Theralase Technologies Inc.

Audited Consolidated Financial Statements

As at December 31, 2022 and 2021

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 statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of operations, consolidated statements of changes in equity and consolidated statement of cash flows for the years 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, 2022 and 2021, and its consolidated statements of operations and its consolidated cash flows for the years 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

We draw attention to Note 1 in the financial statements, which indicates that the Company incurred a net loss of $5,235,302 during the year ended December 31, 2022 and, as at that date, an accumulated deficit of $58,451,686. These events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a while, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matter described in the Material Uncertainty Related to Going Concern section, we have determined that there are no other key audit matters to communicate in our auditor’s report.

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[1]

Montréal, Québec
April 26, 2023

[1]CPA auditor, public accountancy permit No. A112505

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, 2022 and 2021.

[*signed*]
Dr. Arkady Mandel
Interim Chief Executive Officer / Chief Scientific Officer
Theralase Technologies Inc.

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

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Financial Position
As at December 31
Stated in Canadian Dollars

	Note		2022		2021
Assets					
Current assets					
Cash and cash equivalents		**$**	**1,508,617**	$	3,691,659
Trade and other receivables	4		**295,668**		283,262
Net investment in lease	5		**140,943**		16,774
Inventories	6		**485,535**		566,186
Prepaid expenses and other assets			**70,106**		440,209
Total current assets			**2,500,869**		4,998,090
Non-current assets					
Trade receivables	4		**-**		9,372
Net investment in lease	5		**553,261**		71,599
Property and equipment	6		**660,803**		827,186
Right-of-use-assets	8		**445,971**		38,739
Total non-current assets			**1,660,035**		946,896
Total Assets		**$**	**4,160,904**	$	5,944,986
Liabilities					
Current liabilities					
Payables and accruals	9	**$**	**594,713**	$	839,070
Current portion of lease liabilities	8		**86,744**		35,724
Total current liabilities			**681,457**		874,794
Non-current liabilities					
Lease liabilities	8		**386,879**		-
Total non-current liabilities			**386,879**		-
Total Liabilities			**1,068,336**		874,794
Equity attributable to shareholders					
Share capital	11,13		**44,527,135**		42,120,421
Contributed surplus	12,13		**11,374,205**		10,944,099
Common share purchase warrants	13		**5,642,914**		5,097,970
Accumulated deficit			**(58,451,686)**		(53,092,298)
Total Equity			**3,092,568**		5,070,192
Total Shareholders' Equity and Liabilities		**$**	**4,160,904**	$	5,944,986

Commitments (Note 23)
Subsequent events (Note 24)

Approved on Behalf of the Board

[Randy Bruder] Director

[Matthew Perraton] Director

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

THERALASE® TECHNOLOGIES INC.

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

	Note	2022	2021
Sales		$ 1,138,569	$ 780,641
Cost of sales		510,395	470,698
Gross margin		628,174	309,943
Operating expenses			
Selling expenses	16	301,359	363,886
Administrative expenses	17	1,277,253	1,562,867
Research and development expenses	18	4,281,106	2,924,733
Gain from legal settlement		(14,982)	(131,902)
Loss on foreign exchange		28,152	18,740
Interest accretion on lease liabilities	8	21,249	5,342
Interest income		(30,661)	(22,662)
		5,863,476	4,721,004
Net loss and comprehensive loss for the period		$ (5,235,302)	$ (4,411,061)
Basic and diluted loss per common share	15	(0.025)	(0.022)
Weighted average number of common shares		207,924,313	204,275,875

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

THERALASE® TECHNOLOGIES INC.

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

	2022	2021
Cash flows from operating activities		
Net loss and comprehensive loss for the period	**$ (5,235,302)**	$ (4,411,061)
Items not involving cash:		
Amortization of property and equipment	**236,795**	224,896
Amortization of right-of-use assets	**76,436**	51,254
Stock-based compensation expense	**191,666**	318,354
Loss on foreign exchange	**28,152**	18,740
Interest accretion from lease liabilities	**21,249**	5,342
	(4,681,004)	(3,792,475)
Change in operating assets and liabilities other than cash:		
Current trade and other receivables	**(40,558)**	183,236
Non-current trade receivables	**9,372**	45,953
Net investment in leases	**(605,831)**	(88,373)
Inventories	**80,651**	(113,948)
Prepaid expenses and other assets	**370,103**	(333,722)
Payables and accruals	**(265,606)**	68,938
	(5,132,873)	(4,030,391)
Cash flows from investing activity		
Purchase of property and equipment	**(70,412)**	(100,824)
	(70,412)	(100,824)
Cash flows from financing activities		
Payment of lease liabilities	**(45,769)**	(56,619)
Warrant extension costs	**(750)**	(750)
Proceeds from private placement (net of issuance costs)	**2,721,762**	-
Proceeds from the exercise of share warrants	**345,000**	-
	3,020,243	(57,369)
Decrease in cash and cash equivalents during the period	**(2,183,042)**	(4,188,584)
Cash and cash equivalents, beginning of period	**3,691,659**	7,880,243
Cash and cash equivalents, end of period	**$ 1,508,617**	$ 3,691,659
Supplementary Information		
Interest received	**$ 30,661**	$ 22,662

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Changes in Equity
For the years 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, 2020		204,275,875	42,120,421	10,254,440	5,295,255	(48,506,467)	9,163,649
Stock-based compensation expense	12	-	-	318,354	-	-	318,354
Expired warrants	13	-	-	371,305	(371,305)	-	-
Extension of warrants	13	-	-	-	174,770	(174,770)	-
Warrants extension costs	13	-	-	-	(750)	-	(750)
Net loss and comprehensive loss for the period		-	-	-	-	(4,411,061)	(4,411,061)
Balance, December 31, 2021		204,275,875	42,120,421	10,944,099	5,097,970	(53,092,298)	5,070,192
Balance, December 31, 2021		**204,275,875**	**42,120,421**	**10,944,099**	**5,097,970**	**(53,092,298)**	**5,070,192**
Stock-based compensation expense	12	**-**	**-**	**191,666**	**-**	**-**	**191,666**
Exercised warrants	13	**1,150,000**	**481,489**	**-**	**(136,489)**	**-**	**345,000**
Expired warrants	13	**-**	**-**	**238,440**	**(238,440)**	**-**	**-**
Extension of warrants	13	**-**	**-**	**-**	**124,086**	**(124,086)**	**-**
Warrants extension costs	13	**-**	**-**	**-**	**(750)**		**(750)**
Issued pursuant to private placement	11	**11,000,000**	**1,940,613**	**-**	**809,387**	**-**	**2,750,000**
Transaction cost on private placement	11	**76,800**	**(15,388)**	**-**	**(12,850)**	**-**	**(28,238)**
Net loss and comprehensive loss for the period		**-**	**-**	**-**	**-**	**(5,235,302)**	**(5,235,302)**
Balance, December 31, 2022		**216,502,675**	**44,527,135**	**11,374,205**	**5,642,914**	**(58,451,686)**	**3,092,568**

1. Nature of Operations

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

The Anti-Cancer Therapy ("**ACT**") 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, bacteria and viruses. The Cool Laser Therapy ("**CLT**") 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, 2022, the Company had a net loss of $5,235,302 (2021 - $4,411,061), an accumulated deficit of $58,451,686 (2021 -$53,092,298) 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'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-2000, the Company's existing product line 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 the Company will require additional capital to continue to research and develop its ACT technology and market its CLT products as it continues to develop sales opportunities. The Company is currently seeking new financing opportunities and intends to complete a financing round in Q2 2023. The Company has successfully raised capital through equity offerings in 2022 and 2019 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 continues to monitor closely its expenses and is postponing or cancelling any non-essential expenses in order to preserve cash resources until new financing is obtained. These material uncertainties may cast significant doubt about the Company's ability to continue as a going concern.

1. Nature of Operations (continued)

Management believes the Company will continue in operation for the foreseeable future and will be able to secure additional financing to satisfy its liabilities and commitments in the normal course of business, and accordingly, it is appropriate to prepare these consolidated financial statements on a going concern basis.

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, 2022 (including comparatives) were approved and authorized for issue by the board of directors on April 25, 2023.

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 notes 11 and 12).

- 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

2. Summary of Significant Accounting Policies (continued)

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 credit losses - 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 19).

- 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.

- 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 and lease receipts to measure the present value of the lease liability and lease asset 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.

2. Summary of Significant Accounting Policies (continued)

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.

2. Summary of Significant Accounting Policies (continued)

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.

2. Summary of Significant Accounting Policies (continued)

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.

Impairment of assets

Items of property and equipment, right of use assets, 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, right of use assets, 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

2. Summary of Significant Accounting Policies (continued)

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 Assets
At the commencement date of the lease, the Company recognizes net investment in leases measured at the present value of lease receipts to be received over the lease term. The lease receipts include fixed receipts (including in-substance fixed receipts) less any lease incentives payables, variable lease receipts that depend on an index or a rate. The variable lease receipts that do not depend on an index or a rate are recognized as revenue in the period on which the event or condition that triggers the payment occurs. In calculating the present value of lease investments, the Company uses the fair value of the product sold to determine the interest rate implicit in the lease at the commencement date of the lease. After the commencement date, the amount of lease receivables is decreased to reflect the accretion of interest and reduced for the lease receipts collected. Interest accretion is recorded as interest revenue in interest income. In addition, the carrying amount of lease receivables is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease receipts.

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.

2. Summary of Significant Accounting Policies (continued)

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.

Government assistance toward current expenses, including salaries, is recognized as a reduction of the corresponding expenses at the time they are incurred, provided there is a reasonable assurance that the Company has complied and will continue to comply with all the conditions of the government assistance.

Share-based payment

The share-based payment plan, described in note 10, 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.

2. Summary of Significant Accounting Policies (continued)

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. A long-term receivable is recognized based on the financing terms.

The Company is also selling products under a finance lease with payment term of 60 months. When acting as a lessor, the Company determines at lease inception whether each lease is a finance or operating lease. To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset. If the arrangement contains lease and non-lease components, the Company applies IFRS 15 to allocate the consideration in the contracts.

The Company's obligation to provide a refund for faulty products under the standard warranty terms is recognized as a provision.

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.

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. Future Change in Accounting Policies

Amendments to IAS 1 and IFRS Practice Statement 2

The amendments to IAS 1 and IFRS Practice Statement 2 affect only the accounting policy disclosures. The amendments clarify the definition of 'material' in a context of disclosing accounting policy information. Entities should carefully consider whether 'standardized information, or information that only duplicates or summarizes the requirements of the IFRSs' is material information and, if not, whether it should be removed from the accounting policy disclosures to enhance the usefulness of the financial statements. The amendments are applied retrospectively for annual periods beginning on or after January 1, 2023, with early application permitted.

Amendments to IAS 1 - Classification of Liabilities as Current or Non-Current

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are applied retrospectively for annual periods beginning on or after January 1, 2023, with early application permitted.

The Company will not be impacted by these amendments.

4. Trade and Other Receivables

		2022		2021
Trade receivable (net amount)	**$**	**54,948**	$	78,804
Government tax credits receivable		**240,720**		213,830
Total		**295,668**		292,634
Less: Non-current trade receivables		**-**		(9,372)
Total	**$**	**295,668**	$	283,262

Write offs of trade receivables for the year ended December 31, 2022 amounted to $4,226 which were previously provided for (2021 - $41,685). Refer to note 20 (i) for the continuity schedule of allowance for trade receivables.

Government tax credits receivable comprise of research and development investment tax credits from the federal government. Research and development tax credits receivable total $188,000 for the year ended December 31, 2022 (2021 - $182,000) and has been allocated against research and development expenses in 2022.

The Company's exposure to credit and currency risks related to trade and other receivables is presented in note 20.

Stated in Canadian Dollars

5. Net Investment in Leases

Net investment in leases represent amounts owing from customers to whom the Company sold products under a finance lease with payment term of 60 months. Investment in lease receivables is 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.

		2022		2021
Lease beginning balance	**$**	**88,373**	$	-
New leases for the period		**676,288**		90,010
Interest charge for the period[1]		**10,759**		-
Lease payments for the period[2]		**(81,216)**		(1,637)
Total	**$**	**694,204**	$	88,373

1) Lease investments are discounted using prime rate at time of inception.
2) Lease investments does not include any variable payments of $0.50 per minute of use.

		2022		2021
Lease Investment (net amount)	**$**	**694,204**	$	88,373
Less: Non-current lease investment		**(553,261)**		(71,599)
Total	**$**	**140,943**	$	16,774

Principal receivables of the Company's investment in leases until maturity are as follows:

2023	$	140,943
2024		149,836
2025		157,398
2026		162,601
2027		83,426
Total	**$**	**694,204**

6. Inventories

		2022		2021
Raw materials	**$**	**199,557**	$	237,815
Finished goods		**285,978**		328,371
Total	**$**	**485,535**	$	566,186

During the year, inventories amounting to $244,077 (2021 - $193,097) were incurred as expense in cost of sales in the Statements of Operations. In 2022, there were inventories written-off amounting to $4,799 (2021 - $126,151) and an inventory provision of $74,862 (2021 - $78,003).

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, 2021	$ 174,140	$ 278,145	$ 71,224	$ 134,342	$ 943,067	$ 250,608	$ 1,851,526
Additions	22,273	-	2,293	1,500	63,584	11,174	100,824
Balance at December 31, 2021	196,413	278,145	73,517	135,842	1,006,651	261,782	1,952,350
Balance at January 1, 2022	**$ 196,413**	**$ 278,145**	**$ 73,517**	**$ 135,842**	**$ 1,006,651**	**$ 261,782**	**$ 1,952,350**
Additions	**182**	**-**	**11,926**	**57,348**	**614**	**342**	**70,412**
Balance at December 31, 2022	**$ 196,595**	**$ 278,145**	**$ 85,443**	**$ 193,190**	**$ 1,007,265**	**$ 262,124**	**$ 2,022,762**
Depreciation							
Balance at January 1, 2021	$ 132,190	$ 187,362	$ 37,999	$ 103,754	$ 291,327	$ 147,636	$ 900,268
Depreciation for the year	15,672	27,235	6,715	23,437	100,152	51,685	224,896
Balance at December 31, 2021	147,862	214,597	44,714	127,191	391,479	199,321	1,125,164
Balance at January 1, 2022	**$ 147,862**	**$ 214,597**	**$ 44,714**	**$ 127,191**	**$ 391,479**	**$ 199,321**	**$ 1,125,164**
Depreciation for the period	**12,156**	**19,065**	**6,152**	**7,973**	**144,514**	**46,935**	**236,795**
Balance at December 31, 2022	**$ 160,018**	**$ 233,662**	**$ 50,866**	**$ 135,164**	**$ 535,993**	**$ 246,256**	**$ 1,361,959**
Carrying Amounts							
At December 31, 2021	$ 48,551	$ 63,548	$ 28,803	$ 8,651	$ 615,172	$ 62,461	$ 827,186
At December 31, 2022	**$ 36,577**	**$ 44,483**	**$ 34,577**	**$ 58,026**	**$ 471,272**	**$ 15,868**	**$ 660,803**

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

In 2022, there was amortization included in cost of sales amounting to $35,044 (2021 - $29,302). As at December 31, 2022, research and development equipment included assets not available for use with a cost of $nil (2021 - $198,686).

8. Lease Liabilities and Right-of-use-Assets

	Property	Office Equipment	Total
Right-of-use Assets			
Balance at January 1, 2021	$ 86,557	$ 3,436	$ 89,993
Depreciation charge for the period	49,461	1,793	51,254
Balance at December31, 2021	$ 37,096	$ 1,643	$ 38,739
Balance at January 1, 2022	**$ 37,096**	**$ 1,643**	**$ 38,739**
Addition	**477,091**	**6,577**	**483,668**
Depreciation charge for the period	**74,594**	**1,842**	**76,436**
Balance at December 31, 2022	**$ 439,593**	**$ 6,378**	**$ 445,971**

Stated in Canadian Dollars

8. Lease Liabilities and Right-of-use-Assets (continued)

		Property		Office Equipment		Total
Lease Liabilities						
Balance at January 1, 2021	$	88,830	$	3,513	$	92,343
Interest charge for the period		5,131		211		5,342
Lease payments for the period [1]		(59,800)		(2,161)		(61,961)
Balance at December31, 2021	$	34,161	$	1,563	$	35,724
Balance at January 1, 2022	**$**	**34,161**	**$**	**1,563**	**$**	**35,724**
Addition		**485,822**		**6,576**		**492,398**
Interest charge for the period		**20,730**		**519**		**21,249**
Lease payments for the period [1]		**(73,600)**		**(2,148)**		**(75,748)**
Balance at December 31, 2022	**$**	**467,113**	**$**	**6,510**	**$**	**473,623**

1) Lease payments are discounted using an incremental borrowing rate of 7%.
2) Lease payments does not include variable property lease payments of $47,095 (2021 - $39,549).

		2022						2021				
		Property		**Office Equipment**		**Total**		Property		Office Equipment		Total
Current portion of lease liabilities	**$**	**84,996**	**$**	**1,748**	**$**	**86,744**	$	34,161	$	1,563	$	35,724
Non-current portion of lease liabilities		**382,117**		**4,762**		**386,879**		-		-		-
	$	**467,113**	**$**	**6,510**	**$**	**473,623**	$	34,161	$	1,563	$	35,724

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

		Property		Office Equipment
2023	$	84,996	$	1,748
2024		91,139		1,874
2025		98,306		2,009
2026		107,209		879
2027		85,463		-
	$	**467,113**	**$**	**6,510**

9. Payables and Accruals

		2022		2021
Trade payables	**$**	**327,887**	$	496,412
Salaries, employment taxes, and benefits		**102,280**		211,877
Director fees		**12,500**		-
Accrued liabilities		**152,046**		130,781
Total	**$**	**594,713**	$	839,070

Stated in Canadian Dollars

10. Income Taxes

		2022		2021
Current income taxes				
Loss before income taxes	**$**	**(5,235,302)**	$	(4,411,061)
Combined Federal and Provincial tax rate		**26.50%**		26.50%
Recovery of tax at statutory tax rate	**$**	**(1,387,355)**	$	(1,168,931)
Permanent differences		**52,249**		85,341
Federal and provincial investment tax credits		**(387,942)**		(376,348)
True-up adjustment		**673,458**		(712,657)
Change in unrecognized deferred tax asset		**1,049,590**		2,172,595
Deferred income tax recovery	**$**	**-**	**$**	**-**
Deferred Income tax assets				
Non-capital loss carry forwards	**$**	**6,812,635**	$	6,287,953
Property and equipment		**503,478**		425,439
Share issuance costs		**90,611**		171,257
Patents and trademarks		**43,235**		43,235
Development costs		**5,144,273**		4,703,013
Federal and provincial investment tax credits		**4,152,411**		4,066,156
Reserves		**(265)**		(265)
Deferred income tax assets	**$**	**16,746,378**	$	15,696,788
Net future deferred income tax assets		**16,746,378**		15,696,788
Less: unrecognized deferred tax asset		**(16,746,378)**		(15,696,788)
Deferred income tax assets	**$**	**-**	**$**	**-**

Stated in Canadian Dollars

10. Income Taxes (continued)

Non-capital loss carry-forwards

The Company has non-capital losses available for carry forward of approximately $25,708,056 (2021 - $23,728,124). The income tax benefit of this income tax recovery has not been recorded. These non-capital losses will expire as follows:

2026	$	93,224
2027		145,746
2028		351,013
2029		1,309,103
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		4,392,339
2040		2,844,830
2041		2,334,056
2042		1,263,741
		25,708,056

As at December 31, 2022, the Company had approximately $4,152,411 (2021 - $4,066,156) of unused federal and provincial tax credits that are not recognized in the consolidated financial statements. Those unused tax credits will expire between 2021 and 2042.

The Company also has undeducted research and development expenses of $19,412,356 (2021 - $17,747,222) with no expiration date.

11. Private Placement

On September 22, 2022, the Company completed a financing by way of a non-brokered private placement, where 10,000,000 units were issued at a price of $0.25 per unit for gross proceeds of $2,500,000. 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 $0.35, expiring on September 22, 2024. An aggregate of 2,400,000 Units, representing gross proceeds of $600,000, were issued to certain insiders of the Corporation.

In connection with the offering, the Company incurred financing costs of $45,946 of which $24,920 was paid in cash, $19,200 was paid through the issuance of 76,800 common shares and $1,826 was paid through issuance

Stated in Canadian Dollars

11. Private Placement (Continued)

of 58,734 broker warrants. Each broker warrant is exercisable into one common share at an exercise price of $0.35 per share for a period of 60 months after the closing of the offering.

The purchase price of $0.25 per unit was allocated between the common shares ($0.18 per share) and common share purchase warrants ($0.07 per warrant), based on their relative fair values. Management determined that the allocation of the net proceeds of $2,475,080 was $1,747,106 for the common shares issued and $727,974 for the common share purchase warrants issued.

On November 17, 2022, the Company completed a financing by way of a non-brokered private placement, where 1,000,000 units were issued at a price of $0.25 per unit for gross proceeds of $250,000. 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 $0.35, expiring on November 17, 2024. An aggregate of 511,000 units, representing gross proceeds of $127,750, were issued to certain insiders of the Corporation.

In connection with the offering, the Company incurred financing costs of $3,390 of which $3,318 was paid in cash, $72 was paid through issuance of 2,700 broker warrants. Each broker warrant is exercisable into one common share at an exercise price of $0.35 per share for a period of 60 months after the closing of the offering.

The purchase price of $0.25 per unit was allocated between the common shares ($0.18 per share) and common share purchase warrants ($0.07 per warrant), based on their relative fair values. Management determined that the allocation of the net proceeds of 246,683 was $178,119 for the common shares issued and $68,564 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:

	November 17, 2022	**September 22, 2022**
Expected volatility (based on historical share prices)	85.82%	92.58%
Risk-free interest rate	3.93%	3.78%
Expected life	2 Years	2 Years
Expected dividends	Nil	Nil
Strike Price	$0.35	$0.35
Share Price	$0.25	$0.25

12. Stock Options

The Company has a rolling stock option plan reserving for issue under this plan up to 10% (21,650,267 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.

Stated in Canadian Dollars

12. Stock Options (continued)

A summary of stock options issued under the stock option plan for years ended December 31, 2022 and 2021 is provided below.

	Common shares under option	**Weighted average exercised price $**
Outstanding, December 31, 2020	14,415,000	0.33
Forfeited during year[1]	(1,035,000)	0.50
Expired during year[2]	(10,000)	0.50
Outstanding, December 31, 2021	13,370,000	0.31
Option grant during period[3]	**7,970,000**	**0.25**
Forfeited during period[4]	**(170,000)**	**0.50**
Expired during period[5]	**(3,020,000)**	**0.50**
Outstanding, December 31, 2022	**18,150,000**	**0.25**

1) During 2021, certain employees were terminated and/or resigned from the employment of the Company and forfeited all non-vested options and non-exercised totaling 1,035,000.
2) On April 3, 2021 certain stock options previously issued to employees and consultants expired totaling 10,000.
3) During 2022, options were granted to certain officers, employees, directors and consultants of the Company totaling 7,970,000.
4) During 2022, certain employees and consultants were terminated and/or resigned from the employment of the Company and forfeited all non-vested options totaling 170,000.
5) During 2022, options to certain employees and consultants expired unexercised totaling 3,020,000.

The following table summarizes information on the stock options outstanding as at December 31, 2022:

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 $**
10,280,000	1.69	0.26	10,280,000	0.26
10,000	4.16	0.50	-	0.50
7,860,000	4.88	0.25	-	0.25
18,150,000			**10,280,000**	

Under the stock option plan, the stock options vest over a three year period, commencing one year after the grant. As at December 31, 2022, 10,280,000 of the stock options were vested. All outstanding stock options as at December 31, 2022 will be fully vested by November 17, 2025.

Stated in Canadian Dollars

12. Stock Options (continued)

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:

	2022
Risk-free interest rate	2.46%
Expected volatility*	69.30%
Expected life	5 years
Expected dividends	Nil
Weighted average grant date fair value	$0.14
Weighted average exercise price	$0.50
Forfeiture rate	33%

* Based on historical volatility

For the year ended December 31, 2022, the Company recognized stock-based compensation expense of $191,666 (2021 - $318,354) for stock options issued to directors, officers, employees and consultants, of which $76,660 (2021 - $205,360) is included in administrative expenses, $nil (2021 - $351) in selling expenses and $115,006 (2021 - $112,613) is included in research and development expenses. The remaining stock based compensation amount to be expensed on non-vested options, net of forfeiture, is $916,734 (2021 - $115,228).

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, 2020	72,473,431	-	5,295,255
Extended	-	-	174,770
Extension Costs	-	-	(750)
Expired[1]	(4,555,266)	0.375	(371,305)
Outstanding December 31, 2021	67,918,165		5,097,970
Exercised[2]	**(1,150,000)**	**0.30**	**(136,489)**
Expired[3]	**(2,016,949)**	**0.30**	**(238,440)**
Extended	**-**	-	**124,086**
Extension Costs	**-**	-	**(750)**
Granted[4]	**11,061,434**	**0.35**	**796,537**
Outstanding December 31, 2022	**75,812,650**		**5,642,914**

1) During 2021, 4,555,266 warrants expired
2) During 2022, 1,150,000 warrants were exercised. The share price at the exercise date was $0.45
3) During 2022, 2,016,949 warrants expired
4) During 2022, 11,061,434 warrants were granted at an exercise price of $0.35 (note 11)

Stated in Canadian Dollars

13. Common Share Purchase Warrants (continued)

The following table summarizes information on the common share purchase warrants outstanding for the year ended December 31, 2022:

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)
$0.300	3,159,000	2,009,000	1,150,000	-	-	-
$0.500	3,165,008	7,949	-	-	3,157,059	0.76
$0.500	4,095,157	-	-	-	4,095,157	0.02
$0.350	57,499,000	-	-	-	57,499,000	1.64
$0.350	-	-	-	10,058,734	10,058,734	1.73
$0.350	-	-	-	1,002,700	1,002,700	1.88
	67,918,165	**2,016,949**	**1,150,000**	**11,061,434**	**75,812,650**	1.53

On September 29, 2022, the Board of Directors of the Company extended the expiry date of 3,157,059 share purchase warrants issued on October 3, 2018 by a year to October 3, 2023. The estimated fair value of the warrant extension is $119,228 which has been recognized under common share purchase warrants and the deficit. The fair value was estimated using the Black-Scholes model calculated for the difference between the extended period and the remaining period when the decision was taken to extend the warrants. The assumptions used were as follows for the two periods respectively: no expected dividend yield, 83.65% and 82.71% expected volatility, 3.76% and 0.24% risk-free interest rate and 1 and 0.005 years warrant expected life. Warrant extension expenses totaling $750 were allocated to these common share purchase warrants.

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 year presented in the audited consolidated financial statements.

Stock options to purchase 18,150,000 (2021 – 13,370,000) common shares and common share purchase warrants totaling 75,812,650 (2021 – 67,918,165) were not included in the computation of diluted loss and comprehensive 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 annual financial statements:

		2022		2021
Sales salaries	**$**	**199,160**	$	238,652
Advertising		**23,412**		47,998
Commission		**45,892**		36,027
Travel		**18,936**		12,801
Stock based compensation		**-**		351
Amortization and depreciation allocation		**13,959**		28,057
Total selling expenses	**$**	**301,359**	$	363,886

17. Administrative Expenses

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

		2022		2021
Insurance	**$**	**48,067**	$	51,448
Professional fees		**295,252**		463,199
Rent		**47,097**		39,549
General and administrative expenses		**249,162**		214,035
Administrative salaries		**462,136**		495,982
Director and advisory fees		**63,980**		44,163
Stock based compensation		**76,660**		205,390
Amortization and depreciation allocation		**34,899**		49,101
Total administrative expenses	**$**	**1,277,253**	$	1,562,867

18. Research and Development Expenses

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

		2022		2021
Research and development (net of investment tax credit)	**$**	**3,936,771**	$	2,642,430
Stock based compensation		**115,006**		112,613
Amortization and depreciation allocation		**229,329**		169,690
Total research and development expenses	**$**	**4,281,106**	$	2,924,733

Stated in Canadian Dollars

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 2022, an amount of $188,000 (2021 – $182,000) 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 statement of financial position.

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, 2022 and 2021, 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 expected credit losses, 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 expected credit losses 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:

	2022	2021
Trade receivables (net amount)	**$ 54,948**	$ 78,804
Percentage outstanding more than 30 days	**41%**	0%
Percentage outstanding more than 120 days	**5%**	0%

Stated in Canadian Dollars

20. Financial Instruments – Fair Value and Risks (continued)

The following table reflects the changes in the allowance for credit losses during the years ended December 31:

	2022	2021
Allowance for credit losses- beginning of period	**$ 14,405**	$ 41,685
Adjustment based on collection experience	**(1,596)**	14,405
Amounts written off	**(4,226)**	(41,685)
Allowance for credit losses - end of period	**$ 8,583**	$ 14,405

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**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**
Lease liabilities	$ 473,623	$ 86,744	$ 93,013	$ 100,315	$ 108,087	$ 85,464	$ -	$ -	$ -	$ -	$ -
Payables and accruals	594,713	594,713	-	-	-	-	-	-	-	-	-
Commitments (note 23)	354,542	240,067	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,100
Total contractual obligations	**$ 1,422,878**	**$ 921,524**	**$ 101,813**	**$ 109,115**	**$ 116,887**	**$ 94,264**	**$ 8,800**	**$ 8,800**	**$ 8,800**	**$ 8,800**	**$ 8,100**

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.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's exposure to interest rate risk is as follows:

Cash and cash equivalents	Short-term fixed and variable interest rate
Short-term investments	Short-term fixed interest rate
Financed trade receivables	Short-term and long-term fixed interest rate

Stated in Canadian Dollars

20. Financial Instruments – Fair Value and Risks (continued)

Based on the carrying amount of the Company's variable interest-bearing financial instruments as at December 31, 2022 , an assumed 0.5% increase or 0.5% decrease in interest rates during such period would have resulted in an increase/decrease of $11,000 in income, with all other variables held constant.

Management believes that the risk that the Company will realize a loss as a result of the decline in the fair value of its cash equivalents and short-term investments is limited because these investments have short-term maturities and are generally held to maturity.

The capacity of the Company to reinvest the short-term amounts with equivalent returns will be impacted by variations in short-term fixed interest rates available in the market.

Interest income presented in the consolidated statement of loss represents interest income on financial assets.

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:

		2022				2021		
		Canadian		**U.S.**		Canadian		U.S.
Cash	**$**	**(3,299)**	**$**	**(2,436)**	$	11,942	$	9,420
Trade and other receivables		**423**		**312**		6,821		5,380
Payables and accruals		**(151,851)**		**(112,117)**		(182,001)		(143,557)
Total	**$**	**(154,727)**	**$**	**(114,241)**	$	(163,238)	$	(128,757)

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.

		2022		2021
Cash	**$**	**(244)**	$	942
Trade and other receivables		**31**		538
Payables and accruals		**(11,212)**		(14,356)
Total	**$**	**(11,425)**	$	(12,876)

Stated in Canadian Dollars

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.

	2022	2021
Short-term compensation	$ 1,120,000	$ 1,186,615
Director fees	50,000	50,000
Stock-based compensation	187,804	306,079
Total	**$ 1,357,804**	$ 1,542,694

Key management personnel were not paid post-employment benefits, termination benefits or other long term benefits during the years ended December 31, 2022 and 2021.

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

On September 22, 2022, an aggregate of 2,400,000 Units, representing gross proceeds of $600,000, were issued to certain key management personnel and directors of the Corporation (refer to note 11).

On November 17, 2022 an aggregate of 511,000 units, representing gross proceeds of $127,750, were issued to certain key management personnel and directors of the Corporation (refer to note 11).

22. Segmented Information

For management purposes, the Company is organized into two separate reportable operating divisions; the Anti-Cancer Therapy (“**ACT**”) division and the Cool Laser Therapy (“**CLT**”) division. The ACT division is responsible for the research and development of PDCs primarily for the treatment of cancer with assistance from the CLT division to develop medical lasers to activate them. The CLT division is responsible for the Company’s medical laser business, which researches, develops, manufactures and distributes CLT systems to healthcare practitioners predominantly for the healing of pain.

Stated in Canadian Dollars

22. Segmented Information (continued)

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

	2022			2021		
	CLT	**ACT**	**Total**	CLT	ACT	Total
Sales	**$ 1,138,569**	**$ -**	**$ 1,138,569**	$ 780,641	$ -	$ 780,641
Cost of sales	**510,395**	**-**	**510,395**	470,698	-	470,698
Gross margin	**628,174**	**-**	**628,174**	309,943	-	309,943
Operating Expenses						
Selling expenses	**301,359**	**-**	**301,359**	363,886	-	363,886
Administrative expenses	**690,220**	**587,032**	**1,277,253**	753,115	809,752	1,562,867
Research and development expense:	**167,365**	**4,113,741**	**4,281,106**	308,708	2,616,025	2,924,733
(Gain) loss from legal settlement	**(14,982)**	**-**	**(14,982)**	(131,902)	-	(131,902)
Loss on foreign exchange	**14,076**	**12,807**	**28,152**	9,370	9,370	18,740
Interest accretion on lease liabilities	**10,625**	**10,624**	**21,249**	2,671	2,671	5,342
Interest income	**(15,331)**	**(15,330)**	**(30,661)**	(11,331)	(11,331)	(22,662)
	1,153,332	**4,708,874**	**5,863,476**	1,294,517	3,426,487	4,721,004
Loss for the period	**$ (525,158)**	**$ (4,708,874)**	**$ (5,235,302)**	$ (984,574)	$ (3,426,487)	$ (4,411,061)
Total Assets	**$ 2,155,936**	**$ 2,004,968**	**$ 4,160,904**	$ 1,820,223	$ 4,124,763	$ 5,944,986
Total Liabilities	**521,856**	**546,480**	**1,068,336**	335,592	539,202	874,794

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

	2022			2021		
	Canada	**USA**	**International**	Canada	USA	International
Sales by Product Line						
TLC-1000	**$ 120,635**	**$ 68,254**	**$ -**	$ 234,628	$ 14,811	$ -
TLC-2000	**887,206**	**43,787**	**18,687**	463,099	54,914	13,189
	1,007,841	**112,041**	**18,687**	697,727	69,725	13,189
Expenses						
Cost of Sales	**451,792**	**50,226**	**8,377**	420,704	42,042	7,952
Selling Expenses	**265,068**	**26,833**	**9,458**	323,119	27,019	13,748
	716,860	**77,059**	**17,835**	743,823	69,061	21,700
	$ 290,981	**$ 34,982**	**$ 852**	$ (46,096)	$ 664	$ (8,511)

As at December 31, 2022 and 2021, 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	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Research Commitments (a)	$ 24,969	$ 24,969	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Research Agreement (b)	216,095	101,620	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,100
Research Agreement (c)	113,478	113,478	-	-	-	-	-	-	-	-	-
Total	**$ 354,542**	**$ 240,067**	**$ 8,800**	**$ 8,800**	**$ 8,800**	**$ 8,800**	**$ 8,800**	**$ 8,800**	**$ 8,800**	**$ 8,800**	**$ 8,100**

a) Research Commitments under a research agreement with a Trial Management Organization for the TLC-3200 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 the end of the Phase II Clinical Study. The Company has paid $101,355 (USD$76,400) relating to this commitment, of which $24,969 (USD$20,400) is the remaining commitment.

b) Research Commitments under a research agreement with a Contract Manufacturer for the TLC-3200 cancer therapy project. Under the terms of this agreement, the Company is required to pay $499,100 for the period from April 29, 2021 through to November 15, 2032. The Company has paid $283,005 relating to this commitment, of which $216,095 is the remaining commitment.

c) Research Commitments under a research agreement with a Contract Manufacturer for the TLC-3200 cancer therapy project. Under the terms of this agreement, the Company is required to pay $1,351,918 (USD$1,079,865) for the period from April 29, 2021 through to April 29, 2023. The Company has paid $1,238,440 (USD$996,080) relating to this commitment, of which $113,478 (USD$83,785) is the remaining commitment.

24. Subsequent Events

On January 5, 2023, the Company extended the expiry date of 4,095,157 share purchase warrants, all of which are exercisable at $0.50 per share. The share purchase warrants were issued on January 9, 2019 pursuant to a private placement involving the issuance of 4,095,157 units of the Company. The new expiry date of the warrants is January 9, 2024.