

# **Theralase Technologies Inc.**

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

As at June 30, 2023 and for the six-month period ended June 30, 2023 and 2022

### **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 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 unaudited 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 June 30

Stated in Canadian Dollars

	Note	2023	2022
<b>Assets</b>			
Current assets			
Cash and cash equivalents		\$ 407,225	\$ 1,508,617
Trade and other receivables	3	429,600	295,668
Net investment in lease	4	196,462	140,943
Inventories	5	573,113	485,535
Prepaid expenses and other assets		98,719	70,106
<b>Total current assets</b>		<b>1,705,119</b>	<b>2,500,869</b>
Non-current assets			
Net investment in lease	4	696,015	553,261
Property and equipment	6	580,428	660,803
Right-of-use-assets	7	398,776	445,971
<b>Total non-current assets</b>		<b>1,675,219</b>	<b>1,660,035</b>
<b>Total Assets</b>		<b>\$ 3,380,338</b>	<b>\$ 4,160,904</b>
<b>Liabilities</b>			
Current liabilities			
Payables and accruals	8	\$ 911,898	\$ 594,713
Current portion of lease liabilities	7	66,776	86,744
<b>Total current liabilities</b>		<b>978,674</b>	<b>681,457</b>
Non-current liabilities			
Lease liabilities	7	364,232	386,879
<b>Total non-current liabilities</b>		<b>364,232</b>	<b>386,879</b>
<b>Total Liabilities</b>		<b>1,342,906</b>	<b>1,068,336</b>
<b>Equity attributable to shareholders</b>			
Share capital	9, 11	45,359,080	44,527,135
Contributed surplus	10,11	11,695,556	11,374,205
Common share purchase warrants	11	6,216,109	5,642,914
Accumulated deficit		(61,233,313)	(58,451,686)
<b>Total Equity</b>		<b>2,037,432</b>	<b>3,092,568</b>
<b>Total Shareholders' Equity and Liabilities</b>		<b>\$ 3,380,338</b>	<b>\$ 4,160,904</b>

Commitments (Note 20)

Approved on Behalf of the Board

[Randy Bruder]

Director

[Matthew Perraton]

Director

# THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Operations

For the six months ended June 30

Stated in Canadian Dollars

	Note	Three Months Ended June 30		Six Months Ended June 30	
		2023	2022	2023	2022
Sales		\$ 218,926	\$ 340,780	\$ 426,087	\$ 552,442
Cost of sales		110,309	151,225	224,947	271,656
Gross margin		108,617	189,555	201,140	280,786
<b>Operating expenses</b>					
Selling expenses	14	72,633	79,499	147,304	167,139
Administrative expenses	15	487,449	315,994	1,010,144	734,081
Research and development expenses	16	709,559	1,040,820	1,619,839	2,338,855
Gain from legal settlement		-	(14,983)	-	(14,983)
Loss on foreign exchange		(3,607)	17,311	(5,245)	10,082
Interest accretion on lease liabilities	7	7,794	3,142	15,960	3,758
Interest income		(9,977)	(6,550)	(22,675)	(10,978)
		1,263,851	1,435,233	2,765,327	3,227,954
Net loss and comprehensive loss for the period		\$ (1,155,234)	\$ (1,245,678)	\$ (2,564,187)	\$ (2,947,168)
Basic and diluted loss per common share	13	(0.005)	(0.006)	(0.012)	(0.014)
Weighted average number of common shares		216,502,675	204,350,875	216,502,675	204,350,875

# THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Cash Flows

For the six months ended June 30

Stated in Canadian Dollars

	2023	2022
<b>Cash flows from operating activities</b>		
Net loss and comprehensive loss for the period	\$ (2,564,187)	\$ (2,947,168)
Items not involving cash:		
Amortization of property and equipment	95,299	120,628
Amortization of right-of-use assets	47,194	29,217
Stock-based compensation expense	321,350	90,931
Loss on foreign exchange	(5,245)	10,082
Interest accretion from lease liabilities	15,960	3,758
	<b>(2,089,629)</b>	<b>(2,692,552)</b>
Change in operating assets and liabilities other than cash:		
Current trade and other receivables	(128,687)	(52,344)
Non-current trade receivables	-	3,411
Net investment in leases	(198,273)	(307,243)
Inventories	(87,578)	94,653
Prepaid expenses and other assets	(28,613)	325,873
Payables and accruals	301,227	75,982
	<b>(2,231,553)</b>	<b>(2,552,220)</b>
<b>Cash flows from investing activity</b>		
Purchase of property and equipment	(14,924)	(3,306)
	<b>(14,924)</b>	<b>(3,306)</b>
<b>Cash flows from financing activities</b>		
Payment of lease liabilities	(42,615)	(18,491)
Warrant extension costs	(750)	-
Proceeds from private placement (net of issuance costs)	1,188,450	
Proceeds from the exercise of share warrants		345,000
	<b>1,145,085</b>	<b>326,509</b>
Decrease in cash and cash equivalents during the period	<b>(1,101,392)</b>	<b>(2,229,017)</b>
Cash and cash equivalents, beginning of period	<b>1,508,617</b>	<b>3,691,659</b>
Cash and cash equivalents, end of period	<b>\$ 407,225</b>	<b>\$ 1,462,642</b>
<b>Supplementary Information</b>		
Interest received	<b>\$ 22,675</b>	<b>\$ 10,978</b>

# THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Changes in Equity

For the six months ended June 30

Stated in Canadian Dollars

		Number of Shares	Share Capital	Contributed Surplus	Common Share Purchase Warrants	Deficit	Total Shareholders' Equity
	Note	#	\$	\$	\$	\$	\$
<b>Balance, December 31, 2021</b>		204,275,875	42,120,421	10,944,099	5,097,970	(53,092,298)	5,070,192
Stock-based compensation expense	10	-	-	90,931	-	-	90,931
Exercised warrants	11	1,150,000	481,489	-	(136,489)	-	345,000
Expired warrants	11	-	-	238,440	(238,440)	-	-
Net loss and comprehensive loss for the period		-	-	-	-	(2,947,168)	(2,947,168)
<b>Balance, June 30, 2022</b>		204,275,875	42,601,910	11,273,470	4,723,041	(56,039,466)	2,558,955
<b>Balance, December 31, 2022</b>		216,502,675	44,527,135	11,374,205	5,642,914	(58,451,686)	3,092,568
Stock-based compensation expense	10	-	-	321,351	-	-	321,351
Extension of warrants	11	-	-	-	217,440	(217,440)	-
Warrants extension costs	11	-	-	-	(750)	-	(750)
Issued pursuant to private placement	11	4,800,000	840,154	-	359,846	-	1,200,000
Transaction cost on private placement	11	-	(8,209)	-	(3,341)	-	(11,550)
Net loss and comprehensive loss for the period		-	-	-	-	(2,564,187)	(2,564,187)
<b>Balance, June 30, 2023</b>		221,302,675	45,359,080	11,695,556	6,216,109	(61,233,313)	2,037,432

# THERALASE® TECHNOLOGIES INC.

## Notes to Consolidated Financial Statements

Six-Month periods ended June 30, 2023 and 2022

Stated in Canadian Dollars

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### 1. Nature of Operations

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

The drug 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 device division designs, develops, manufactures and markets 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 unaudited interim condensed consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), effective for the reporting period ended June 30, 2023, and have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”. The unaudited 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, 2022, but do not include all the information and disclosures required in the Company’s audited annual financial statements. The preparation of unaudited 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 2022 audited annual consolidated financial statements. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company’s audited annual consolidated financial statements for the year ended December 31, 2022.

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

For the six-month period ended June 30, 2023, the Company had a net loss of \$2,564,187 (2022 - \$2,947,168), an accumulated deficit of \$61,233,313 (December 31, 2022 -\$58,451,686) 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,

### 1. Nature of Operations (Continued)

# ThERALASE® TECHNOLOGIES INC.

## Notes to Consolidated Financial Statements

Six-Month periods ended June 30, 2023 and 2022

Stated in Canadian Dollars

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accordingly the Company will require additional capital to continue to research and develop its drug technology and market its device products as it continues to develop sales opportunities. The Company is currently seeking new financing opportunities and intends to complete a financing round in Q3 2023. The Company has successfully raised capital through equity offerings in 2023, 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.

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 unaudited condensed interim consolidated financial statements for the six-month period ended June 30, 2023 (including comparatives) were approved and authorized for issue by the board of directors on August 29, 2023.

## 2. Summary of Significant Accounting Policies

### Basis of presentation

These unaudited 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 unaudited 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, 2022.

### Basis of consolidation

The unaudited 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 unaudited condensed interim consolidated financial statements.

## 3. Trade and Other Receivables

	<b>As at June 30, 2023</b>	As at December 31, 2022
Trade receivable (net amount)	\$ <b>82,666</b>	\$ 54,948
Government tax credits receivable	<b>346,934</b>	240,720
<b>Total</b>	<b>\$ 429,600</b>	<b>\$ 295,668</b>

Write off of trade receivables for the nine-month period ended amounted to \$nil which was previously provided for (2022 - \$nil). Refer to note 18 (i) for the continuity schedule of allowance for trade receivables.

# THERALASE® TECHNOLOGIES INC.

## Notes to Consolidated Financial Statements

Six-Month periods ended June 30, 2023 and 2022

Stated in Canadian Dollars

### 3. Trade and Other Receivables (Continued)

Government tax credits receivable comprise of research and development investment tax from the federal government which relate to qualifiable research and development expenditures under the applicable tax laws. Research and development tax credits receivable total \$74,500 for the six-month period ended June 30, 2023 (December 31, 2022 - \$188,000) and has been allocated against research and development expenses.

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

### 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.

	<u>As at June 30, 2023</u>	<u>As at December 31, 2022</u>
Lease beginning balance	694,204	88,373
New leases for the period	282,418	676,288
Interest charge for the period <sup>1</sup>	17,217	10,759
Lease payments for the period <sup>2</sup>	(101,363)	(81,216)
<b>Total</b>	<b>892,477</b>	<b>694,204</b>

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.

	<u>As at June 30, 2023</u>	<u>As at December 31, 2022</u>
Lease Investment (net amount)	892,477	694,204
Less: Non-current lease investment	(696,015)	(553,261)
<b>Total</b>	<b>196,462</b>	<b>140,943</b>

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

2023	97,234
2024	202,800
2025	214,004
2026	219,355
2027	143,741
2028	15,343
<b>Total</b>	<b>892,477</b>



# THERALASE® TECHNOLOGIES INC.

## Notes to Consolidated Financial Statements

Six-Month periods ended June 30, 2023 and 2022

Stated in Canadian Dollars

### 5. Inventories

	As at June 30, 2023	As at December 31, 2022
Raw materials	\$ 356,193	\$ 199,557
Finished goods	215,477	285,978
<b>Total</b>	<b>\$ 571,670</b>	<b>\$ 485,535</b>

During the six-month period, inventories amounting to \$78,027 (2022 - \$112,585) were incurred as expense in cost of sales in the Consolidated Statements of Operations.

### 6. Property and Equipment

#### Cost

	Tools and Dies	Computer Equipment	Furniture and Fixtures	Rental units <sup>1</sup>	Equipment	Leasehold Improvements	Total
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
<b>Balance at January 1, 2022</b>	<b>\$ 196,595</b>	<b>\$ 278,145</b>	<b>\$ 85,443</b>	<b>\$ 193,190</b>	<b>\$ 1,007,265</b>	<b>\$ 262,124</b>	<b>\$ 2,022,762</b>
<b>Additions</b>	<b>29</b>	<b>560</b>	<b>3,406</b>	<b>-</b>	<b>10,929</b>	<b>-</b>	<b>14,924</b>
<b>Balance at June 30, 2023</b>	<b>\$ 196,624</b>	<b>\$ 278,705</b>	<b>\$ 88,849</b>	<b>\$ 193,190</b>	<b>\$ 1,018,194</b>	<b>\$ 262,124</b>	<b>\$ 2,037,686</b>

#### Depreciation

Balance at January 1, 2022	\$ 147,862	\$ 214,597	\$ 44,714	\$ 127,191	\$ 391,479	\$ 199,321	\$ 1,125,164
Depreciation for the year	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
<b>Balance at January 1, 2022</b>	<b>\$ 160,018</b>	<b>\$ 233,662</b>	<b>\$ 50,866</b>	<b>\$ 135,164</b>	<b>\$ 535,993</b>	<b>\$ 246,256</b>	<b>\$ 1,361,959</b>
<b>Depreciation for the period</b>	<b>4,535</b>	<b>6,654</b>	<b>3,525</b>	<b>6,165</b>	<b>68,850</b>	<b>5,570</b>	<b>95,299</b>
<b>Balance at June 30, 2023</b>	<b>\$ 164,553</b>	<b>\$ 240,316</b>	<b>\$ 54,391</b>	<b>\$ 141,329</b>	<b>\$ 604,843</b>	<b>\$ 251,826</b>	<b>\$ 1,457,258</b>

#### Carrying Amounts

At December 31, 2022	\$ 36,577	\$ 44,483	\$ 34,577	\$ 58,026	\$ 471,272	\$ 15,868	\$ 660,803
<b>At June 30, 2023</b>	<b>\$ 32,071</b>	<b>\$ 38,389</b>	<b>\$ 34,458</b>	<b>\$ 51,861</b>	<b>\$ 413,351</b>	<b>\$ 10,298</b>	<b>\$ 580,428</b>

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

For the six-month period ended June 30, 2023, there was depreciation included in cost of sales amounting to \$14,687 (2022 - \$15,281).

# THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements  
Six-Month periods ended June 30, 2023 and 2022  
Stated in Canadian Dollars

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

	Property	Office Equipment	Total
<b>Right-of-use Assets</b>			
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
<b>Balance at January 1, 2023</b>	<b>\$ 439,593</b>	<b>\$ 6,378</b>	<b>\$ 445,971</b>
<b>Depreciation charge for the period</b>	<b>46,273</b>	<b>921</b>	<b>47,194</b>
<b>Balance at June 30, 2023</b>	<b>\$ 393,320</b>	<b>\$ 5,457</b>	<b>\$ 398,777</b>
<b>Lease Liabilities</b>			
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	21,248
Lease payments for the period <sup>1</sup>	(73,600)	(2,148)	(75,748)
Balance at December 31, 2022	\$ 467,113	\$ 6,510	\$ 473,623
<b>Balance at January 1, 2023</b>	<b>\$ 467,113</b>	<b>\$ 6,510</b>	<b>\$ 473,623</b>
<b>Interest charge for the period</b>	<b>15,744</b>	<b>215</b>	<b>15,959</b>
<b>Lease payments for the period<sup>1</sup></b>	<b>(57,500)</b>	<b>(1,074)</b>	<b>(58,574)</b>
<b>Balance at June 30, 2023</b>	<b>\$ 425,357</b>	<b>\$ 5,651</b>	<b>\$ 431,008</b>

1) Lease payments are discounted using an incremental borrowing rate of 7% and does not include variable property lease payments of \$20,608 (2022 - \$19,775).

	As at June 30, 2023			As at December 31, 2022		
	Property	Office Equipment	Total	Property	Office Equipment	Total
Current portion of lease liabilities	\$ 65,432	\$ 1,344	\$ 66,776	\$ 107,188	\$ 6,510	\$ 113,698
Non-current portion of lease liabilities	359,925	4,307	364,232	359,925	-	359,925
	<b>\$ 425,357</b>	<b>\$ 5,651</b>	<b>\$ 431,008</b>	<b>\$ 467,113</b>	<b>\$ 6,510</b>	<b>\$ 473,623</b>

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

	Property	Office Equipment
2023	\$ 43,240	\$ 889
2024	91,139	1,874
2025	98,306	2,009
2026	107,209	878
2027	85,462	-
	<b>\$ 425,357</b>	<b>\$ 5,651</b>

# THERALASE® TECHNOLOGIES INC.

## Notes to Consolidated Financial Statements

Six-Month periods ended June 30, 2023 and 2022

Stated in Canadian Dollars

### 8. Payables and Accruals

	As at June 30, 2023	As at December 31, 2022
Trade payables	\$ 575,795	\$ 327,887
Salaries, employment taxes, and benefits	156,746	102,280
Director fees	17,500	12,500
Accrued liabilities	161,857	152,046
<b>Total</b>	<b>\$ 911,898</b>	<b>\$ 594,713</b>

### 9. 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 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.

On June 30, 2023, the Company completed a financing by way of a non-brokered private placement, where 4,800,000 units were issued at a price of \$0.25 per unit for gross proceeds of 1,200,000. 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 June 30, 2025. An aggregate of 1,110,000 Units, representing gross proceeds of \$277,500, were issued to certain insiders of the Corporation.

# THERALASE® TECHNOLOGIES INC.

## Notes to Consolidated Financial Statements

Six-Month periods ended June 30, 2023 and 2022

Stated in Canadian Dollars

In connection with the offering, the Company incurred financing costs of \$11,725 of which \$11,552 was paid in cash, and \$173 was paid through issuance of 5,400 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 \$1,188,448 was \$831,945 for the common shares issued and \$356,503 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:

	June 30, 2023	November 17, 2022	September 22, 2022
Expected volatility (based on historical share prices)	83.14%	85.82%	92.58%
Risk-free interest rate	4.58%	3.93%	3.78%
Expected life	2 Years	2 Years	2 Years
Expected dividends	Nil	Nil	Nil
Strike Price	\$0.35	\$0.35	\$0.35
Share Price	\$0.27	\$0.25	\$0.25

## 10. Stock Options

The Company has a rolling stock option plan reserving for issue under this plan up to 10% (22,130,268) 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 six-month period ended June 30, 2023 is provided below.

	Common shares under option	Weighted average exercised price \$
Outstanding, December 31, 2021	13,370,000	0.31
Option grant during year <sup>1</sup>	7,970,000	0.25
Forfeited during year <sup>2</sup>	(170,000)	0.50
Expired during year <sup>3</sup>	(3,020,000)	0.50
Outstanding, December 31, 2022	18,150,000	0.31
<b>Outstanding, June 30, 2023</b>	<b>18,150,000</b>	<b>0.25</b>

1) During 2022, options were granted to certain employees of the Company totaling 7,970,000.

2) 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.

3) During 2022, options to certain employees and consultants expired unexercised totaling 3,020,000.

# THERALASE® TECHNOLOGIES INC.

## Notes to Consolidated Financial Statements

Six-Month periods ended June 30, 2023 and 2022

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### 10. Stock Options (Continued)

The following table summarizes information on the stock options outstanding as at June 30, 2023:

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	1.20	0.26	10,280,000	0.26
10,000	3.67	0.50	3,333	0.50
7,860,000	4.38	0.25	-	0.25
<b>18,150,000</b>			<b>10,283,333</b>	

Under the stock option plan, the stock options vest over a three year period, commencing one year after the grant. As at June 30, 2023, 10,283,333 of the stock options were vested. All outstanding stock options as at June 30, 2023 will be fully vested by November 17, 2025.

Options to employees are measured at the fair value of the equity instruments granted on the grant date and were measured using the Black-Scholes option pricing model with 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 six-month period ended June 30, 2023, the Company recognized stock-based compensation expense of \$321,350 (2022 -\$90,931) for stock options issued to directors, officers, employees and consultants, of which \$194,940 (2022 - \$51,516) is included in administrative expenses, and \$104,506 (2022 - \$39,415) is included in research and development expenses. The remaining stock based compensation amount to be expensed on non-vested options, net of forfeiture, is \$607,568.

# THERALASE® TECHNOLOGIES INC.

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### 11. 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, 2021	67,918,165		5,097,970
Exercised <sup>1</sup>	(1,150,000)	0.30	(136,489)
Expired <sup>2</sup>	(2,016,949)	0.30	(238,440)
Extended	-	-	124,086
Extension Costs	-	-	(750)
Granted <sup>3</sup>	11,061,434	0.35	796,537
Outstanding December 31, 2022	75,812,650		5,642,914
<b>Extended</b>	-	-	<b>217,441</b>
<b>Extension Costs</b>	-	-	<b>(750)</b>
<b>Granted<sup>4</sup></b>	<b>4,805,400</b>	<b>0.35</b>	<b>356,504</b>
<b>Outstanding June 30, 2023</b>	<b>80,618,050</b>		<b>6,216,109</b>

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

2) During 2022, 2,016,949 warrants expired

3) During 2022 11,061,434 warrants were granted at an exercise price of \$0.35 (note 9)

4) During 2023 4,805,400 warrants were granted at an exercise price of \$0.35 (note 9)

The following table summarizes information on the common share purchase warrants outstanding for the six-month period ended June 30, 2023:

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)
\$0.500	3,157,059	-	-	-	3,157,059	0.26
\$0.500	4,095,157	-	-	-	4,095,157	0.53
\$0.350	57,499,000	-	-	-	57,499,000	1.14
\$0.350	10,058,734	-	-	-	10,058,734	1.23
\$0.350	1,002,700	-	-	-	1,002,700	1.38
\$0.350	-	-	-	4,805,400	4,805,400	2.00
	<b>75,812,650</b>	-	-	<b>4,805,400</b>	<b>80,618,050</b>	<b>1.02</b>

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 \$124,086 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.

On January 5, 2023 the Board of Directors of the Company extended the expiry date of 4,095,157 share purchase warrants issued on January 9, 2019 by a year to January 9, 2024. The estimated fair value of the warrant extension is \$217,441 which has been recognized under common share purchase warrants and the deficit. The fair value was

# THERALASE® TECHNOLOGIES INC.

## Notes to Consolidated Financial Statements

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### 11. Common Share Purchase Warrants (continued)

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, 71.46% and 90.96% expected volatility, 3.99% and 0.19% 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.

### 12. Share Capital

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

### 13. 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 unaudited condensed interim consolidated financial statements.

Stock options to purchase 18,150,000 (2022 – 10,440,000) common shares and common share purchase warrants totaling 80,618,050 (2022 – 72,473,931) were not included in the computation of diluted loss and comprehensive loss per common share due to their anti-dilutive nature.

### 14. Selling Expenses

The following are expenses classified as selling expenses for the three-month period ended June 30:

	<b>2023</b>		<b>2022</b>
Sales salaries	\$ 99,370	\$	109,848
Advertising	10,600		12,292
Commission	18,519		23,732
Travel	12,157		8,510
Amortization and depreciation allocation	6,657		12,757
<b>Total selling expenses</b>	<b>\$ 147,304</b>	<b>\$</b>	<b>167,139</b>

### 15. Administrative Expenses

The following are expenses classified as selling expenses for the three-month period ended June 30:

	<b>2023</b>		<b>2022</b>
Insurance	\$ 27,951	\$	24,793
Professional fees	189,288		186,317
Rent	20,610		28,506
General and administrative expenses	281,700		164,918
Administrative salaries	235,674		237,084
Director and advisory fees	43,338		25,000
Stock based compensation	194,940		51,516
Amortization and depreciation allocation	16,644		15,947
<b>Total administrative expenses</b>	<b>\$ 1,010,144</b>	<b>\$</b>	<b>734,081</b>

# THERALASE® TECHNOLOGIES INC.

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## 16. Research and Development Expenses

The following are expenses classified as selling expenses for the three-month period ended June 30:

	<b>2023</b>	<b>2022</b>
Research and development (net of investment tax credit)	\$ 1,388,924	\$ 2,194,346
Stock based compensation	126,410	39,415
Amortization and depreciation allocation	104,506	105,094
<b>Total research and development expenses</b>	<b>\$ 1,619,839</b>	<b>\$ 2,338,855</b>

## 17. 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 June 30, 2023 and December 31, 2022, 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 June 30, 2023 and December 31, 2022:

	<b>As at June 30, 2023</b>	<b>As at December 31, 2022</b>
Trade receivables (net amount)	\$ 82,666	\$ 54,948
Percentage outstanding more than 30 days	21%	41%
Percentage outstanding more than 120 days	1%	5%

The following table reflects the changes in the allowance for credit losses during the six-month period ended June 30, 2023 and the year ended December 31, 2022:



# THERALASE® TECHNOLOGIES INC.

## Notes to Consolidated Financial Statements

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### 17. Financial Instruments – Fair Value and Risks (Continued)

	As at June 30 2023	As at December 31, 2022
Allowance for trade receivables - beginning of period	\$ 8,583	\$ 14,405
Adjustment based on collection experience	(818)	(1,596)
Amounts written off	-	(4,226)
<b>Allowance for trade receivables - end of period</b>	<b>7,765</b>	<b>\$ 8,583</b>

#### ii Liquidity risk

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

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

Contractual Obligations	Total	Payments Due by Period									
		2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Lease liabilities	\$ 431,008	\$ 44,129	\$ 93,013	\$ 100,315	\$ 108,087	\$ 85,462	\$ -	\$ -	\$ -	\$ -	\$ -
Payables and accruals	911,898	911,898	-	-	-	-	-	-	-	-	-
Commitments (note 21)	270,334	166,865	33,769	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,100
<b>Total contractual obligations</b>	<b>\$ 1,613,240</b>	<b>\$ 1,122,892</b>	<b>\$ 126,782</b>	<b>\$ 109,115</b>	<b>\$ 116,887</b>	<b>\$ 94,262</b>	<b>\$ 8,800</b>	<b>\$ 8,800</b>	<b>\$ 8,800</b>	<b>\$ 8,800</b>	<b>\$ 8,100</b>

The Company also has contractual obligations (note 20) in the form of research and development commitments.

#### iii Interest rate risk

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

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

#### iv Foreign currency exchange risk

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

# THERALASE® TECHNOLOGIES INC.

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### 17. Financial Instruments – Fair Value and Risks (Continued)

Accounts exposed to foreign currency exchange risk as at June 30, 2023 and December 31, 2022 are as follows:

	As at June 30, 2023		As at December 31, 2022	
	Canadian	U.S.	Canadian	U.S.
Cash	\$ (8,400)	\$ (6,344)	\$ (3,299)	\$ (2,346)
Trade and other receivables	317	239	423	312
Payables and accruals	(314,662)	(236,326)	(151,851)	(112,117)
<b>Total</b>	<b>\$ (322,745)</b>	<b>\$ (242,431)</b>	<b>\$ (154,726)</b>	<b>\$ (114,151)</b>

#### v Foreign currency exchange risk sensitivity analysis

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

	As at June 30, 2023		As at December 31, 2022	
	\$		\$	
Cash		(634)		(244)
Trade and other receivables		24		31
Payables and accruals		(23,633)		(11,212)
<b>Total</b>	<b>\$</b>	<b>(24,244)</b>	<b>\$</b>	<b>(11,425)</b>

### 18. 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.

	2023	2022
Short-term compensation	\$ 475,000	\$ 475,000
Director fees	25,000	25,000
Stock-based compensation	317,081	85,534
<b>Total</b>	<b>\$ 817,081</b>	<b>\$ 585,534</b>

Key management personnel were not paid post-employment benefits, termination benefits or other long term benefits during the six-month periods ended June 30, 2023 and 2022.

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 15.

### 19. Segmented Information

For management purposes, the Company is organized into two separate reportable operating divisions; the drug division and the device division. The drug division is responsible for the research and development of PDCs primarily for the treatment of cancer with assistance from the device division to develop medical lasers to activate them. The device

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### 19. Segmented Information (Continued)

division is responsible for the Company's medical laser business, which researches, develops, manufactures and distributes Cool Laser Therapy systems to healthcare practitioners predominantly for the healing of pain.

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

	2023			2022		
	Device	Drug	Total	Device	Drug	Total
Sales	\$ 426,087	\$ -	\$ 426,087	\$ 552,442	\$ -	\$ 552,442
Cost of sales	224,947	-	224,947	271,656	-	271,656
<b>Gross margin</b>	<b>201,140</b>	<b>-</b>	<b>201,140</b>	<b>280,786</b>	<b>-</b>	<b>280,786</b>
<b>Operating Expenses</b>						
Selling expenses	147,304	-	147,304	167,139	-	167,139
Administrative expenses	422,894	587,250	1,010,144	407,638	326,443	734,081
Research and development expense:	25,163	1,594,676	1,619,839	105,353	2,233,502	2,338,855
(Gain) loss from legal settlement		-		(14,983)	-	(14,983)
Loss on foreign exchange	(2,623)	(2,623)	(5,245)	5,041	5,041	10,082
Interest accretion on lease liabilities	7,980	7,980	15,960	1,879	1,879	3,758
Interest income	(22,675)	-	(22,675)	(5,489)	(5,489)	(10,978)
	<b>578,043</b>	<b>2,187,284</b>	<b>2,765,327</b>	<b>666,578</b>	<b>2,561,376</b>	<b>3,227,954</b>
<b>Loss for the period</b>	<b>\$ (376,903)</b>	<b>\$ (2,187,284)</b>	<b>\$ (2,564,187)</b>	<b>\$ (385,792)</b>	<b>\$ (2,561,376)</b>	<b>\$ (2,947,168)</b>
Total Assets	\$ 2,230,215	\$ 1,150,123	\$ 3,380,338	\$ 1,831,970	\$ 2,140,119	\$ 3,972,089
Total Liabilities	520,236	773,300	1,342,906	723,933	689,201	1,413,134

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

	2023			2022		
	Canada	USA	International	Canada	USA	International
<b>Sales by Product Line</b>						
TLC-1000	\$ 46,374	\$ 23,496	\$ -	\$ 37,512	\$ 49,234	\$ -
TLC-2000	259,292	96,926	-	389,478	76,218	-
	<b>305,666</b>	<b>120,421</b>	<b>-</b>	<b>426,990</b>	<b>125,452</b>	<b>-</b>
<b>Expenses</b>						
Cost of Sales	161,372	63,575	-	209,967	61,689	-
Selling Expenses	122,687	19,315	5,301	142,773	18,236	6,130
	<b>284,060</b>	<b>82,891</b>	<b>5,301</b>	<b>352,740</b>	<b>79,925</b>	<b>6,130</b>
	<b>\$ 21,607</b>	<b>\$ 37,530</b>	<b>\$ (5,301)</b>	<b>\$ 74,250</b>	<b>\$ 45,527</b>	<b>\$ (6,130)</b>

As at June 30, 2023 and December 31, 2022, the Company's long-lived assets used in operations are all located in Canada. Timing of revenue is recognized at a point in time.

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**20. Commitments**

The Company's commitments consist of the following:

	<b>Total</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>	<b>2031</b>
Research Agreement (a)	\$ 24,969	\$ -	\$ 24,969	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Research Agreement (b)	145,985	67,485	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,800
Research Agreement (c)	99,380	99,380	-	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ 270,334</b>	<b>\$ 166,865</b>	<b>\$ 33,769</b>	<b>\$ 8,800</b>	<b>\$ 8,800</b>	<b>\$ 8,800</b>	<b>\$ 8,800</b>	<b>\$ 8,800</b>	<b>\$ 8,800</b>	<b>\$ 8,800</b>

- a) 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, 2024. 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-3000 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 \$353,115 relating to this commitment, of which \$145,985 is the remaining commitment.
- c) Research Commitments under a research agreement with a Contract Manufacturer 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, 2024. The Company has paid \$1,252,538 (USD\$1,006,430) relating to this commitment, of which \$99,380 (USD\$73,435) is the remaining commitment.