Theralase Technologies Inc.

Interim Consolidated Financial Statements - Unaudited

As at March 31, 2013 and for the three-month period ended March 31, 2013 and 2012

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

THERALASE® TECHNOLOGIES INC.

Consolidated Balance Sheets
As at March 31, 2013 and December 31, 2012
Stated in Canadian Dollars

	Note	March 31, 2013	December 31, 2012
Assets			
Current assets			
Cash		$ 14,808	$ 21,975
Trade and other receivables	4	470,176	499,835
Inventories	5	199,632	216,104
Prepaid expenses and other assets		40,312	26,714
Total current assets		724,928	764,628
Non-Current assets			
Finance receivable	4	40,224	49,230
Property and equipment	6	218,446	188,454
Intangible assets	7	125,668	130,342
Total non-current assets		384,338	368,026
Total Assets		**$ 1,109,266**	**$ 1,132,654**
Liabilities			
Current liabilities			
Payables and accruals	8	$ 1,338,054	$ 1,060,207
Due to officer	17	96,363	101,832
Finance lease obligation, current		696	656
Leasehold inducement, current		2,800	2,800
Deferred revenue, current		13,195	15,479
Total current liabilities		1,451,108	1,180,974
Non-current liabilities			
Finance lease obligation, non-current		589	779
Leasehold inducement, non-current		9,333	10,033
Deferred revenue, non-current		3,411	5,598
Total non-current liabilities		13,333	16,410
Total liabilities		1,464,441	1,197,384
Equity attributable to shareholders			
Share capital	12	7,843,502	7,843,502
Common share purchase warrants	11	289,339	289,339
Contributed surplus		3,763,041	3,721,051
Deficit		(12,251,057)	(11,918,622)
Total Equity		(355,175)	(64,730)
Total Shareholders' Equity and Liabilities		**$ 1,109,266**	**$ 1,132,654**

Going Concern (note 1)
Commitments (note 21)

Approved on Behalf of the Board

[Roger Dumoulin-White] Director

[Randy Bruder] Director

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

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Operations and Comprehensive Loss
For the three-month period ended March 31
Stated in Canadian Dollars

	Note	2013	2012
Sales		$ 342,900	$ 448,359
Cost of Sales		106,978	148,513
Gross Margin		235,922	299,846
Operating Expenses			
Selling expenses	14	109,391	188,390
Administrative expenses	15	249,767	309,213
Research and development expenses	16	199,597	249,158
(Gain) loss on foreign exchange		5,384	3,763
Interest expense		6,176	6,509
Interest income		(1,958)	(3,902)
		568,357	753,131
Loss and comprehensive loss for the period		$ (332,435)	$ (453,285)
Basic and diluted loss and comprehensive loss per common share	13	$ (0.01)	$ (0.01)
Weighted average number of common shares outstanding	13	43,819,961	41,682,975

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

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Cash Flows
For the three-month period ended March 31
Stated in Canadian Dollars

	Note		2013		2012
Cash flows from operating activities					
Net loss for the year		$	(332,435)	$	(453,285)
Items not involving cash					
Amortization of property and equipment	6		16,249		8,687
Amortization of intangibles	7		4,674		4,674
Stock-based compensation expense	10		41,990		70,903
(Gain) loss on foreign exchange			(5,384)		3,763
Lease inducements			(700)		(3,714)
			(275,606)		(368,972)
Change in operating assets and liabilities other than cash					
Trade and other receivables			35,043		116,809
Finance receivables			9,006		26,633
Inventories			16,472		77,279
Prepaid expenses and other assets			(13,598)		9,699
Payables, accruals and provisions			277,847		113,922
Deferred revenue			(4,471)		(8,379)
			44,693		(33,009)
Cash flows from investing activities					
Purchase of property and equipment	6		(46,242)		(168)
Proceeds on disposal of property and equipment	6		-		442
Investment in patents and trademarks	7		-		-
			(46,242)		274
Cash flows from financing activities					
Repayment of capital lease obligation			(150)		(2,066)
(Repayment) Proceeds from officer loan	17		(5,469)		2,949
Proceeds from the exercising of share warrants			-		-
Proceeds from private placement unit issuance			-		-
			(5,619)		883
Decrease in cash during the period		$	(7,168)	$	(31,852)
Cash, beginning of period		$	21,975	$	43,060
Cash, end of period		$	14,807	$	11,208
Supplementary Information					
Interest Paid		$	6,176	$	6,509
Interest Received		$	1,958	$	3,903

THERALASE® TECHNOLOGIES INC.

Consolidated Statement of Changes in Equity
As at March 31, 2013 and December 31, 2012

	Note	Number of Shares	Share Capital	Contributed Surplus	Common Share Purchase Warrants	Deficit	Total Shareholders' Equity
		#	$	$	$	$	$
Balance, December 31, 2011		41,682,975	7,175,225	3,441,869	247,116	(10,409,053)	455,157
Stock-based compensation expense	10	-	-	279,182	-	-	279,182
Issued pursuant to private placement (net of share issue costs)	9	3,000,000	668,277	-	42,223	-	710,500
Loss for the period		-	-	-	-	(1,509,569)	(1,509,569)
Balance, December 31, 2012		44,682,975	7,843,502	3,721,051	289,339	(11,918,622)	(64,730)
Balance, December 31, 2012		44,682,975	7,843,502	3,721,051	289,339	(11,918,622)	(64,730)
Stock-based compensation expense	10			41,990			41,990
Loss for the period						(332,435)	(332,435)
Balance, March 31, 2013							(355,175)

The company had a nil balance of accumulated other comprehensive income at each of the dates presented above.

1. Nature of Operations

Theralase Technologies Inc. (the "Company" or "Theralase") designs, develops, manufactures and markets patented, super-pulsed laser technology used in biostimulative and biodestructive clinical applications. The Theralase technology platform targets several health-care sectors: first, for non-invasive pain management and clinical therapy, used in neural muscular skeletal conditions, including arthritis and osteoarthritis; second, wound care and healing (including non-healing fractures and bone fracture regeneration); and third, research and development into combining patented photodynamic compounds with patented, super-pulsed, biofeedback laser technology to attack specifically targeted cancers, bacteria and viruses.

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, distribution and strategic alliance sales.

Theralase Technologies was incorporated by articles of incorporation in the province of Ontario in September, 2004. The Company's common shares trade on the Toronto Stock Exchange Venture Exchange under the symbol TLT. The registered office is 1945 Queen Street East, Toronto, Ontario M4L 1H7, Canada.

Going concern

These consolidated financial statements have been prepared under the assumption that the Company will continue as a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due for the foreseeable future. For the three-month period ended March 31, 2013, the Company reported a loss of $332,435 (2012 - $453,285) and an accumulated deficit of $12,251,057 as at that date (December 31, 2012 – $11,917,622). The future success of the Company depends primarily on the Company's ability to produce revenue from the sale of its current and future therapeutic laser product offerings. These circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern.

Sales of the TLC-1000, the Company's existing product line, have not been sufficient in and of themselves to enable the Company to fund all its continuing development and commercialization efforts and, accordingly, management is pursuing alternate financing sources to fund the Company's development and commercialization efforts. In 2012, the Company closed a non-brokered private placement on April 16, 2012, which raised gross proceeds of $750,000. The Company will continue to pursue the necessary financing through a combination of the issuance of new equity or debt instruments, entering into joint venture arrangements and strategic alliances. Nevertheless, there is no assurance that these initiatives will be successful.

The Company's ability to continue as a going concern is dependent on the successful completion of the development and commercialization of its future products and the sale of its current and future product offerings. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenue and expenses and consolidated balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

Statement of Compliance

These unaudited consolidated interim financial statements ("interim financial statements"), including comparative figures, have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as prescribed by the International Accounting Standards Board ("IASB") and in accordance with International Accounting Standard ("IAS") 34 - *Interim Financial Reporting* ("IAS 34").

Certain information, in particular, the accompanying notes normally included in the annual financial statements prepared in accordance with IFRS, have been omitted or condensed. These interim financial statements do not include all disclosures required under IFRS and, accordingly, should be read in conjunction with the annual financial statements for the year ended December 31, 2012 and the notes thereto.

The consolidated interim financial statements for the three-month period ended March 31, 2013 (including comparatives) were approved and authorized for issue by the board of directors on May 30, 2013.

2. Summary of Significant Accounting Policies

Basis of presentation

These interim consolidated financial statements for the three-months ended March 31, 2013 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, *Interim financial reporting*. The interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements as at December 31, 2012 and December 31, 2012 and for the years ended December 31, 2012 and 2011, respectively, which have been prepared in accordance with IFRS, as issued by the IASB.

The accounting policies adopted in these interim consolidated financial statements are consistent with those of the previous financial year.

The consolidated financial statements, which are presented in Canadian Dollars, (unless otherwise stated), have been prepared under the historical cost convention, as modified by the measurement at fair value of certain financial assets and financial liabilities. Share options and share awards granted to employees and third parties are recognized at fair value at the date of grant.

Accounting estimates and judgments

The preparation of these consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the period. Financial statement items subject to significant management judgment include:

- Measurement of impairment in assets – The active market or a binding sale agreement provides the best evidence for determination of fair value, but where neither exists, fair value is based on the best information available to reflect the amount the Company could receive for the assets or its value in use which is equal to the present value of future cash flows expected to be derived from the use and sale of the assets. Management exercises judgment to determine whether indicators of impairment exist, and if so, management must estimate the timing and amount of future cash flows from sales.

- Valuation of deferred income tax assets – The valuation of deferred income tax assets requires judgment on

their recoverability. Such judgments are made based on management's estimate on the timing and amount of the Company's future taxable earnings.

- Allowance for inventory obsolescence – The Company estimates inventory obsolescence allowances for potential losses resulting from inventory that cannot be processed and/or sold to customers. Additional allowances may be required if the physical condition of inventory deteriorates or customer requirements change.

- Warrants and share-based payments – The Company used the Black-Scholes option pricing model in determining the value of warrants and stock options, which requires a number of assumptions made, including the risk-free interest rate, expected life, forfeiture rate and expected share price volatility. Consequently, the actual share-based compensation expense may vary from the amount estimated (see note 11).

While management believes that the estimates and judgments are reasonable, actual results may differ materially from those estimates.

3. Accounting Standards Issued But Not Yet Applied

The IASB has issued the following standards which have not yet been adopted by the Corporation. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with the exception of IFRS 9 which is effective for annual periods beginning on or after January 1, 2015. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements.

The following is a description of the new standards:

IFRS 9, Financial Instruments *("IFRS 9")* was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments, with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss). Where such equity instruments are measured at fair value through other comprehensive income (loss), dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income (loss) indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income (loss).

IFRS 10 – Consolidation *("IFRS 10")* requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation—Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*.

IFRS 11 - Joint Arrangements *("IFRS 11")* requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity

account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures,* and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers*.

IFRS 12 – *Disclosure of Interests in Other Entities* *("IFRS 12")* establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 - *Fair Value Measurement* *("IFRS 13")* is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

4. Trade and Other Receivables

	As at March 31, 2013	As at December 31, 2012
Trade Accounts Receivable (net amount)	$ 343,539	$ 373,198
Finance Receivable	40,224	49,230
Government Tax Credits Receivable	124,527	124,527
Other	2,110	2,110
	$ 510,400	**$ 549,065**

Write offs of trade receivables for the three-month period ending March 31, 2013 amounted to $nil (December 31, 2012 - $9,300). Refer to note 17 (i) for the continuity schedule of allowance for trade receivables.

Government tax credits receivable comprise research and development investment tax credits receivable from the federal government which relate to qualifiable research and development expenditures under the applicable tax laws.

The Company's exposure to credit and currency risks related to trade and other receivables is presented in note 17.

5. Inventories

	As at March 31, 2013	As at December 31, 2012
Raw materials	$ 132,399	$ 125,373
Work-in-process	6,968	6,599
Finished goods	60,265	84,132
Total	**$ 199,632**	**$ 216,104**

6. Property and Equipment

Cost

	Tools and Dies	Finance Lease Equipment	Computer Equipment	Furniture and Fixtures	Rental units (1)	Equipment	Leasehold Improvements	Total
Balance at January 1, 2012	$ 39,653	$ 32,351	$ 92,498	$ 94,825	$ 40,794	$ 61,529	$ 23,082	$ 384,732
Additions			168	196		1,188	128,256	129,808
Disposals			(1,526)					(24,608)
Balance at December 31, 2012	$ 39,653	$ 32,351	$ 91,141	$ 95,021	$ 40,794	$ 62,717	$ 128,256	$ 489,932
Balance at January 1, 2013	$ 39,653	$ 32,351	$ 91,141	$ 95,021	$ 40,794	$ 62,717	$ 128,256	$ 489,932
Additions				250			45,991	46,241
Disposals								-
Balance at March 31, 2013	$ 39,653	$ 32,351	$ 91,141	$ 95,271	$ 40,794	$ 62,717	$ 174,247	$ 536,173

Depreciation

	Tools and Dies	Finance Lease Equipment	Computer Equipment	Furniture and Fixtures	Rental units (1)	Equipment	Leasehold Improvements	Total
Balance at January 1, 2012	$ 39,021	26,685	$ 67,996	$ 65,198	$ 29,413	$ 45,939	$ 20,491	$ 294,743
Depreciation for the period	158	4,376	7,037	5,919	6,414	3,852	2,591	30,347
Disposals			(530)				(23,082)	(23,612)
Balance at December 31, 2012	$ 39,179	$ 31,061	$ 74,503	$ 71,117	$ 35,827	$ 49,791	$ -	$ 301,478
Balance at January 1, 2013	$ 39,179	$ 31,061	$ 74,503	$ 71,117	$ 35,827	$ 49,791	$ -	$ 301,478
Depreciation for the period	30	1,826	1,244	1,186	1,772	783	9,408	16,249
Disposals							-	-
Balance at December 31, 2013	$ 39,209	$ 32,887	$ 75,747	$ 72,303	$ 37,599	$ 50,574	$ 9,408	$ 317,727

Carrying Amounts

	Tools and Dies	Finance Lease Equipment	Computer Equipment	Furniture and Fixtures	Rental units (1)	Equipment	Leasehold Improvements	Total
At December 31, 2012	474	1,290	16,638	23,904	4,967	12,926	128,256	188,454
At March 31, 2013	444	(535)	15,395	22,969	3,195	12,143	164,839	218,446

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

7. Intangible Assets

Cost

	Patents	Trademarks	Development Costs	FDA Clinical Study Costs (1)	Total
Balance at January 1, 2012	$ 199,622	$ 58,346	$ 344,093	$ 509,649	$ 1,111,710
Additions	-	-	-	-	-
Balance at December 31, 2012	$ 199,622	$ 58,346	$ 344,093	$ 509,649	$ 1,111,710
Balance at January 1, 2013	$ 199,622	$ 58,346	$ 344,093	$ 509,649	$ 1,111,710
Additions	-	-	-	-	-
Balance at March 31, 2013	$ 199,622	$ 58,346	$ 344,093	$ 509,649	$ 1,111,710

Amortization

	Patents	Trademarks	Development Costs	FDA Clinical Study Costs (1)	Total
Balance at January 1, 2012	$ 75,098	$ 34,078	$ 344,093	$ 509,649	$ 962,918
Amortization for the period	15,017	3,433	-	-	18,450
Balance at December 31, 2012	$ 90,115	$ 37,511	$ 344,093	$ 509,649	$ 981,368
Balance at January 1, 2013	$ 90,115	$ 37,511	$ 344,093	$ 509,649	$ 981,368
Amortization for the period	3,816	858	-	-	4,674
Balance at March 31, 2013	$ 93,931	$ 38,369	$ 344,093	$ 509,649	$ 986,042

Carrying Amounts

	Patents	Trademarks	Development Costs	FDA Clinical Study Costs (1)	Total
At December 31, 2012	109,507	20,835	-	-	130,342
At March 31, 2013	105,691	19,977	-	-	125,668

(1) FDA clinical study cost consist of expenses incurred in conducting the clinical trial Laser Therapy Applications for Chronic Joint Pain used to obtain the FDA clearance in July 2005, which allows for the marketing and sale of the TLC-1000 product line into the US market.

8. Payables and Accruals

	As at March 31, 2013	As at December 31, 2012
Trade Payables	$ 842,250	$ 684,848
Salaries, employment taxes, and benefits	36,333	34,762
Current portion of warranty liability	1,100	1,100
Accrued R&D Costs	255,786	160,786
Other	202,585	178,711
	$ 1,338,054	**$ 1,060,207**

9. Private Placement

On April 16, 2012, the Company completed a financing by way of a non-brokered private placement, where 3,000,000 units were issued at a price of $0.25 per unit for gross proceeds of $750,000. Each unit consists of 1 common share and one half of a non-transferable common share purchase warrant with a four-month holding period. Each whole warrant entitled the holder thereof to acquire 1 common share at a price of $0.38, expiring on April 12, 2017.

The Company received net proceeds of $710,500 (gross proceeds of $750,000 less expenses of $39,500). The purchase price of $0.25 per unit was allocated between the common shares ($0.23 per share) and common share purchase warrants ($0.02 per half warrant), based on their relative fair values. Management determined that the allocation of the proceeds was $668,277 for the common shares issued and $42,223 for the common share purchase warrants issued.

The fair value of each common share purchase warrant granted was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	April 16, 2012
Expected volatility (based on historical share prices)	65.30%
Risk-free interest rate	1.22%
Expected life	1 Year
Expected dividends	$nil
Strike price	$0.38
Share price	$0.25

10. Stock Options

The Company has a rolling stock option plan reserving for issue under this plan 10% (4,468,297 common shares) of the outstanding common shares at a purchase price not less than the fair market value of the Company`s stock at the grant date. Under the company's stock option plan, the board of directors may grant, at its discretion, stock options to purchase common shares to certain employees, officers, directors and consultants of the company. Terms and conditions of the stock option and vesting provisions are at the discretion of the board of directors.

A summary of stock options issued under the stock option plan for three-months ended March 31, 2013 and the year ended December 31, 2012 is provided below.

	Common shares under option	**Weighted average exercised price $**
Outstanding, January 1, 2012	2,830,000	0.44
Forfeited (1)	(173,334)	0.42
Expired (2)	(100,000)	0.60
Outstanding, December 31, 2012	2,556,666	0.44
Forfeited		
Expired		
Outstanding, March 31, 2013	2,556,666	0.44

1) On March 19, 2012 a certain board member resigned from the board and forfeited all non-vested options totaling 50,000 in which $1,787 of stock based compensation recognized in prior periods was reversed upon expiry. On March 30, 2012 a sales contract was terminated and forfeited all non-vested options totaling 33,334 in which $5,059 of stock based compensation recognized in prior periods was reversed upon expiry. During 2012, 90,000 stock options were forfeited to certain employees and board of director's members in which $12,867 was reversed upon expiry.

2) On October 4, 2012, certain employees stock options expired.

The following table summarizes information on the stock options outstanding as at March 31, 2013:

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 $
100,000	0.7	$ 0.10	100,000	$ 0.10
100,000	0.8	$ 0.15	100,000	$ 0.15
300,000	1.4	$ 0.35	300,000	$ 0.35
66,666	1.8	$ 0.45	66,666	$ 0.45
1,990,000	3.6	$ 0.50	663,334	0.50
2,556,666		$ 0.44	1,230,000	$ 0.31

Under the stock option plan, the stock options vest over a three year period, commencing one year after the grant. As at March 31, 2013, 1,230,000 of the stock options were vested. All outstanding stock options as at March 31, 2013 will be fully vested by October 25, 2014.

There is a rebutted presumption that options to non-employees are measured at the fair value of the equity instruments granted.

The fair value of each stock option is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2013	2012
Risk-free interest rate	1.15%	1.21%
Expected volatility*	82.1%	109%
Expected life	3.6 years	4 years
Expected dividends	Nil	Nil
Weighted average grant date fair value	$0.35	$0.35
Weighted average exercise price	$0.44	$0.44

For the three-month period ended March 31, 2012 the Company recognized stock-based compensation expense of $41,990 (2012 - $70,903) for stock options issued to directors, employees, medical scientific and advisory board, marketing and media relation consultants and business development consultants.

*Based on historical volatility

11. Warrants

As at December 31, common share purchase warrants consisted of the following:

	Number outstanding	Weighted average exercised price $	Fair value at date of grant
Outstanding, January 1, 2012	1,115,000	0.68	247,116
Issued with private placement shares	1,500,000	0.38	42,223
Outstanding, December 31, 2012	2,615,000	0.51	289,339
Outstanding, March 31, 2013	2,615,000	0.51	289,339

The following table summarizes information on the common share purchase warrants outstanding as of March 31, 2013

Exercise Price	Outstanding Beginning of the year	Granted During the year	Outstanding End of Year	Weighted Average Remaining Contractual Life (years)
$0.75	590,000	-	590,000	0.17
$0.60	525,000		525,000	0.17
$0.38	-	1,500,000	1,500,000	5.04
	1,115,000	1,500,000	2,615,000	2.96

12. Share Capital

Authorized

Unlimited number of common shares

Issued

	March 31, 2013		December 31, 2012	
	Number	Amount	Number	Amount
Balance, beginning of year	44,682,975	$ 7,843,502	41,682,975	$ 7,175,225
Issued during year (1)		-	3,000,000	668,277
Balance, ending of year	**44,682,975**	**$ 7,843,502**	**44,682,975**	**$ 7,843,502**

1) The common shares issued during 2012 were issued for gross proceeds of $0.25 per common share for cash (see note 11).

13. Loss and Comprehensive Loss Per Common Share

Basic loss and comprehensive loss per common share has been calculated based on the weighted average number of common shares outstanding during each of the years presented in the consolidated financial statements.

Basic and diluted loss and comprehensive loss per common share for the three-month period ending March 31 are as follows:

	2013	2012
Loss for the period	$ (332,435)	$ (453,285)
Weighted average number of common shares	43,819,961	41,682,975
Basic and diluted loss and comprehensive loss per share	**$ (0.01)**	**$ (0.01)**

Stock options to purchase 2,556,666 (2012 – 2,680,000) common shares and common share purchase warrants totaling 2,615,000 (2012 – 1,115,000) 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 on the consolidated financial statements:

	2013	2012
Sales salaries	$ 78,393	$ 106,405
Advertising	3,213	27,932
Commission	6,679	11,383
Travel	12,993	38,207
Amortization and depreciation allocation	8,113	4,463
Total selling expenses	**$109,391**	**$188,390**

15. Administrative Expenses

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

	2013	2012
Insurance	14,374	12,499
Professional fees	14,212	15,338
Rent	20,300	26,895
General and administrative expenses	13,497	36,727
Administrative salaries	131,362	154,949
Director and advisory fees	8,450	7,435
Stock based compensation	41,990	52,598
Amortization and depreciation allocation	5,581	2,772
Total administrative expenses	**249,767**	**309,213**

16. Research and Development Expenses

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

	2013	2012
Research and development	193,093	243,925
Amortization and depreciation allocation	6,504	5,233
Total research and development expenses	**$199,597**	**$249,158**

17. Financial Instruments

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)

Level 3 inputs for the asset or liability that are not based upon observable market data

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As at March 31, 2013 and December 31, 2012, the Company's cash is categorized as Level 1 measurement.

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 accounts receivable. The amounts reported in the consolidated balance sheets are net of allowances for bad debts, estimated by the Company's management based on prior experience and its assessment of the current economic environment. The Company reviews its trade receivable accounts regularly and reduces amounts to their expected realizable values by adjusting the allowance for doubtful accounts 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 following table reflects the balance and age of trade receivables as at March 31, 2013 and December 31, 2012:

		2013		2012
Total receivables gross amount	$	510,400	$	549,065
Percentage outstanding more than 30 days		16%		32%
Percentage outstanding more than 120 days		2%		2%

The following table reflects the changes in the allowance for trade receivables during year ended December 31:

		2013		2012
Allowance for trade receivables - beginning of period	$	11,558	$	44,311
Allowance recorded against current year's sales		-		2,259
Adjustment based on collection experience		-		(12,129)
Amounts written off		-		(22,883)
Allowance for trade receivables - end of period	**$**	**11,558**	**$**	**11,558**

ii Liquidity risk

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

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

				Payments Due by Period				
Contractual Obligations		**Total**		**2013**		**2014**		**2015**
Payables and accruals	$	1,060,207	$	1,060,207	$	-	$	-
Due to officer	$	101,832	$	101,832				
Finance lease obligations		1,798		915		713		170
Total contractual obligations	$	1,163,837	$	1,162,954	$	713	$	170

The Company also has significant contractual obligations (note 21) in the form of lease obligations related to the company's premises.

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. The Company is subject to interest rate risk on its due to officer; however, there is limited exposure due to fixed interest rates.

iv Foreign currency exchange risk

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

Accounts exposed to foreign currency exchange risk as at March 31, 2013 and December 31, 2012 are as follows:

		2013		**2,012**
Cash	$	9,834	$	17,377
Trade and other receivables		214,887		251,373
Payables and accruals		(345,469)		(339,735)
Total	**$**	**(120,748)**	**$**	**(70,985)**

The above US dollar balances are shown in Canadian dollar equivalents.

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.

		2013		**2,012**
Cash	$	983	$	1,738
Trade and other receivables		21,489		25,137
Payables and accruals		(34,547)		(33,974)
Total	**$**	**(12,075)**	**$**	**(7,100)**

18. Related Party Disclosure

In 2012, the President/CEO and CFO of the Company loaned the Company $101,832 (2011 - $92,565) repayable on demand bearing an annual interest rate of 8%.

Key Management Compensation

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

	2012	**2011**
Short-term compensation	$66,246	$66,246
Stock-based compensation	26,351	43,292
Total	$92,597	$109,538

Key management personnel were not paid post-employment benefits, termination benefits or other long term benefits during the three-month period ended March 31, 2013 and 2012. Fees paid to directors have been disclosed in note 15.

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

19. Capital Disclosures

The Company's objective is to maintain a sufficient capital base to support future research, development and strategic business initiatives allowing us to invest in our future and maintain investor, creditor and market confidence. The Company makes every attempt to manage its liquidity to minimize shareholder dilution when possible.

The Company's capital is composed of total shareholders' equity. For the three-month period ended March 31, 2013, the Company reported a loss of $332,435 (2012 - $453,285) and an accumulated deficit of $12,251,057 as at that date (December 31, 2012 – $11,917,622). Sales of the TLC-1000, the company's existing product line, have not been sufficient in and of themselves to enable the company to fund all its continuing development and commercialization efforts and, accordingly, management is pursuing alternate financing sources to fund the company's development and commercialization efforts that are similar to the financing secured through the private placement that took place on April 16, 2012 (note 9). Nevertheless, there is no assurance that these initiatives will be successful.

The Company is not subject to any externally imposed capital requirements and the company does not use financial ratios to manage capital.

20. Segmented Information

For management purposes, the company is organized into two separate reportable operating divisions; (1) Therapeutic Laser Technology (TLT) division and (2) Photo Dynamic Therapy (PDT) division. The TLT division is responsible for all aspects of the Company's therapeutic laser business, which manufactures products used by healthcare practitioners predominantly for the healing of pain. The PDT division is responsible for the research and development of Photo Dynamic Compounds (PDCs) for the destruction of primarily cancer.

The following table displays revenue and direct expenses from the TLT and PDT division for the three-month period ended March 31:

	2013			2012		
	TLT	**PDT**	**Total**	**TLT**	**PDT**	**Total**
Sales	$ 342,900	$ -	$ 342,900	$ 448,359	$ -	$ 448,359
Cost of Sales	106,978	-	106,978	148,513	-	148,513
Gross Margin	235,922	-	235,922	299,846	-	299,846
Operating Expenses						
Selling expenses	109,391	-	109,391	188,390	-	188,390
Administrative expenses	222,081	27,686	249,767	276,591	32,622	309,213
Research and development expenses	-	199,597	199,597	14,186	234,972	249,158
(Gain) loss on foreign exchange	5,384	-	5,384	3,763	-	3,763
Interest expense	3,088	3,088	6,176	3,255	3,255	6,509
Interest income	(1,958)	-	(1,958)	(3,902)	-	(3,902)
	337,986	230,371	568,357	482,282	270,849	753,131
Loss and comprehensive loss for the period	$ (102,064)	$ (230,371)	$ (332,435)	$ (182,436)	$ (270,849)	$ (453,285)

The following table displays revenue and direct expenses from TLT division product sales by geographic area for the three-month period ended March 31:

	2013			2012		
	Canada	**USA**	**International**	**Canada**	**USA**	**International**
Sales	250,422	36,339	56,140	281,201	110,952	56,206
Cost of Sales	71,850	10,426	24,702	93,134	36,747	18,632
Selling Expenses	66,155	43,236	-	97,982	77,591	12,817
	112,416	(17,324)	31,438	90,086	(3,386)	24,757

As at March 31, 2013 and December 31, 2012, the company's long-lived assets used in operations are all located in Canada.

21. Commitments

The Company's commitments consist of the following:

	Total	**2013**	**2014**	**2015**	**2016**	**2017**
Lease obligations (a)	$ 301,000	$ 63,000	$ 63,000	$ 63,000	$ 63,000	$ 49,000
Total	$ 301,000	$ 63,000	$ 63,000	$ 63,000	$ 63,000	$ 49,000

a) Lease obligations under a lease agreement related to the Company's premises, commenced on August 1, 2012 and expires on July 31, 2017. Under the terms of this lease, the Company is required to pay a proportionate share of operating costs, realty taxes and utilities, in addition to the minimum rental payments. The future minimum lease payments are shown in the table above.

The Company indemnifies its directors and officers against any and all costs, charges and expenses, including settlements of claims in respect of any civil, criminal or administrative action incurred in the performance of their service to the company to the extent permitted by law. The company maintains liability insurance for its officers and directors.