

Theralase Technologies Inc.

Unaudited Condensed Interim Consolidated Financial Statements

As at June 30, 2024 and for six-month period ended June 30, 2024 and 2023

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 June 30, 2024 and December 31, 2023

Stated in Canadian Dollars

	Note	2024	2023
Assets			
Current assets			
Cash and cash equivalents		\$ 428,361	\$ 43,911
Trade and other receivables	3	264,224	324,929
Net investment in lease	4	305,230	273,638
Inventories	5	651,342	658,185
Prepaid expenses and other assets		147,139	198,261
Total current assets		1,796,296	1,498,924
Non-current assets			
Net investment in lease	4	861,427	919,967
Property and equipment	6	422,749	506,333
Right-of-use-assets	7	304,387	351,582
Total non-current assets		1,588,563	1,777,882
Total Assets		\$ 3,384,859	\$ 3,276,806
Liabilities			
Current liabilities			
Payables and accruals	8	\$ 1,386,171	\$ 984,484
Current portion of lease liabilities	7	96,316	93,013
Total current liabilities		1,482,487	1,077,497
Non-current liabilities			
Lease liabilities	7	244,869	293,867
Total non-current liabilities		244,869	293,867
Total Liabilities		1,727,356	1,371,364
Equity attributable to shareholders			
Share capital	9, 11	47,654,134	46,467,351
Contributed surplus	10, 11	13,298,675	12,490,567
Common share purchase warrants	9, 11	6,345,160	6,187,529
Accumulated deficit		(65,640,466)	(63,240,005)
Total Equity		1,657,503	1,905,442
Total Shareholders' Equity and Liabilities		\$ 3,384,859	\$ 3,276,806

Commitments (Note 20)

Approved on Behalf of the Board

[Randy Bruder]

Director

[Guy Anderson]

Director

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Operations

For the six month period ended June 30

Stated in Canadian Dollars

	Note	Three Months Ended June 30		Six Months Ended June 30	
		2024	2023	2024	2023
Sales		\$ 100,847	\$ 218,926	\$ 276,401	\$ 426,087
Cost of sales		72,884	110,309	186,324	224,947
Gross margin		27,963	108,617	90,077	201,140
Operating expenses					
Selling expenses	14	78,363	72,633	145,915	147,304
Administrative expenses	15	395,882	487,449	907,378	1,010,144
Research and development expenses	16	693,707	709,559	1,450,086	1,619,839
(Gain) loss on foreign exchange		2,678	(3,607)	5,778	(5,245)
Interest accretion on lease liabilities	7	6,240	7,794	12,879	15,960
Interest income		(15,157)	(9,977)	(31,498)	(22,675)
		1,161,713	1,263,851	2,490,538	2,765,327
Net loss and comprehensive loss for the period		\$ (1,133,750)	\$ (1,155,234)	\$ (2,400,461)	\$ (2,564,187)
Basic and diluted loss per common share	13	(0.005)	(0.005)	(0.010)	(0.012)
Weighted average number of common shares		231,892,570	216,502,675	231,892,570	216,502,675

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Cash Flows

For the six month period ended June 30

Stated in Canadian Dollars

	2024	2023
Cash flows from operating activities		
Net loss and comprehensive loss for the period	\$ (2,400,461)	\$ (2,564,187)
Items not involving cash:		
Amortization of property and equipment	88,031	95,299
Amortization of right-of-use assets	47,194	47,194
Stock-based compensation expense	220,563	321,351
Loss on foreign exchange	5,778	(5,245)
Interest accretion from lease liabilities	12,879	15,960
	(2,026,016)	(2,089,629)
Change in operating assets and liabilities other than cash:		
Current trade and other receivables	54,927	(128,687)
Net investment in leases	26,948	(198,273)
Inventories	6,843	(87,578)
Prepaid expenses and other assets	51,122	(28,613)
Payables and accruals	388,808	301,227
	(1,497,368)	(2,231,553)
Cash flows from investing activity		
Purchase of property and equipment	(4,447)	(14,924)
	(4,447)	(14,924)
Cash flows from financing activities		
Payment of lease liabilities	(45,695)	(42,615)
Warrant extension costs	-	(750)
Proceeds from private placement (net of issuance costs)	1,931,960	1,188,450
Proceeds from the exercise of share warrants	-	-
	1,886,265	1,145,085
Decrease in cash and cash equivalents during the period	384,450	(1,101,392)
Cash and cash equivalents, beginning of period	43,911	1,508,617
Cash and cash equivalents, end of period	\$ 428,361	\$ 407,225
Supplementary Information		
Interest received	\$ 31,498	\$ 22,675

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Changes in Equity

For the six month period ended June 30

Stated in Canadian Dollars

		Number of Shares	Share Capital	Contributed Surplus	Common Share Purchase Warrants	Deficit	Total Shareholders' Equity
	Note	#	\$	\$	\$	\$	\$
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	-	-	321,351	-	-	321,351
Extension of warrants	11	-	-	-	217,440	(217,440)	-
Warrants extension costs	11	-	-	-	(750)	-	(750)
Issued pursuant to private placement	9	4,800,000	840,154	-	359,846	-	1,200,000
Transaction cost on private placement	9	-	(8,209)	-	(3,341)	-	(11,550)
Net loss and comprehensive loss for the period		-	-	-	-	(2,564,187)	(2,564,187)
Balance, June 30, 2023		221,302,675	45,359,080	11,695,556	6,216,109	(61,233,313)	2,037,432
Balance, December 31, 2023		228,460,858	46,435,685	12,490,567	6,219,195	(63,240,005)	1,905,442
Stock-based compensation expense	10	-	-	220,563	-	-	220,563
Expired warrants	11	-	-	587,545	(587,545)	-	-
Issued pursuant to private placement	9	10,834,448	1,230,065	-	720,135	-	1,950,200
Transaction cost on private placement	9	-	(11,616)	-	(6,625)	-	(18,241)
Net loss and comprehensive loss for the period		-	-	-	-	(2,400,461)	(2,400,461)
Balance, June 30, 2024		239,295,306	47,654,134	13,298,675	6,345,160	(65,640,466)	1,657,503

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Six-Month periods ended June 30, 2024 and 2023

Stated in Canadian Dollars

1. Nature of Operations

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

Theralase® is a clinical stage pharmaceutical company dedicated to the research, development and commercialization of light-activated small molecules and their associated drug formulations for the safe and effective destruction of various cancers, bacteria and viruses. The Company in its Drug Division conducts preclinical research and clinical development of these small molecules, primarily in the treatment of cancer, with assistance from its Device Division to develop medical lasers to activate them. The Company in its Device Division designs, develops, manufactures and markets proprietary super-pulsed Cool Laser Therapy (“**CLT**”) technology indicated and cleared by Health Canada and the Food and Drug Administration (“**FDA**”) for the treatment of chronic knee pain and has been used off-label for treating 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, 2024, 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, 2023, 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 2023 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, 2023.

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, 2024, the Company had a net loss of \$2,400,461 (2023 - \$2,564,187), an accumulated deficit of \$65,640,466 (December 31, 2023 -\$63,240,005) and has historically used net cash in operations.

These conditions indicate the existence of material uncertainties that cast substantial doubt about the Company’s ability to continue as a going concern, which 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

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Six-Month periods ended June 30, 2024 and 2023

Stated in Canadian Dollars

and of themselves to enable the Company to fund all its continuing development and commercialization efforts and, accordingly the Company will require additional capital to continue to research and develop its 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 later this year. The Company has successfully raised capital through equity offerings in 2024, 2023 and 2022; 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 closely monitor its expenses 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 unaudited condensed interim 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, 2024 (including comparatives) were approved and authorized for issue by the board of directors on August 8, 2024.

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, 2023.

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

	As at June 30, 2024	As at December 31, 2023
Trade receivable (net amount)	\$ 19,266	\$ 114,212
Government tax credits receivable	244,958	210,717
Total	\$ 264,224	\$ 324,929

Write offs of trade receivables for the three-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, 2024 and 2023

Stated in Canadian Dollars

Government tax credits receivable comprise of research and development investment tax credits from the federal government which relate to qualifiable research and development expenditures under the applicable tax laws. Research and development tax credits receivable total \$230,200 for the six-month period ended June 30, 2023 (December 31, 2023 - \$152,700) 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.

	As at June 30 2024	As at December 31, 2023
Lease beginning balance	\$ 1,193,604	\$ 694,204
New leases for the period	106,213	694,149
Interest charge for the period ¹	34,313	44,230
Lease payments for the period ²	(167,474)	(238,979)
Total	\$ 1,166,657	\$ 1,193,604

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.

	As at June 30 2024	As at December 31, 2023
Current portion of net investment in leases	\$ 305,230	\$ 273,638
Non-current net investment in leases	861,427	919,967
Total	\$ 1,166,657	\$ 1,193,605

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

2024	\$ 150,776
2025	313,159
2026	325,311
2027	253,829
2028	117,338
2029	6,243
Total	\$ 1,166,657

5. Inventories

	As at June 30, 2024	As at December 31, 2023
Raw materials	\$ 440,923	\$ 502,365
Finished goods	210,419	155,820
Total	\$ 651,342	\$ 658,185

During the six-month period, inventories amounting to \$56,973 (2023 - \$78,027) were incurred as expense in cost of sales in the Consolidated Statements of Operations.

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Six-Month periods ended June 30, 2024 and 2023

Stated in Canadian Dollars

6. Property and Equipment

Cost

	Tools and Dies	Computer Equipment	Furniture and Fixtures	Rental Units ¹	Equipment	Clinical Equipment	Leasehold Improvements	Total
Balance at January 1, 2023	\$ 196,595	\$ 278,145	\$ 85,443	\$ 193,190	\$ 442,651	\$ 564,614	\$ 262,124	\$ 2,022,762
Disposals	-	-	-	(134,343)	-	-	(232,033)	\$ (366,376)
Additions	-	3,107	3,406	19,986	10,353	-	413	37,265
Balance at December 31, 2023	\$ 196,595	\$ 281,252	\$ 88,849	\$ 78,833	\$ 453,004	\$ 564,614	\$ 30,504	\$ 1,693,651
Balance at January 1, 2024	\$ 196,595	\$ 281,252	\$ 88,849	\$ 78,833	\$ 453,004	\$ 564,614	\$ 30,504	\$ 1,693,651
Additions	-	-	1,276	2,302	870	-	-	4,447
Balance at June 20, 2024	\$ 196,595	\$ 281,252	\$ 90,125	\$ 81,135	\$ 453,874	\$ 564,614	\$ 30,504	\$ 1,698,098

Depreciation

Balance at January 1, 2023	\$ 160,018	\$ 233,662	\$ 50,866	\$ 135,164	\$ 347,751	\$ 188,242	\$ 246,256	\$ 1,361,959
Disposals	-	-	-	(134,343)	-	-	(232,033)	\$ (366,376)
Depreciation for the period	9,144	13,824	7,355	13,256	26,080	112,923	9,153	191,735
Balance at December 31, 2023	\$ 169,162	\$ 247,486	\$ 58,221	\$ 14,077	\$ 373,831	\$ 301,165	\$ 23,376	\$ 1,187,318
Balance at January 1, 2024	\$ 169,162	\$ 247,486	\$ 58,221	\$ 14,077	\$ 373,831	\$ 301,165	\$ 23,376	\$ 1,187,318
Depreciation for the period	3,420	5,051	3,175	8,058	9,895	56,307	2,126	88,031
Balance at June 20, 2024	\$ 172,582	\$ 252,537	\$ 61,396	\$ 22,136	\$ 383,726	\$ 357,472	\$ 25,502	\$ 1,275,349

Carrying Amounts

At December 31, 2023	\$ 27,433	\$ 33,766	\$ 30,628	\$ 64,756	\$ 79,173	\$ 263,449	\$ 7,128	\$ 506,333
At June 30, 2024	\$ 24,013	\$ 28,715	\$ 28,729	\$ 58,999	\$ 70,148	\$ 207,143	\$ 5,002	\$ 422,749

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

For the six-month period ended June 30, 2024, there was depreciation included in cost of sales amounting to \$12,358 (2023 - \$14,687).

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

	Property	Office Equipment	Total
Right-of-use Assets			
Balance at January 1, 2023	\$ 439,593	\$ 6,378	\$ 445,971
Depreciation charge for the period	92,546	1,843	94,389
Balance at December 31, 2023	\$ 347,047	\$ 4,535	\$ 351,582
Balance at January 1, 2024	\$ 347,047	\$ 4,535	\$ 351,582
Depreciation charge for the period	46,273	922	47,195
Balance at June 30, 2024	\$ 300,774	\$ 3,613	\$ 304,387
Lease Liabilities			
Balance at January 1, 2023	\$ 467,113	\$ 6,510	\$ 473,623
Interest charge for the period	30,005	400	30,405
Lease payments for the period ¹	(115,000)	(2,148)	(117,148)
Balance at December 31, 2023	\$ 382,118	\$ 4,762	\$ 386,880
Balance at January 1, 2024	\$ 382,118	\$ 4,762	\$ 386,880
Interest charge for the period	12,726	153	12,879
Lease payments for the period¹	(57,500)	(1,074)	(58,574)
Balance at June 30, 2024	\$ 337,344	\$ 3,841	\$ 341,185

1) Lease payments are discounted using an incremental borrowing rate of 7% and does not include variable property lease payments of \$20,608 (2023 - \$20,608)

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Six-Month periods ended June 30, 2024 and 2023

Stated in Canadian Dollars

	As at June 30, 2024			As at December 31, 2023		
	Property	Office Equipment	Total	Property	Office Equipment	Total
Current portion of lease liabilities	\$ 94,377	\$ 1,940	\$ 96,316	\$ 91,140	\$ 1,873	\$ 93,013
Non-current portion of lease liabilities	242,967	1,902	244,869	290,978	2,889	293,867
	\$ 337,344	\$ 3,841	\$ 341,185	\$ 382,118	\$ 4,762	\$ 386,880

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

	Property	Office Equipment
2024	46,365	952
2025	98,306	2,009
2026	107,209	880
2027	85,464	-
	\$ 337,344	\$ 3,841

8. Payables and Accruals

	As at March 31 2024	As at December 31, 2023
Trade payables	\$ 666,571	\$ 682,004
Salaries, employment taxes, and benefits	39,434	149,912
Director fees	-	22,058
Accrued liabilities	205,373	130,510
Total	\$ 911,378	\$ 984,484

9. Private Placement

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 Company. 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 24 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 Company. In connection with the offering, the Company incurred financing costs of \$5,381. 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 \$454,620 was \$342,368 for the common shares issued and \$112,252 for the common share purchase warrants issued.

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Six-Month periods ended June 30, 2024 and 2023

Stated in Canadian Dollars

On November 29, 2023, the Company completed a financing by way of a non-brokered private placement, where 5,318,183 units were issued at a price of \$0.22 per unit for gross proceeds of \$1,170,000. 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 \$0.28, expiring on November 29, 2028. An aggregate of 461,282 Units, representing gross proceeds of \$101,482, were issued to certain insiders of the Company. In connection with the offering, the Company incurred financing costs of \$49,807 paid in cash and the issuance of 18,864 finders unit. Each finders unit entitles the holder thereof to acquire one common share and one common share purchase warrant on the same terms as the unit common shares and common share purchase warrants issued pursuant to the financing for a period of 60 months after the closing of the offering. The purchase price of \$0.22 per unit was allocated between the common shares (\$0.14 per share) and common share purchase warrants (\$0.08 per warrant), based on their relative fair values. Management determined that the allocation of the net proceeds of \$1,120,194 was \$734,236 for the common shares issued and \$385,957 for the common share purchase warrants issued.

On February 5, 2024, the Company completed a financing by way of a non-brokered private placement, where 6,666,670 units were issued at a price of \$0.18 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 \$0.25, expiring on February 5, 2029. An aggregate of 1,310,502 Units, representing gross proceeds of \$235,890, were issued to certain insiders of the Company. In connection with the offering, the Company incurred financing costs of \$11,422 paid in cash and the issuance of 4,166 broker warrants. Each broker warrant is exercisable into one common share at an exercise price of \$0.25 per share for a period of 60 months after the closing of the offering. The purchase price of \$0.18 per unit was allocated between the common shares (\$0.11 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 \$1,188,578 was \$741,749 for the common shares issued and \$446,829 for the common share purchase warrants issued.

On April 24, 2024, the Company completed a financing by way of a non-brokered private placement, where 4,167,778 units were issued at a price of \$0.18 per unit for gross proceeds of \$750,200. 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 \$0.25, expiring on April 24, 2029. In connection with the offering, the Company incurred financing costs of \$6,818.37 paid in cash. The purchase price of \$0.18 per unit was allocated between the common shares (\$0.12 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 \$743,382 was \$476,699 for the common shares issued and \$266,683 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:

	April 4, 2024	February 5, 2024	November 29, 2023	September 7, 2023	June 30, 2023
Expected volatility ¹	87.60%	87.54%	86.33%	83.75%	83.14%
Risk-free interest rate	3.82%	3.60%	3.60%	4.59%	4.58%
Expected life	5 Years	5 Years	5 Years	2 Years	2 Years
Expected dividends	Nil	Nil	Nil	Nil	Nil
Strike Price	\$0.25	\$0.25	\$0.28	\$0.35	\$0.35
Share Price	\$0.16	\$0.17	\$0.19	\$0.23	\$0.27

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% (23,929,531 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

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Six-Month periods ended June 30, 2024 and 2023

Stated in Canadian Dollars

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, 2024 is provided below.

	Common shares under option	Weighted average exercised price \$
Outstanding, December 31, 2022	18,150,000	0.31
Option grant during year ¹	360,000	0.25
Outstanding, December 31, 2023	18,510,000	0.31
Forefeited during period²	(10,000)	0.25
Outstanding, June 30, 2024	18,500,000	0.25

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

2) During 2024, certain employees and consultants were terminated and/or resigned from the employment of the Company and forfeited all non-vested options totaling 10,000.

The following table summarizes information on the stock options outstanding as at June 30, 2024:

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	0.19	0.26	10,280,000	0.26
7,860,000	3.38	0.25	2,620,000	0.25
360,000	4.22	0.25	-	0.25
18,500,000			12,900,000	

Under the stock option plan, the stock options vest over a three year period, commencing one year after the grant. As at June 30, 2024, 12,900,000 of the stock options were vested. All outstanding stock options as at June 30, 2024 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
Risk-free interest rate	4.25%
Expected volatility (based on historical volatility)	65.70%
Expected life	5 years
Expected dividends	Nil
Weighted average grant date fair value	\$0.13
Weighted average exercise price	\$0.25
Forfeiture rate	33%, 8%

* Based on historical volatility

For the six-month period ended June 30, 2024, the Company recognized stock-based compensation expense of \$220,563 (2023 - \$321,350) for stock options issued to directors, officers, employees and consultants, of which \$140,076 (2023 - \$194,940) is included in administrative expenses, \$1,582 (2023 - Nil) is included in selling expenses,

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Six-Month periods ended June 30, 2024 and 2023

Stated in Canadian Dollars

and \$78,905 (2023 - \$126,410) is included in research and development expenses. The remaining stock-based compensation amount to be expensed on non-vested options, net of forfeiture, is \$237,227.

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, 2022	75,812,650		5,642,914
Extended ¹	-	-	217,440
Extension Costs	-	-	(750)
Expired ²	(3,157,059)	-	(495,121)
Granted ³	11,963,583	0.32	854,712
Outstanding December 31, 2023	84,619,174		6,219,195
Expired ⁴	(4,095,157)	-	(587,545)
Granted ⁵	15,006,392	0.25	713,511
Outstanding June 30, 2024	95,530,409		6,345,161

1) During 2023, 4,095,157 warrants were extended

2) During 2023, 3,157,059 warrants expired

3) During 2023, 6,645,400 warrants were granted at an exercise price of \$0.35 and 5,318,183 at an exercise price of \$0.28 (note 9)

4) During 2024, 4,095,157 warrants expired

5) During 2024, 10,838,614 warrants were granted at an exercise price of \$0.25

The following table summarizes information on the common share purchase warrants outstanding for the six-month period ended June 30, 2024:

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	4,095,157	4,095,157	-	-	-	-
\$0.350	57,499,000	-	-	-	57,499,000	0.14
\$0.350	10,058,734	-	-	-	10,058,734	0.23
\$0.350	1,002,700	-	-	-	1,002,700	0.38
\$0.350	4,805,400	-	-	-	4,805,400	1.00
\$0.350	1,840,000	-	-	-	1,840,000	1.19
\$0.280	5,318,183	-	-	-	5,318,183	4.41
\$0.250	-	-	-	6,670,836	6,670,836	4.61
\$0.250	-	-	-	4,167,778	4,167,778	4.82
	84,619,174	4,095,157	-	10,838,614	91,362,631	0.79

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

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Six-Month periods ended June 30, 2024 and 2023

Stated in Canadian Dollars

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 and six month periods presented in the unaudited condensed interim consolidated financial statements.

Stock options to purchase 18,500,000 (2023 – 18,150,000) common shares and common share purchase warrants totaling 91,362,631 (2023 – 80,618,050) 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 six-month period ended June 30:

		2024		2023
Sales salaries	\$	110,544	\$	99,370
Advertising		12,756		10,600
Commission		9,041		18,519
Travel		5,186		12,157
Stock based compensation		1,582		-
Amortization and depreciation allocation		6,805		6,657
Total selling expenses	\$	145,915	\$	147,303

15. Administrative Expenses

The following are expenses classified as administrative expenses for the six-month period ended June 30:

		2024		2023
Insurance	\$	27,250	\$	27,951
Professional fees		202,508		189,288
Rent		20,608		20,610
General and administrative expenses		59,153		145,101
Investor Relations		184,943		136,599
Administrative salaries		213,401		235,674
Director and advisory fees		45,828		43,338
Stock based compensation		140,076		194,940
Amortization and depreciation allocation		13,612		16,644
Total administrative expenses	\$	907,378	\$	1,010,145

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Six-Month periods ended June 30, 2024 and 2023

Stated in Canadian Dollars

16. Research and Development Expenses

The following are expenses classified as research and development expenses for the six-month period ended June 30:

	2024		2023
Research and development (net of investment tax credit) \$	1,268,731	\$	1,388,924
Stock based compensation	78,905		126,410
Amortization and depreciation allocation	102,451		104,506
Total research and development expenses	\$ 1,450,086	\$	1,619,839

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.

The carrying amount of the investment in leases approximates fair value because lease contracts are based on bank prime rates of interest which approximate current rates.

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 and investment in leases 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 and investment in leases represent the Company's maximum exposure to credit risk.

The following table reflects the balance and age of trade receivables, excluding Government receivables of \$244,958 (December 31 2023 - \$210,718) as at:

	As at June 30, 2024		As at December 31, 2023
Trade receivables (net amount)	\$ 19,266	\$	114,212
Percentage outstanding more than 30 days	5%		3%
Percentage outstanding more than 120 days	5%		13%

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Six-Month periods ended June 30, 2024 and 2023

Stated in Canadian Dollars

The following table reflects the changes in the allowance for credit losses during the six-month period ended June 30, 2024 and the year ended December 31, 2023:

	<u>As at June 30, 2024</u>	<u>As at December 31, 2023</u>
Allowance for credit losses- beginning of period	\$ 5,731	\$ 8,583
Adjustment based on collection experience	(2,500)	(3,454)
Amounts written off	-	602
Allowance for credit losses - end of period	\$ 3,231	\$ 5,731

The company's investment in leases of \$1,208,041 (Note 4 including maturity dates) represents 66 contracts. The amounts owing are from well established medical practitioners, whose credit is checked upon initiation of the lease contract and secured by the underlying assets. Monthly lease payments are being received from all contracts on a timely basis. There is one case of non-payment which has been provided for above, although partial payments are being received and full recovery is expected.

The table below provides an analysis of the balance outstanding at June 30, 2024 for leases by year of inception:

2021	65,326
2022	416,842
2023	585,473
2024	99,017
Total	\$ 1,166,657

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:

	Total	Payments Due by Period								
		2024	2025	2026	2027	2028	2029	2030	2031	2032
Payables and accruals	\$ 1,386,171	\$ 1,386,171	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Lease liabilities	341,185	47,317	100,315	108,089	85,464	-	-	-	-	-
Commitments (note 20)	149,689	55,020	33,769	8,800	8,800	8,800	8,800	8,800	8,800	8,100
Total	\$ 1,877,045	\$ 1,488,508	\$ 134,084	\$ 116,889	\$ 94,264	\$ 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.

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Six-Month periods ended June 30, 2024 and 2023

Stated in Canadian Dollars

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 June 30, 2024 and December 31, 2023 are as follows:

	As at June 30, 2024		As at December 31, 2023	
	Canadian	U.S.	Canadian	U.S.
Cash	\$ 36,817	\$ 26,899	\$ (108,354)	\$ (81,925)
Trade and other receivables	622	449	-	-
Current net investments in leases	34,041	24,872	30,886	23,353
Non-current net investments in leases	98,177	71,731	111,585	84,368
Payables and accruals	(251,604)	(183,827)	(185,505)	(140,258)
Total	\$ (81,947)	\$ (59,876)	\$ (151,388)	\$ (114,462)

The following table details the Company's sensitivity analysis to a 10% strengthening in the US dollar on foreign currency denominated monetary items. 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, 2024		As at December 31, 2023	
Cash	\$	3,682	\$	(10,835)
Trade and other receivables		62		-
Current net investments in leases		3,404		3,089
Non-current net investments in lease:		9,818		11,159
Payables and accruals		(25,160)		(18,550)
Total	\$	(8,196)	\$	(15,138)

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.

	2024	2023
Short-term compensation	\$ 475,000	\$ 475,000
Director fees	35,000	25,000
Stock-based compensation	171,553	317,081
Total	\$ 681,553	\$ 817,081

Key management personnel were not paid post-employment benefits, termination benefits or other long term benefits during the six-month periods ended June 30, 2024 and 2023.

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 key management personnel and directors is the fair value of options that vested to

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Six-Month periods ended June 30, 2024 and 2023

Stated in Canadian Dollars

key management personnel and directors during the year.

On June 30, 2023, an aggregate of 1,110,000 units, representing gross proceeds of \$277,500, were issued to certain key management personnel and directors of the Corporation (refer to note 9).

On September 7, 2023, an aggregate of 424,000 units, representing gross proceeds of \$106,000, were issued to certain key management personnel and directors of the Corporation (refer to note 9).

On November 29, 2023, an aggregate of 461,282 units, representing gross proceeds of \$101,482, were issued to certain key management personnel and directors of the Corporation (refer to note 9).

On February 4, 2024 an aggregate of 1,310,502 units, representing gross proceeds of \$235,890, were issued to certain key management personnel and directors of the Corporation (refer to note 9).

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 light-activated small molecules 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 research, develops, manufactures and distributes CLT 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:

	2024			2023		
	Device	Drug	Total	Device	Drug	Total
Sales	\$ 276,401	\$ -	\$ 276,401	\$ 426,087	\$ -	\$ 426,087
Cost of sales	186,324	-	186,324	224,947	-	224,947
Gross margin	90,077	-	90,077	201,140	-	201,140
Operating Expenses						
Selling expenses	145,915	-	145,915	147,304	-	147,304
Administrative expenses	347,015	560,362	907,378	422,894	587,250	1,010,144
Research and development expenses	81,753	1,368,333	1,450,086	25,163	1,594,676	1,619,839
Loss on foreign exchange	2,889	2,889	5,778	(2,622)	(2,623)	(5,245)
Interest accretion on lease liabilities	6,440	6,440	12,879	7,980	7,980	15,960
Interest income	(31,498)	-	(31,498)	(22,675)	-	(22,675)
	552,514	1,938,024	2,490,538	578,044	2,187,283	2,765,327
Loss for the period	\$ (462,437)	\$ (1,938,024)	\$ (2,400,461)	\$ (376,904)	\$ (2,187,283)	\$ (2,564,187)
Total Assets	\$ 2,400,706	\$ 984,153	\$ 3,384,859	\$ 2,230,215	\$ 1,150,123	\$ 3,380,338
Total Liabilities	416,993	1,310,363	1,727,356	569,606	773,300	1,342,906

THERALASE® TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Six-Month periods ended June 30, 2024 and 2023

Stated in Canadian Dollars

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

	2024			2023		
	Canada	USA	International	Canada	USA	International
Sales by Product Line						
TLC-1000	\$ 36,530	\$ 15,475	\$ -	\$ 46,374	\$ 23,496	\$ -
TLC-2000	170,220	32,567	21,609	259,292	96,925	-
	206,751	48,041	21,609	305,666	120,421	-
Expenses						
Cost of Sales	151,177	20,580	14,567	161,372	63,575	-
Selling Expenses	105,500	29,266	12,541	122,687	19,316	5,301
	256,677	49,845	27,108	284,059	82,891	5,301
	\$ (49,926)	\$ (1,805)	\$ (5,499)	\$ 21,607	\$ 37,530	\$ (5,301)

As at June 30, 2024 and December 31, 2023, 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	2024	2025	2026	2027	2028	2029	2030	2031	2032
Research Agreement (a)	\$ 24,969	\$ -	\$ 24,969	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Research Agreement (b)	124,720	55,020	8,800	8,800	8,800	8,800	8,800	8,800	8,800	8,100
Total	\$ 149,689	\$ 55,020	\$ 33,769	\$ 8,800	\$ 8,800	\$ 8,800	\$ 8,800	\$ 8,800	\$ 8,800	\$ 8,100

- a) Research Commitments under a research agreement with a Clinical Research Organization for the TLC-3200 cancer therapy project. Under the terms of this agreement, the Company is required to pay \$126,324 (USD\$96,800) for the period from July 23, 2019 through to the end of the Phase II Clinical Study. The Company has paid \$101,355 (USD\$76,400) relating to this commitment, of which \$24,969 (USD\$20,400) is the remaining commitment.
- b) Research Commitments under a research agreement with a Contract Manufacturer for the TLC-3200 cancer therapy project. Under the terms of this agreement, the Company is required to pay \$478,700 for the period from April 29, 2021 through to November 15, 2032. The Company has paid \$353,980 relating to this commitment, of which \$124,720 is the remaining commitment.

21. Subsequent Events

On July 8, 2024, the Company closed a non-brokered private placement of units. On closing, the Company issued an aggregate of 3,522,729 units at a price of \$0.22 per Unit for aggregate gross proceeds of approximately \$775,000. Each Unit consists of one common share of the Company and one non-transferable common share purchase warrant. Each Warrant entitles the holder to acquire an additional Common Share at a price of \$0.30 for a period of 5 years following the date of issuance.