

Theralase Technologies Inc.

Unaudited Condensed Interim Consolidated Financial Statements

As at September 30, 2023 and for nine-month period ended September 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 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 September 30, 2023 and December 31, 2022

Stated in Canadian Dollars

	Note	2023	2022
Assets			
Current assets			
Cash and cash equivalents		\$ 235,016	\$ 1,508,617
Trade and other receivables	3	197,573	295,668
Net investment in lease	4	247,448	140,943
Inventories	5	535,894	485,535
Prepaid expenses and other assets		60,791	70,106
Total current assets		1,276,722	2,500,869
Non-current assets			
Net investment in lease	4	805,156	553,261
Property and equipment	6	543,068	660,803
Right-of-use-assets	7	375,179	445,971
Total non-current assets		1,723,403	1,660,035
Total Assets		\$ 3,000,125	\$ 4,160,904
Liabilities			
Current liabilities			
Payables and accruals	8	\$ 959,120	\$ 594,713
Current portion of lease liabilities	7	91,405	86,744
Total current liabilities		1,050,525	681,457
Non-current liabilities			
Lease liabilities	7	317,732	386,879
Total non-current liabilities		317,732	386,879
Total Liabilities		1,368,257	1,068,336
Equity attributable to shareholders			
Share capital	9, 11	45,701,727	44,527,135
Contributed surplus	10,11	11,850,670	11,374,205
Common share purchase warrants	11	6,328,452	5,642,914
Accumulated deficit		(62,248,981)	(58,451,686)
Total Equity		1,631,868	3,092,568
Total Shareholders' Equity and Liabilities		\$ 3,000,125	\$ 4,160,904

Commitments (Note 20)

Approved on Behalf of the Board

[Randy Bruder]

Director

[Matthew Perraton]

Director

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Operations
For the nine-month ended September 30
Stated in Canadian Dollars

	Note	Three Months Ended September 30		Nine Months Ended September 30	
		2023	2022	2023	2022
Sales		\$ 280,608	\$ 260,556	\$ 706,695	\$ 812,998
Cost of sales		138,935	117,576	363,882	389,232
Gross margin		141,673	142,980	342,813	423,766
Operating expenses					
Selling expenses	14	47,114	71,765	194,418	238,904
Administrative expenses	15	446,238	334,898	1,456,382	1,068,979
Research and development expenses	16	665,551	1,125,810	2,285,390	3,464,664
Gain from legal settlement		-	-	-	(14,983)
Loss on foreign exchange		5,069	15,532	(176)	25,614
Interest accretion on lease liabilities	7	7,415	8,617	23,375	12,375
Interest income		(14,046)	(8,709)	(36,721)	(19,687)
		1,157,341	1,547,913	3,922,668	4,775,866
Net loss and comprehensive loss for the period		\$ (1,015,668)	\$ (1,404,933)	\$ (3,579,855)	\$ (4,352,100)
Basic and diluted loss per common share	13	(0.005)	(0.006)	(0.016)	(0.021)
Weighted average number of common shares		217,828,483	205,873,733	217,828,483	205,873,733

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Cash Flows
For the nine-month ended September 30
Stated in Canadian Dollars

	2023	2022
Cash flows from operating activities		
Net loss and comprehensive loss for the period	\$ (3,579,855)	\$ (4,352,100)
Items not involving cash:		
Amortization of property and equipment	143,565	181,546
Amortization of right-of-use assets	70,792	52,802
Stock-based compensation expense	476,464	118,984
Loss on foreign exchange	(176)	25,614
Interest accretion from lease liabilities	23,375	12,375
	(2,865,835)	(3,960,779)
Change in operating assets and liabilities other than cash:		
Current trade and other receivables	98,271	(93,608)
Non-current trade receivables	-	3,411
Net investment in leases	(358,400)	(386,403)
Inventories	(50,359)	141,396
Prepaid expenses and other assets	9,315	347,191
Payables and accruals	341,034	(81,885)
	(2,825,974)	(4,030,677)
Cash flows from investing activity		
Purchase of property and equipment	(25,830)	(7,089)
	(25,830)	(7,089)
Cash flows from financing activities		
Payment of lease liabilities	(64,487)	(25,364)
Warrant extension costs	(750)	(750)
Proceeds from private placement (net of issuance costs)	1,643,440	2,475,080
Proceeds from the exercise of share warrants		345,000
	1,578,203	2,793,966
Decrease in cash and cash equivalents during the period	(1,273,600)	(1,243,800)
Cash and cash equivalents, beginning of period	1,508,617	3,691,659
Cash and cash equivalents, end of period	\$ 235,017	\$ 2,447,859
Supplementary Information		
Interest received	\$ 36,721	\$ 19,687

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Changes in Equity

For the nine-month ended September 30

Stated in Canadian Dollars

		Number of Shares	Share Capital	Contributed Surplus	Common Share Purchase Warrants	Deficit	Total Shareholders' Equity
	Note	#	\$	\$	\$	\$	\$
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	10	-	-	118,984	-	-	118,984
Exercised warrants	11	1,150,000	481,489	-	(136,489)	-	345,000
Expired warrants	11	-	-	238,440	(238,440)	-	-
Extension of warrants	11	-	-	-	119,228	(119,228)	-
Warrants extension costs	11	-	-	-	(750)	-	(750)
Issued pursuant to private placement	9	10,000,000	1,760,257	-	739,743	-	2,500,000
Transaction cost on private placement	9	76,800	(13,151)	-	(11,769)	-	(24,920)
Net loss and comprehensive loss for the period		-	-	-	-	(4,352,100)	(4,352,100)
Balance, September 30, 2022		215,502,675	44,349,016	11,301,523	5,569,493	(57,563,626)	3,656,406
Balance, December 31, 2022		216,502,675	44,527,135	11,374,205	5,642,914	(58,451,686)	3,092,568
Stock-based compensation expense	10	-	-	476,465	-	-	476,465
Extension of warrants	11	-	-	-	217,440	(217,440)	-
Warrants extension costs	11	-	-	-	(750)	-	(750)
Issued pursuant to private placement	11	6,640,000	1,186,574	-	473,426	-	1,660,000
Transaction cost on private placement	11	-	(11,982)	-	(4,578)	-	(16,560)
Net loss and comprehensive loss for the period		-	-	-	-	(3,579,855)	(3,579,855)
Balance, September 30, 2023		223,142,675	45,701,727	11,850,670	6,328,452	(62,248,981)	1,631,868

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Nine-Month periods ended September 30, 2023 and 2022

Stated in Canadian Dollars

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 September 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 nine-month period ended September 30, 2023, the Company had a net loss of \$3,579,855 (2022 - \$4,352,100), an accumulated deficit of \$62,248,981 (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,

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Nine-Month periods ended September 30, 2023 and 2022

Stated in Canadian Dollars

1. Nature of Operations (Continued)

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 Q4 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 nine-month period ended September 30, 2023 (including comparatives) were approved and authorized for issue by the board of directors on November 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

	<u>As at September 30, 2023</u>		<u>As at December 31, 2022</u>
Trade receivable (net amount)	\$ 25,712	\$	54,948
Government tax credits receivable	171,861		240,720
Total	\$ 197,573	\$	295,668

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Nine-Month periods ended September 30, 2023 and 2022

Stated in Canadian Dollars

3. Trade and Other Receivables (Continued)

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.

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 \$112,400 for the nine-month period ended September 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 September 30, 2023</u>	<u>As at December 31, 2022</u>
Lease beginning balance	694,204	88,373
New leases for the period	490,270	676,288
Interest charge for the period ¹	24,642	10,759
Lease payments for the period ²	(156,513)	(81,216)
Total	1,052,604	694,204

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 September 30, 2023</u>	<u>As at December 31, 2022</u>
Lease Investment (net amount)	1,052,604	694,204
Less: Non-current lease investment	(805,156)	(553,261)
Total	247,448	140,943

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

2023	58,686
2024	240,024
2025	253,997
2026	262,202
2027	189,623
2028	48,072
Total	1,052,604

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Nine-Month periods ended September 30, 2023 and 2022

Stated in Canadian Dollars

5. Inventories

	As at September 30, 2023	As at December 31, 2022
Raw materials	\$ 344,662	\$ 199,557
Finished goods	191,232	285,978
Total	\$ 535,894	\$ 485,535

During the nine-month period, inventories amounting to \$135,111 (2022 - \$163,078) 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 ¹	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
Balance at January 1, 2022	\$ 196,595	\$ 278,145	\$ 85,443	\$ 193,190	\$ 1,007,265	\$ 262,124	\$ 2,022,762
Additions	291	3,204	3,406	7,986	10,943	-	25,830
Balance at September 30, 2023	\$ 196,886	\$ 281,349	\$ 88,849	\$ 201,176	\$ 1,018,208	\$ 262,124	\$ 2,048,592

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
Balance at January 1, 2022	\$ 160,018	\$ 233,662	\$ 50,866	\$ 135,164	\$ 535,993	\$ 246,256	\$ 1,361,959
Depreciation for the period	6,854	10,239	5,440	9,599	103,981	7,452	143,565
Balance at September 30, 2023	\$ 166,872	\$ 243,901	\$ 56,306	\$ 144,763	\$ 639,974	\$ 253,708	\$ 1,505,524

Carrying Amounts

At December 31, 2022	\$ 36,577	\$ 44,483	\$ 34,577	\$ 58,026	\$ 471,272	\$ 15,868	\$ 660,803
At September 30, 2023	\$ 30,014	\$ 37,448	\$ 32,543	\$ 56,413	\$ 378,234	\$ 8,416	\$ 543,068

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

For the nine-month period ended September 30, 2023, there was depreciation included in cost of sales amounting to \$21,943 (2022 - \$26,083).

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Nine-Month periods ended September 30, 2023 and 2022

Stated in Canadian Dollars

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

	Property	Office Equipment	Total
Right-of-use Assets			
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
Balance at January 1, 2023	\$ 439,593	\$ 6,378	\$ 445,971
Depreciation charge for the period	69,409	1,381	70,792
Balance at September 30, 2023	\$ 370,184	\$ 4,996	\$ 375,179
Lease Liabilities			
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 ¹	(73,600)	(2,148)	(75,748)
Balance at December 31, 2022	\$ 467,113	\$ 6,510	\$ 473,623
Balance at January 1, 2023	\$ 467,113	\$ 6,510	\$ 473,623
Interest charge for the period	23,063	312	23,375
Lease payments for the period¹	(86,250)	(1,611)	(87,861)
Balance at September 30, 2023	\$ 403,926	\$ 5,211	\$ 409,137

1) Lease payments are discounted using an incremental borrowing rate of 7% and does not include variable property lease payments of \$30,912 (2022 - \$38,394).

	As at September 30, 2023			As at December 31, 2022		
	Property	Office Equipment	Total	Property	Office Equipment	Total
Current portion of lease liabilities	\$ 89,564	\$ 1,841	\$ 91,405	\$ 107,188	\$ 6,510	\$ 113,698
Non-current portion of lease liabilities	314,363	3,370	317,732	359,925	-	359,925
	\$ 403,926	\$ 5,211	\$ 409,137	\$ 467,113	\$ 6,510	\$ 473,623

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

	Property	Office Equipment
2023	\$ 21,809	\$ 448
2024	91,139	1,874
2025	98,306	2,009
2026	107,209	880
2027	85,462	-
	\$ 403,926	\$ 5,211

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Nine-Month periods ended September 30, 2023 and 2022

Stated in Canadian Dollars

8. Payables and Accruals

	As at September 30, 2023	As at December 31, 2022
Trade payables	\$ 630,643	\$ 327,887
Salaries, employment taxes, and benefits	130,592	102,280
Director fees	15,000	12,500
Accrued liabilities	182,885	152,046
Total	\$ 959,120	\$ 594,713

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

Nine-Month periods ended September 30, 2023 and 2022

Stated in Canadian Dollars

9. Private Placement (continued)

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.

On September 7, 2023, the Company completed a financing by way of a non-brokered private placement, where 1,840,000 units were issued at a price of \$0.25 per unit for gross proceeds of 460,000. 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 7, 2025. An aggregate of 424,000 Units, representing gross proceeds of \$106,000, were issued to certain insiders of the Corporation. In connection with the offering, the Company incurred financing costs of \$5,010.

The purchase price of \$0.25 per unit was allocated between the common shares (\$0.19 per share) and common share purchase warrants (\$0.06 per warrant), based on their relative fair values. Management determined that the allocation of the net proceeds of \$454,990 was \$342,647 for the common shares issued and \$112,344 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:

	September 7, 2023	June 30, 2023	November 17, 2022	September 22, 2022
Expected volatility ¹	83.75%	83.14%	85.82%	92.58%
Risk-free interest rate	4.59%	4.58%	3.93%	3.78%
Expected life	2 Years	2 Years	2 Years	2 Years
Expected dividends	Nil	Nil	Nil	Nil
Strike Price	\$0.35	\$0.35	\$0.35	\$0.35
Share Price	\$0.23	\$0.27	\$0.25	\$0.25

1) Based on historical share price.

10. Stock Options

The Company has a rolling stock option plan reserving for issue under this plan up to 10% (22,314,268) 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.

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Nine-Month periods ended September 30, 2023 and 2022

Stated in Canadian Dollars

10. Stock Options (Continued)

A summary of stock options issued under the stock option plan for the nine-month period ended September 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 ¹	7,970,000	0.25
Forfeited during year ²	(170,000)	0.50
Expired during year ³	(3,020,000)	0.50
Outstanding, December 31, 2022	18,150,000	0.31
Option grant during period⁴	360,000	0.25
Outstanding, September 30, 2023	18,510,000	0.25

- 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.
- 4) During 2023, options were granted to certain employees of the Company totaling 360,000.

The following table summarizes information on the stock options outstanding as at September 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	0.95	0.26	10,280,000	0.26
10,000	3.42	0.50	6,667	0.50
7,860,000	4.13	0.25	-	0.25
360,000	4.98	0.25	-	0.25
18,510,000			10,286,667	

Under the stock option plan, the stock options vest over a three year period, commencing one year after the grant. As at September 30, 2023, 10,286,667 of the stock options were vested. All outstanding stock options as at June 30, 2023 will be fully vested by September 21, 2026.

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:

	2023	2022
Risk-free interest rate	4.25%	2.46%
Expected volatility*	65.70%	69.30%
Expected life	5 years	5 years
Expected dividends	Nil	Nil
Weighted average grant date fair value	\$0.13	\$0.14
Weighted average exercise price	\$0.25	\$0.25
Forfeiture rate	33%	33%

* Based on historical volatility

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10. Stock Options (Continued)

For the nine-month period ended September 30, 2023, the Company recognized stock-based compensation expense of \$476,465 (2022 -\$118,984) for stock options issued to directors, officers, employees and consultants, of which \$288,245 (2022 - \$68,829) is included in administrative expenses, \$58 (2022 – Nil) is included in selling expenses, and \$188,162 (2022 - \$50,155) is included in research and development expenses. The remaining stock-based compensation amount to be expensed on non-vested options, net of forfeiture, is \$489,942.

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 ¹	(1,150,000)	0.30	(136,489)
Expired ²	(2,016,949)	0.30	(238,440)
Extended	-	-	124,086
Extension Costs	-	-	(750)
Granted ³	11,061,434	0.35	796,537
Outstanding December 31, 2022	75,812,650		5,642,914
Extended	-	-	217,441
Extension Costs	-	-	(750)
Granted⁴	6,645,400	0.35	468,847
Outstanding September 30, 2023	82,458,050		6,328,452

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 6,645,400 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 nine-month period ended September 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	0.01
\$0.500	4,095,157	-	-	-	4,095,157	0.27
\$0.350	57,499,000	-	-	-	57,499,000	0.89
\$0.350	10,058,734	-	-	-	10,058,734	0.98
\$0.350	1,002,700	-	-	-	1,002,700	1.13
\$0.350	-	-	-	4,805,400	4,805,400	1.75
\$0.350	-	-	-	1,840,000	1,840,000	1.94
	75,812,650	-	-	6,645,400	82,458,050	0.91

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11. Common Share Purchase Warrants (continued)

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 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 18,510,000 (2022 – 10,290,000) common shares and common share purchase warrants totaling 82,458,050 (2022 – 74,809,950) 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 nine-month period ended September 30:

		2023		2022
Sales salaries	\$	115,772	\$	154,086
Advertising		13,786		18,038
Commission		32,118		32,766
Travel		22,627		13,683
Stock based compensation		58		-
Amortization and depreciation allocation		10,057		20,331
Total selling expenses	\$	194,418	\$	238,904

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15. Administrative Expenses

The following are expenses classified as selling expenses for the nine-month period ended September 30:

		2023		2022
Insurance	\$	41,274	\$	37,481
Professional fees		268,729		277,221
Rent		30,914		38,394
General and administrative expenses		400,738		220,651
Administrative salaries		337,616		353,911
Director and advisory fees		63,724		47,078
Stock based compensation		288,245		68,829
Amortization and depreciation allocation		25,144		25,414
Total administrative expenses	\$	1,456,382	\$	1,068,980

16. Research and Development Expenses

The following are expenses classified as selling expenses for the nine-month period ended September 30:

		2023		2022
Research and development (net of investment tax credit	\$	1,940,014	\$	3,251,989
Stock based compensation		188,162		50,155
Amortization and depreciation allocation		157,214		162,520
Total research and development expenses	\$	2,285,390	\$	3,464,664

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 September 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

THERALASE® TECHNOLOGIES INC.

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

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:

	<u>As at September 30, 2023</u>	<u>As at December 31, 2022</u>
Trade receivables (net amount)	\$ 25,712	\$ 54,948
Percentage outstanding more than 30 days	0%	41%
Percentage outstanding more than 120 days	0%	5%

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

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

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:

<u>Contractual Obligations</u>	<u>Total</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>
Lease liabilities	\$ 409,137	\$ 22,257	\$ 93,013	\$ 100,315	\$ 108,089	\$ 85,462	\$ -	\$ -	\$ -	\$ -	\$ -
Payables and accruals	959,120	959,120	-	-	-	-	-	-	-	-	-
Commitments (note 21)	246,269	43,420	133,149	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,100
Total contractual obligations	\$ 1,614,526	\$ 1,024,797	\$ 226,162	\$ 109,115	\$ 116,889	\$ 94,262	\$ 8,800	\$ 8,800	\$ 8,800	\$ 8,800	\$ 8,100

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.

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Notes to Consolidated Financial Statements

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

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 September 30, 2023 and December 31, 2022 are as follows:

	As at September 30, 2023		As at December 31, 2022	
	Canadian	U.S.	Canadian	U.S.
Cash	\$ (861)	\$ (637)	\$ (3,299)	\$ (2,346)
Trade and other receivables	323	239	423	312
Payables and accruals	(312,228)	(230,938)	(151,851)	(112,117)
Total	\$ (312,764)	\$ (231,336)	\$ (154,726)	\$ (114,151)

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 September 30, 2023		As at December 31, 2022	
Cash	\$	(64)	\$	(244)
Trade and other receivables		24		31
Payables and accruals		(23,094)		(11,212)
Total	\$	(23,135)	\$	(11,425)

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	\$ 712,500	\$ 712,500
Director fees	43,984	37,500
Stock-based compensation	470,559	114,045
Total	\$ 1,227,043	\$ 864,045

Key management personnel were not paid post-employment benefits, termination benefits or other long term benefits during the nine-month periods ended September 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.

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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 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 nine-month periods ended September 30:

	2023			2022		
	Device	Drug	Total	Device	Drug	Total
Sales	\$ 706,695	\$ -	\$ 706,695	\$ 812,998	\$ -	\$ 812,998
Cost of sales	363,882	-	363,882	389,232	-	389,232
Gross margin	342,813	-	342,813	423,766	-	423,766
Operating Expenses						
Selling expenses	194,418	-	194,418	238,904	-	238,904
Administrative expenses	595,092	861,290	1,456,382	588,613	480,366	1,068,979
Research and development expense:	34,844	2,250,546	2,285,390	133,959	3,330,705	3,464,664
(Gain) loss from legal settlement		-		(14,983)	-	(14,983)
Loss on foreign exchange	(88)	(88)	(176)	12,807	12,807	25,614
Interest accretion on lease liabilities	11,688	11,688	23,375	6,188	6,187	12,375
Interest income	(36,721)	-	(36,721)	(9,844)	(9,843)	(19,687)
	799,233	3,123,435	3,922,668	955,644	3,820,222	4,775,866
Loss for the period	\$ (456,420)	\$ (3,123,435)	\$ (3,579,855)	\$ (531,878)	\$ (3,820,222)	\$ (4,352,100)
Total Assets	\$ 2,157,427	\$ 842,698	\$ 3,000,125	\$ 2,146,126	\$ 2,767,290	\$ 4,913,416
Total Liabilities	496,044	872,213	1,368,257	587,276	669,734	1,257,010

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

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19. Segmented Information (continued)

	2023			2022		
	Canada	USA	International	Canada	USA	International
Sales by Product Line						
TLC-1000	\$ 73,276	\$ 11,304	\$ -	\$ 115,363	\$ 66,500	\$ -
TLC-2000	483,416	137,018	1,681	567,804	44,996	18,335
	556,692	148,322	1,681	683,167	111,496	18,335
Expenses						
Cost of Sales	286,645	76,372	865	327,074	53,380	8,778
Selling Expenses	166,188	21,938	6,292	204,250	25,383	9,271
	452,833	98,311	7,158	531,324	78,763	18,049
	\$ 103,859	\$ 50,011	\$ (5,477)	\$ 151,843	\$ 32,733	\$ 286

As at September 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.

20. Commitments

The Company's commitments consist of the following:

	Total	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Research Agreement (a)	\$ 24,969	\$ -	\$ 24,969	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Research Agreement (b)	121,920	43,420	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,100
Research Agreement (c)	99,380	-	99,380	-	-	-	-	-	-	-	-
Total	\$ 246,269	\$ 43,420	\$ 133,149	\$ 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, 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.
- 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 \$377,180 relating to this commitment, of which \$121,920 is the remaining commitment.
- 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.

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21. Subsequent Events

On October 3, 2023, 3,157,059 warrants expired.

On November 29, 2023, the Company closed a non-brokered private placement of units. On closing, the Company issued an aggregate of 5,318,183 units at a price of \$0.22 per Unit for aggregate gross proceeds of approximately \$1,170,000 of which 461,282 units were purchased by certain insiders of the Corporation. Each Unit consists of one common share of the Company and one non-transferable common share purchase warrant (“**Warrant**”). Each Warrant entitles the holder to acquire an additional Common Share at a price of \$0.28 for a period of 5 years following the date of issuance.