

Theralase Technologies Inc.

Condensed Interim Consolidated Financial Statements - Unaudited

As at March 31, 2022 and for the three-month period ended March 31, 2022 and 2021

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Financial Position

As at March 31, 2022 and December 31, 2021

Stated in Canadian Dollars

	Note	2022	2021
Assets			
Current assets			
Cash and cash equivalents		\$ 2,583,790	\$ 3,691,659
Trade and other receivables	3	338,425	283,262
Net investment in lease	4	37,885	16,774
Inventories	5	536,598	566,186
Prepaid expenses and other assets		315,556	440,209
Total current assets		3,812,254	4,998,090
Non-current assets			
Trade receivables	3	6,913	9,372
Net investment in lease	4	169,509	71,599
Property and equipment	6	777,150	827,186
Right-of-use-assets	7	25,926	38,739
Total non-current assets		979,498	946,896
Total Assets		\$ 4,791,752	\$ 5,944,986
Liabilities			
Current liabilities			
Payables and accruals	8	\$ 1,313,910	\$ 839,070
Current portion of lease liabilities	7	20,850	35,724
Total current liabilities		1,334,760	874,794
Equity attributable to shareholders			
Share capital	11	42,174,106	42,120,421
Contributed surplus	9, 10	10,987,387	10,944,099
Common share purchase warrants	10	5,089,286	5,097,970
Accumulated deficit		(54,793,787)	(53,092,298)
Total Equity		3,456,992	5,070,192
Total Shareholders' Equity and Liabilities		\$ 4,791,752	\$ 5,944,986

Commitments (Note 19)

Subsequent Events (Note 21)

Approved on Behalf of the Board

[Randy Bruder]

Director

[Matthew Perraton]

Director

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Operations

For the three-month periods ended March 31

Stated in Canadian Dollars

	Note	2022	2021
Sales		\$ 211,662	\$ 124,783
Cost of sales		120,430	74,463
Gross margin		91,232	50,320
Operating expenses			
Selling expenses	13	87,640	95,780
Administrative expenses	14	418,087	418,454
Research and development expenses	15	1,298,035	589,567
(Gain) from legal settlement		-	(131,941)
(Gain) loss on foreign exchange		(7,229)	2,801
Interest accretion on lease liabilities	7	616	1,756
Interest income		(4,428)	(7,004)
		1,792,721	969,413
Net loss and comprehensive loss for the period		\$ (1,701,489)	\$ (919,093)
Basic and diluted loss per common share	12	(0.008)	(0.004)
Weighted average number of common shares		204,350,875	204,275,875

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Cash Flows

For the three-month periods ended March 31

Stated in Canadian Dollars

	2022	2021
Cash flows from operating activities		
Net loss for the period	\$ (1,701,489)	\$ (919,093)
Items not involving cash:		
Amortization of property and equipment	50,111	48,245
Amortization of right-of-use assets	12,814	12,813
Stock-based compensation expense	43,288	114,310
(Gain) loss on foreign exchange	(7,229)	2,801
Interest accretion from lease liabilities	616	1,756
	(1,601,889)	(739,167)
Change in operating assets and liabilities other than cash:		
Current trade and other receivables	(47,934)	(90,510)
Non-current trade receivables	2,459	10,891
Net investment in leases	(119,021)	-
Inventories	29,588	(122,146)
Prepaid expenses and other assets	124,653	(99,901)
Payables and accruals	474,224	(88,313)
	(1,137,920)	(1,129,145)
Cash flows from investing activity		
Purchase of property and equipment	(75)	(48,412)
	(75)	(48,412)
Cash flows from financing activities		
Payment of lease liabilities	(14,874)	(13,735)
Warrant extension costs	-	(750)
Proceeds from the exercise of share warrants	45,000	-
	30,126	(14,485)
Decrease in cash and cash equivalents during the period	(1,107,869)	(1,192,042)
Cash and cash equivalents, beginning of period	3,691,659	7,880,243
Cash and cash equivalents, end of period	\$ 2,583,790	\$ 6,688,201
Supplementary Information		
Interest Paid	\$ -	\$ -
Interest Received	\$ 4,428	\$ 7,004

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Changes in Equity

For the three-month periods ended March 31

Stated in Canadian Dollars

		Number of Shares	Share Capital	Contributed Surplus	Common Share Purchase Warrants	Deficit	Total Shareholders' Equity
	Note	#	\$	\$	\$	\$	\$
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	9	-	-	318,354	-	-	318,354
Expired Warrants	10	-	-	371,305	(371,305)	-	-
Extension of warrants	10	-	-	-	174,770	(174,770)	-
Warrants extension costs	10	-	-	-	(750)	-	(750)
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, 2020		204,275,875	42,120,421	10,944,099	5,097,970	(53,092,298)	5,070,192
Stock-based compensation expense	9	-	-	43,288	-	-	43,288
Exercised Warrants	10	150,000	53,685	-	(8,684)	-	45,000
Loss for the period		-	-	-	-	(1,701,489)	(1,701,489)
Balance, December 31, 2021		204,425,875	42,174,106	10,987,387	5,089,286	(54,793,787)	3,456,992

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month periods ended March 31, 2022 & 2021

Stated in Canadian Dollars

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

These interim condensed consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), effective for the reporting period ended March 31, 2022, and have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”. The interim condensed consolidated financial statements follow the same accounting policies and methods of application as those disclosed in the annual consolidated financial statements for the year ended December 31, 2021, but do not include all the information and disclosures required in the Company’s annual financial statements. The preparation of interim condensed consolidated financial statements in accordance with IAS 34 requires the use of certain accounting estimates, and also requires management to use judgement in applying the Company’s accounting policies. The areas that involve judgement and estimates have been disclosed in Note 2 of the Company’s 2021 annual consolidated financial statements. These interim condensed consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2021.

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

For the three-month period ended March 31, 2022, the Company had a net loss of \$1,701,489 (2021 - \$919,093), an accumulated deficit of \$54,793,787 (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 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 condensed interim 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

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month periods ended March 31, 2022 & 2021

Stated in Canadian Dollars

discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying condensed interim consolidated financial statements. These adjustments could be material.

The Company's objective is to maintain a sufficient capital base to support future research, development and strategic business initiatives allowing the Company to invest in its future and maintain investor, creditor and market confidence. Sales of the TLC-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, management is pursuing alternate financing sources to fund the Company's development and commercialization efforts. The Company has successfully raised capital through equity offerings in 2019 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 condensed interim consolidated financial statements for the three-month period ended March 31, 2022 (including comparatives) were approved and authorized for issue by the board of directors on May 30, 2022.

2. Summary of Significant Accounting Policies

Basis of presentation

These condensed interim consolidated financial statements, which are presented in Canadian Dollars (unless otherwise stated), have been prepared under the historical cost convention, as modified by the measurement at fair value of certain financial assets and financial liabilities. These condensed interim consolidated financial statements have been prepared using the same accounting policies and methods of computation followed in the Company's annual consolidated financial statements for the year ended December 31, 2021.

Basis of consolidation

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

Reclassification

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

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month periods ended March 31, 2022 & 2021

Stated in Canadian Dollars

3. Trade and Other Receivables

	As at March 31 2022	As at December 31, 2021
Trade receivable (net amount)	\$ 39,019	\$ 78,804
Government tax credits receivable	306,319	213,830
Total	345,338	292,634
Less: Non-current trade receivables	(6,913)	(9,372)
Total	\$ 338,425	\$ 283,262

Write offs of trade receivables for the three-month period ended amounted to \$nil which was previously provided for (2021 - \$nil). Refer to note 16 (i) for the continuity schedule of allowance for trade receivables.

Government tax credits receivable comprise of research and development investment tax credits and the Canada Emergency Wage Subsidy from the federal government which relate to qualifiable research and development expenditures under the applicable tax laws. Research and development tax credits receivable total \$236,999 for the three-month period ended March 31, 2022 (December 31, 2021 - \$182,000) and has been allocated against research and development expenses. The Canada Emergency Wage Subsidy receivable for the three month-period ending March 31, 2022 totals \$nil (December 31, 2021 - \$9,049) and is accounted for as a reduction of operating expenses and has been recognized as follows, \$nil (December 31, 2021 - \$1,017) against selling expenses, \$nil (December 31, 2021 - \$2,277) against administrative expenses, \$nil (December 31, 2021 - \$2,791) against cost of goods sold and \$nil (December 31, 2021 - \$2,964) against research and development expenses.

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

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

4. 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.

	As at March 31 2022	As at December 31, 2021
Lease beginning balance	\$ 88,373	\$ 90,010
New leases for the period	\$ 128,950	
Interest charge for the period ¹	1,183	-
Lease payments for the year ²	(11,112)	(1,637)
Total	\$ 207,394	\$ 88,373

1) Lease investments are discounted using a weighted average incremental borrowing rate of 4%.

2) Lease investments does not include any variable payments of \$0.50 per minute of use.

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month periods ended March 31, 2022 & 2021

Stated in Canadian Dollars

	As at March 31 2022	As at December 31, 2021
Lease investment (net amount)	\$ 207,394	\$ 88,373
Less: Non-current lease investment	(169,509)	(71,599)
Total	\$ 37,885	\$ 16,774

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

2022	\$ 27,711
2023	41,304
2024	43,311
2025	45,536
2026	46,303
2027	3,229
Total	\$ 207,394

5. Inventories

	As at March 31 2022	As at December 31, 2021
Raw materials	\$ 255,718	\$ 237,815
Finished goods	280,880	328,371
Total	\$ 536,598	\$ 566,186

During the three-month period, inventories amounting to \$47,602 (2021 - \$10,746) were incurred as expense in cost of sales in the Statements of Operations.

6. 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	-	-	-	-	75	-	75
Balance at March 31, 2022	\$ 196,413	\$ 278,145	\$ 73,517	\$ 135,842	\$ 1,006,726	\$ 261,782	\$ 1,952,425

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month periods ended March 31, 2022 & 2021

Stated in Canadian Dollars

Depreciation

	Tools and Dies	Computer Equipment	Furniture and Fixtures	Rental units ¹	Equipment	Leasehold Improvements	Total
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	2,993	4,701	1,420	2,287	25,800	12,910	50,111
Balance at March 31, 2022	\$ 150,855	\$ 219,298	\$ 46,134	\$ 129,478	\$ 417,279	\$ 212,231	\$ 1,175,275

Carrying Amounts

At December 31, 2022	\$ 48,551	\$ 63,548	\$ 28,803	\$ 8,651	\$ 615,172	\$ 62,461	\$ 827,186
At March 31, 2022	\$ 45,558	\$ 58,847	\$ 27,383	\$ 6,364	\$ 589,447	\$ 49,551	\$ 777,150

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

For the three-month period ended March 31, 2022, there was amortization included in cost of sales amounting to \$7,612 (2021 - \$6,730). As at March 31, 2022, research and development equipment included assets not available for use with a cost of \$198,686 (December 31, 2021 - \$198,686).

7. 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	12,365	448	12,813
Balance at March 31, 2021	\$ 74,192	\$ 2,988	\$ 77,180
Balance at January 1, 2022	\$ 37,097	\$ 1,643	\$ 38,740
Depreciation charge for the period	12,365	448	12,813
Balance at March 31, 2022	\$ 24,732	\$ 1,195	\$ 25,927
Lease Liabilities			
Balance at January 1, 2021	\$ 88,830	\$ 3,513	\$ 92,343
Interest charge for the period	1,689	67	1,756
Lease payments for the period ¹	(14,950)	(541)	(15,491)
Balance at March 31, 2021	\$ 75,569	\$ 3,039	\$ 78,608
Balance at January 1, 2022	\$ 34,161	\$ 1,563	\$ 35,724
Interest charge for the period	588	28	616
Lease payments for the period ¹	(14,950)	(540)	(15,490)
Balance at March 31, 2022	\$ 19,799	\$ 1,051	\$ 20,850

1) Lease payments are discounted using an incremental borrowing rate of 8%.
Lease payments does not include variable property lease payments of \$9,887 (2021 - \$9,887).

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month periods ended March 31, 2022 & 2021

Stated in Canadian Dollars

	As at March 31, 2022			As at December 31, 2021		
	Property	Office Equipment	Total	Property	Office Equipment	Total
Current portion of lease liabilities	\$ 19,799	\$ 1,051	\$ 20,850	\$ 34,161	\$ 1,563	\$ 35,724
Non-current portion of lease liabilities	-	-	-	-	-	-
	\$ 19,799	\$ 1,051	\$ 20,850	\$ 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	Total
2022	19,799	1,051	20,850
	\$ 19,799	\$ 1,051	\$ 20,850

8. Payables and Accruals

	As at March 31 2022	As at December 31, 2021
Trade payables	\$ 934,157	\$ 496,412
Salaries, employment taxes, and benefits	233,994	211,877
Accrued liabilities	145,759	130,781
Total	\$ 1,313,910	\$ 839,070

9. Options

The Company has a rolling stock option plan reserving for issue under this plan up to 10% (20,427,588 common shares) of the outstanding common shares at a purchase price not less than the fair market value of the Company's stock at the grant date. Under the Company's stock option plan, the board of directors may grant, at its discretion, stock options to purchase common shares to certain employees, officers, directors and consultants of the Company. Terms and conditions of the stock option and vesting provisions are at the discretion of the Board of Directors.

A summary of stock options issued under the stock option plan for the three-month period ended March 31, 2022 is provided below.

	Common shares under option	Weighted average exercised price \$
Outstanding, December 31, 2021	13,370,000	0.31
Forfeited during period¹	(20,000)	0.50
Outstanding, March 31, 2022	13,350,000	0.31

1) During 2022, certain employees and consultants were terminated and/or resigned from the employment of the Company and forfeited all non-vested options totaling 20,000.

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month periods ended March 31, 2022 & 2021

Stated in Canadian Dollars

The following table summarizes information on the stock options outstanding as at March 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 \$
3,020,000	0.05	0.50	3,020,000	0.50
10,330,000	2.45	0.26	6,886,667	0.26
13,350,000			9,906,667	

Under the stock option plan, the stock options vest over a three year period, commencing one year after the grant. As at March 31, 2022, 9,906,667 of the stock options were vested. All outstanding stock options as at March 31, 2022 will be fully vested by September 11, 2022.

Options to employees are measured at the fair value of the equity instruments granted on the grant date were measured using the following weighted average assumptions:

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

* Based on historical volatility

For the three-month period ended March 31, 2022, the Company recognized stock-based compensation expense of \$43,288 (2021 - \$114,310) for stock options issued to directors, officers, employees and consultants, of which \$25,708 (2021 - \$65,417) is included in administrative expenses, \$nil (2021 - \$1,001) in selling expenses and \$17,851 (2021 - \$47,892) is included in research and development expenses. The remaining stock based compensation amount to be expensed on non-vested options, net of forfeiture, is \$71,484.

10. Common Share Purchase Warrants

Common share purchase warrants consisted of the following:

	Number outstanding	Weighted average exercised price \$	Fair value at date of grant \$
Outstanding December 31, 2020	67,918,165		5,097,970
Exercised	(150,000)	0.30	(8,684)
Outstanding March 31, 2022	67,768,165		5,089,286

1) During 2022, 150,000 warrants were exercised. The share price at the exercise date was \$0.45

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month periods ended March 31, 2022 & 2021

Stated in Canadian Dollars

The following table summarizes information on the common share purchase warrants outstanding for the three-month period ended March 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	-	150,000	-	3,009,000	0.12
\$0.500	3,165,008	-	-	-	3,165,008	0.51
\$0.500	4,095,157	-	-	-	4,095,157	0.78
\$0.350	57,499,000	-	-	-	57,499,000	2.39
	67,918,165	-	150,000	-	67,768,165	2.11

11. Share Capital

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

12. Loss Per Common Share

Basic loss per common share has been calculated based on the weighted average number of common shares outstanding during each of the three-month periods presented in the condensed interim consolidated financial statements.

Stock options to purchase 13,350,000 (2021 – 14,165,000) common shares and common share purchase warrants totaling 67,768,165 (2021 – 72,473,431) were not included in the computation of diluted loss and comprehensive loss per common share due to their anti-dilutive nature.

13. Selling Expenses

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

	2022	2021
Sales salaries	\$ 61,740	\$ 66,852
Advertising	6,581	12,756
Commission	9,149	3,483
Travel	4,078	1,677
Stock based compensation	-	1,001
Amortization and depreciation allocation	6,092	10,010
Total selling expenses	\$ 87,640	\$ 95,780

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month periods ended March 31, 2022 & 2021

Stated in Canadian Dollars

14. Administrative Expenses

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

	2022	2021
Insurance	\$ 12,314	\$ 13,457
Professional fees	155,290	134,292
Rent	9,887	9,887
General and administrative expenses	78,088	53,377
Administrative salaries	116,685	121,884
Director and advisory fees	12,500	10,130
Stock based compensation	25,708	65,417
Amortization and depreciation allocation	7,615	10,010
Total administrative expenses	\$ 418,087	\$ 418,454

15. 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)	\$ 1,238,849	\$ 507,368
Stock based compensation	17,581	47,892
Amortization and depreciation allocation	41,605	34,308
Total research and development expenses	\$ 1,298,035	\$ 589,567

16. 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 March 31, 2022 and December 31, 2021, the Company's financial instruments are categorized as Level 1. There were no financial instruments categorized as Level 2 or 3.

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month periods ended March 31, 2022 & 2021

Stated in Canadian Dollars

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 March 31, 2022 and December 31, 2021:

	As at March 31	As at December
	2022	31, 2021
Trade receivables (net amount)	\$ 39,019	\$ 78,804
Percentage outstanding more than 30 days	0%	0%
Percentage outstanding more than 120 days	0%	0%

The following table reflects the changes in the allowance for credit losses during the three-month period ended March 31, 2022 and the year ended December 31, 2021:

	As at March 31	As at December
	2022	31, 2021
Allowance for trade receivables - beginning of period	\$ 14,405	\$ 41,685
Adjustment based on collection experience	(3,836)	14,405
Amounts written off		(41,685)
Allowance for trade receivables - end of period	\$ 10,569	\$ 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:

Contractual Obligations	Total	Payments Due by Period										
		2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Lease liabilities	\$ 20,850	\$ 35,724	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payables and accruals	1,313,910	1,313,910	-	-	-	-	-	-	-	-	-	-
Commitments (note 22)	610,181	497,912	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,100
Total contractual obligations	\$ 1,944,941	\$ 1,847,546	\$ 8,800	\$ 8,800	\$ 8,800	\$ 8,800	\$ 8,800	\$ 8,800	\$ 8,800	\$ 8,800	\$ 8,800	\$ 8,100

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month periods ended March 31, 2022 & 2021

Stated in Canadian Dollars

The Company also has contractual obligations (note 19) 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

Based on the carrying amount of the Company's variable interest-bearing financial instruments as at December 31, 2021, an assumed 0.5% increase or 0.5% decrease in interest rates during such period would have resulted in an increase/decrease of \$4,000 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 March 31, 2022 and December 31, 2021 are as follows:

	As at March 31 2022		As at December 31, 2021	
	Canadian	U.S.	Canadian	U.S.
Cash	\$ 5,791	\$ 4,634	\$ 11,942	\$ 9,420
Trade and other receivables	4,050	3,241	6,821	5,380
Payables and accruals	(463,132)	(372,729)	(182,001)	(143,557)
Total	\$ (453,290)	\$ (364,854)	\$ (163,238)	\$ (128,757)

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month periods ended March 31, 2022 & 2021

Stated in Canadian Dollars

v Foreign currency exchange risk sensitivity analysis

The following table details the Company's sensitivity analysis to a 10% strengthening in the US dollar on foreign currency denominated monetary items and adjusts its translation at the consolidated balance sheet dates for a 10% change in foreign currency exchange rates. For a 10% weakening of the US dollar against the Canadian dollar, there would be an equal and opposite impact on loss and comprehensive loss for the year.

	As at March 31 2022	As at December 31, 2021
Cash	\$ 463	\$ 942
Trade and other receivables	324	538
Payables and accruals	(37,273)	(14,356)
Total	\$ (36,485)	\$ (12,876)

17. Related Party Disclosure

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

	2022	2021
Short-term compensation	\$237,500	\$300,000
Stock-based compensation	42,767	106,524
Total	\$280,267	\$406,524

Key management personnel were not paid post-employment benefits, termination benefits or other long term benefits during the three-month periods ended March 31, 2022 and 2021. Fees paid to directors have been disclosed in note 16.

Stock-based compensation paid to key management personnel is the fair value of options that vested to key management personnel during the year. Stock based compensation paid to directors have been disclosed in note 16.

18. 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.

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month periods ended March 31, 2022 & 2021

Stated in Canadian Dollars

The following table displays revenue and direct expenses from the ACT and CLT division for the three-month periods ended March 31:

	2022			2021		
	CLT	ACT	Total	CLT	ACT	Total
Sales	\$ 211,662	\$ -	\$ 211,662	\$ 124,783	\$ -	\$ 124,783
Cost of sales	120,430	-	120,430	74,463	-	74,463
Gross margin	91,232	-	91,232	50,320	-	50,320
Operating Expenses						
Selling expenses	87,640	-	87,640	95,780	-	95,780
Administrative expenses	200,784	217,303	418,087	245,744	172,710	418,454
Research and development expense:	72,832	1,225,203	1,298,035	54,616	534,951	589,567
(Gain) from legal settlement	-	-	-	(131,941)	-	(131,941)
(Gain) loss on foreign exchange	(3,615)	(3,615)	(7,229)	1,401	1,400	2,801
Interest accretion on lease liabilities	308	308	616	878	878	1,756
Interest income	(2,214)	(2,214)	(4,428)	(3,502)	(3,502)	(7,004)
	355,735	1,436,985	1,792,721	262,977	706,435	969,413
Loss for the period	\$ (264,503)	\$ (1,436,985)	\$ (1,701,489)	\$ (212,657)	\$ (706,435)	\$ (919,093)
Total Assets	\$ 1,617,256	\$ 3,174,496	\$ 4,791,752	\$ 2,769,075	\$ 6,223,942	\$ 8,993,017
Total Liabilities	358,303	976,457	1,334,760	443,573	313,268	756,841

The following table displays revenue and direct expenses from CLT division product sales by product line and geographic area for three-month periods ended March 31:

	2022			2021		
	Canada	USA	International	Canada	USA	International
Sales by Product Line						
TLC-1000	\$ 41,277	\$ 32,517	\$ -	\$ 71,915	\$ 2,532	\$ -
TLC-2000	137,868	-	-	32,491	17,845	-
	179,145	32,517	-	104,406	20,377	-
Expenses						
Cost of Sales	101,929	18,501	-	62,303	12,160	-
Selling Expenses	74,279	9,970	3,391	84,255	7,631	3,893
	176,208	28,471	3,391	146,558	19,791	3,893
	\$ 2,937	\$ 4,046	\$ (3,391)	\$ (42,153)	\$ 586	\$ (3,893)

As at March 31, 2022 and December 31, 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.

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Three-Month periods ended March 31, 2022 & 2021

Stated in Canadian Dollars

19. Commitments

The Company's commitments consist of the following:

	Total	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Research Commitments (a)	\$ 24,969	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Research Agreement (b)	157,020	69,720	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,100
Research Agreement (c)	428,192	428,192	-	-	-	-	-	-	-	-	-	-
Total	\$ 610,181	\$ 497,912	\$ 8,800	\$ 8,800	\$ 8,800	\$ 8,800	\$ 8,800	\$ 8,800	\$ 8,800	\$ 8,800	\$ 8,800	\$ 8,100

- Research Commitments under a research agreement with a Trial Management Organization for the TLC-3000 cancer therapy project. Under the terms of this agreement, the Company is required to pay \$126,324 (USD\$96,800) for the period from July 23, 2019 through to December 31, 2022. The Company has paid \$101,355 (USD\$76,400) relating to this commitment, of which \$24,969 (USD\$20,400) is the remaining commitment.
- Research Commitments under a research agreement with Alphora Research Inc. for the TLC-3000 cancer therapy project. Under the terms of this agreement, the Company is required to pay \$474,500 for the period from April 29, 2021 through to November 15, 2032. The Company has paid \$317,480 relating to this commitment, of which \$157,020 is the remaining commitment.
- Research Commitments under a research agreement with a Contract Development and Manufacturing Organization for the TLC-3000 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, 2022. The Company has paid \$923,726 (USD\$737,840) relating to this commitment, of which \$428,192 (USD\$342,025) is the remaining commitment.

20. COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a global pandemic, which continues to spread throughout Canada and around the world. As of the report date, the Company is aware of significant changes in its business as a result of COVID-19, notably: unavailability of personnel, personnel working remotely or virtually, significant delays / cancellations in customer purchase decisions and delays in the Company's Phase II Non-Muscle Invasive Bladder Cancer clinical study specifically; patient enrollment, patient treatment and the on-boarding of new clinical study sites. Management is uncertain of the full extent of these impacts on its financial statements and believes that the business disruption caused by COVID-19 could be temporary; however, there is uncertainty around its duration and hence the potential impact on the business cannot be fully estimated as of the date of this report.

21. Subsequent Events

On May 13, 2022 the Company issued 1,000,000 common shares for exercises of warrants and received \$300,000 in cash consideration.