receivables (net amount) | $ 549,689 | $ 719,569 |
| Percentage outstanding more than 30 days | 24% | 7% |
| Percentage outstanding more than 120 days | 23% | 7% |

**Stated in Canadian Dollars**

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

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Allowance for trade receivables - beginning of year | $ 133,453 | $ 139,627 | $ 139,627 |
| Allowance recorded against current year sales | - | 14,331 | - |
| Adjustment based on collection experience | (11,164) | 13,124 | 10,478 |
| Amounts written off | (28,277) | (33,629) | (10,478) |
| **Allowance for trade receivables - end of year** | **$ 94,012** | **$ 133,453** | **$ 139,627** |

### ii Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk by continuously monitoring forecasted and actual cash flows, as well as anticipated investing and financing activities. The Company does not have material long-term financial liabilities.

The table below reflects the contractual obligations of the Company's undiscounted cash flows for its financial liabilities:

| | | Payments Due by Period | | | | |
|---|---|---|---|---|---|---|
| **Contractual Obligations** | **Total** | **2019** | **2020** | **2021** | **2022** | **2023** |
| Payables and accruals | $ 2,565,780 | 2,565,780 | - | - | - | - |
| Commitments | $ 486,872 | $ 200,407 | $ 118,317 | $ 118,317 | $ 49,831 | $ - |
| Total contractual obligations | $ 3,052,652 | 2,766,187 | 118,317 | 118,317 | 49,831 | - |

The Company also has contractual obligations (note 23) in the form of lease obligations related to the Company's premises and research and development commitments.

### iii Interest rate risk

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

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

### iv Foreign currency exchange risk

The Company is exposed to foreign currency exchange risk. This risk arises from the Company's holdings of US dollar denominated cash, trade and other receivables and payables and accrued liabilities. Changes arising from this risk could impact the Company's reported foreign currency exchange gains or losses. Accounts exposed to foreign currency exchange risk as at December 31 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Cash | $ 24,057 | $ 89,734 |
| Trade and other receivables | 271,481 | 271,669 |
| Payables and accruals | (237,145) | (306,521) |
| **Total** | **$ 58,393** | **$ 54,882** |

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.

| | 2018 | 2017 |
|---|---|---|
| Cash | $ 2,406 | $ 8,973 |
| Trade and other receivables | 27,148 | 27,167 |
| Payables and accruals | (23,715) | (30,652) |
| **Total** | **$ 5,839** | **$ 5,488** |

## 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.

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Short-term compensation | $792,788 | $700,000 | $700,000 |
| Stock-based compensation | 133,353 | 367,510 | 322,376 |
| **Total** | **$926,141** | **$1,067,510** | **$1,022,376** |

Key management personnel were not paid post-employment benefits, termination benefits or other long term benefits during the years ended December 31, 2018, 2017 and 2016. Fees paid to directors have been disclosed in note 17.

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

**Stated in Canadian Dollars**

## 22. Segmented Information

For management purposes, the Company is organized into two separate reportable operating divisions; (1) Anti-Cancer Therapy ("**ACT**") division and (2) Medical Laser Technology ("**MLT**") division. The ACT 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 medical laser business, which researches, develops, commercializes and manufactures lasers used by the ACT division to activate PDCs and healthcare practitioners predominantly for the healing of pain.

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

| | 2018 | | | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|---|---|---|
| | MLT | ACT | Total | MLT | ACT | Total | MLT | ACT | Total |
| Sales | $ 1,734,072 | $ - | $ 1,734,072 | $ 2,342,508 | $ - | $ 2,342,508 | $ 1,918,893 | $ - | $ 1,918,893 |
| Cost of Sales | 786,433 | - | 786,433 | 945,010 | - | 945,010 | 796,569 | - | 796,569 |
| Gross Margin | 947,639 | - | 947,639 | 1,397,498 | - | 1,397,498 | 1,122,324 | - | 1,122,324 |
| **Operating Expenses** | | | | | | | | | |
| Selling expenses | 871,405 | - | 871,405 | 1,917,106 | - | 1,917,106 | 1,614,680 | - | 1,614,680 |
| Administrative expenses | 1,157,101 | 582,564 | 1,739,665 | 1,760,660 | 1,151,510 | 2,912,170 | 1,278,647 | 1,268,059 | 2,546,706 |
| Research and development expenses | 255,011 | 1,448,792 | 1,703,803 | 817,621 | 1,835,348 | 2,652,969 | 337,296 | 1,530,325 | 1,867,621 |
| (Gain) loss on foreign exchange | 3,803 | 3,803 | 7,606 | 7,688 | 7,688 | 15,376 | 14,898 | 14,898 | 29,796 |
| Interest expense | 331 | 332 | 663 | 43 | 44 | 87 | 99 | 99 | 198 |
| Interest income | (18,626) | - | (18,626) | (6,614) | - | (6,614) | (15,429) | - | (15,429) |
| | 2,269,025 | 2,035,491 | 4,304,516 | 4,496,504 | 2,994,590 | 7,491,094 | 3,230,191 | 2,813,381 | 6,043,572 |
| Loss for the period | $ (1,321,386) | $ (2,035,491) | $ (3,356,877) | $ (3,099,006) | $ (2,994,590) | $ (6,093,596) | $ (2,107,867) | $ (2,813,381) | $ (4,921,248) |
| Total Assets | $ 3,356,309 | $ 208,110 | $ 3,564,419 | $ 3,041,611 | $ 281,096 | $ 3,322,707 | $ 5,951,273 | $ 289,510 | $ 6,240,783 |
| Total Liabilities | 2,181,850 | 383,930 | 2,565,780 | 1,022,023 | 255,119 | 1,277,142 | 495,497 | 54,245 | 549,742 |

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

| | 2018 | | | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Canada | USA | International | Canada | USA | International | Canada | USA | International |
| Sales | $ 1,205,312 | $ 304,785 | $ 223,975 | $ 1,942,010 | $ 261,833 | $ 138,665 | $ 1,423,181 | $ 416,812 | $ 78,900 |
| Cost of Sales | 559,701 | 128,229 | 98,503 | 798,322 | 98,697 | 47,991 | 590,789 | 173,027 | 32,753 |
| Selling Expenses | 603,430 | 139,924 | 128,051 | 1,432,315 | 390,989 | 93,802 | 1,305,151 | 309,529 | - |
| | **$ 42,181** | **$ 36,632** | **$ (2,579)** | **$ (288,627)** | **$ (227,853)** | **$ (3,128)** | **$ (472,759)** | **$ (65,744)** | **$ 46,147** |

As at December 31, 2018, 2017 and 2016, the Company's long-lived assets used in operations are all located in Canada.

## 23. Commitments

The Company's commitments consist of the following:

| | Total | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| Lease obligations (a) | $ 227,312 | 57,887 | 59,797 | 59,797 | 49,831 | - |
| Research Commitments (b) | $ 175,560 | 58,520 | 58,520 | 58,520 | - | - |
| Research Agreement (c) | $ 84,000 | 84,000 | - | - | - | - |
| **Total** | **$ 486,872** | **$ 200,407** | **$ 118,317** | **$ 118,317** | **$ 49,831** | **-** |

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

b) 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 $173,040 relating to this commitment, in which $175,560 is the remaining commitment.

c) 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 $44,800 relating to this commitment, in which $84,000 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.

## 24. Subsequent Events

On January 9, 2019, the Company closed a non-brokered private placement of Units. On closing, the Company issued an aggregate of 4,095,157 Units at a price of $0.35 per Unit for aggregate gross proceeds of approximately $1,433,305 ($1,201,396 received in 2018, see note 9) of which 542,857 Units were purchased by certain insiders of the Company. Each Unit consists of one common share of the Company and one non-transferable common share purchase warrant (each, a "**Warrant**"). Each Warrant entitles the holder to acquire an additional common share at a price of $0.50 for a period of 24 months following the date of issuance.

Between the period of January 1, 2109 to April 12, 2019, the Company issued 6,209,300 common shares for exercises of warrants and received $2,192,040.