



56 Million

People in the U.S. suffer from chronic pain and chronic wounds.



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First Quarter Report
March 31, 2008

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These unaudited interim financial statements of Theralase Technologies Inc., for the 3 month period ended March 31, 2008 have been prepared by Management in accordance with Canadian generally accepted accounting principles consistently applied and are the responsibility of the Company's Management. These statements have not been reviewed by the Company's auditors.

THERALASE® TECHNOLOGIES INC.

Consolidated Balance Sheets - Unaudited

As at March 31, 2007 and December 31, 2008

Stated in Canadian Dollars

	2008	2007
Assets		
Current assets		
Cash and cash equivalents (note 4)	\$ 468,908	\$ 507,969
Accounts receivable	230,478	327,851
Inventory	221,633	220,136
Prepaid expenses and other assets	96,294	75,081
	1,017,313	1,131,037
Property, plant and equipment	97,754	96,939
Intangibles	594,357	618,223
Goodwill	1,861,078	1,861,078
	\$ 3,570,502	\$ 3,707,277
Liabilities		
Current liabilities		
Bank loan	\$ -	\$ -
Accounts payable and accrued liabilities	391,278	291,316
Deferred revenue current	2,731	-
Total current liabilities	394,009	291,316
Deferred revenue	20,557	10,000
Leasehold inducement	40,888	33,806
Total liabilities	455,454	335,122
Shareholders' Equity		
Share capital	7,089,139	7,089,139
Share purchase warrants	103,495	103,495
Contributed surplus (note 7)	2,706,633	2,623,792
Deficit	(6,784,219)	(6,444,271)
	3,115,048	3,372,155
	\$ 3,570,502	\$ 3,707,277

Going Concern (note 1)

Commitments (note 11)

Approved on Behalf of the Board

"Roger Dumoulin-White"

Director

"S. Donald Moore"

Director

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

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Operations, Comprehensive Loss and Deficit - Unaudited

For the three-month period ended March 31

Stated in Canadian Dollars

	2008	2007 Restated (note 2)
Revenue		
Product sales	\$ 320,053	\$ 393,082
Clinic services	3,973	5,062
	324,026	398,144
Cost of Sales	104,901	94,817
Gross Margin	219,125	303,327
Operating Expenses		
Selling	125,798	122,609
Administrative	351,126	273,021
Research and development	46,037	21,423
Amortization of property, plant and equipment	6,195	3,700
Amortization of intangibles	36,905	37,779
(Gain) loss on foreign exchange	(2,763)	1,493
	563,298	460,025
Loss before the following	(344,173)	(156,698)
Interest expense	621	1,444
Interest income	(4,846)	(2,540)
Loss and comprehensive loss for the period	(339,948)	(155,602)
Deficit, beginning of period	(6,444,271)	(5,330,898)
Deficit, end of period	\$ (6,784,219)	\$ (5,486,500)
Basic and diluted loss and comprehensive loss per common share (note 6)	\$ (0.0097)	\$ (0.0047)
Weighted average number of shares outstanding (note 6)	34,936,725	33,236,725

Going Concern (note 1)

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

THERALASE® TECHNOLOGIES INC.

Statement of Shareholders' Equity - Unaudited

As at March 31

Stated in Canadian Dollars

	Number of Shares	Share Capital	Contributed Surplus	Common Share Purchase Warrants	Deficit	Total Shareholders' Equity
	#	\$	\$	\$	\$	\$
Balance, December 31, 2006	33,236,725	6,403,317	2,147,424	-	(5,330,898)	3,219,843
Stock Options Exercised	-	-	-	-	0	0
Stock Options Expired	-	-	-	-	0	0
Stock-based compensation expense	-	-	476,368	-	0	476,368
Issued pursuant to private placement, net	1,700,000	685,822	-	103,495	0	789,317
Net Loss for the year	-	-	-	-	(1,113,373)	(1,113,373)
Balance, December 31, 2007	34,936,725	7,089,139	2,623,792	103,495	(6,444,271)	3,372,155
Stock-based compensation expense			82,841			82,841
Net Loss for the three month period ended March 31, 2008					(339,948)	(339,948)
Balance, March 31, 2008	34,936,725	7,089,139	2,706,633	103,495	(6,784,219)	3,115,048

THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Cash Flows - Unaudited
For the three-month period ended March 31

Stated in Canadian Dollars

	2008	2007 Restated (note 2)
Cash flows from operating activities		
Net loss for the period	\$ (339,948)	\$ (155,602)
Items not involving cash		
Amortization of property, plant and equipment	6,195	3,700
Amortization of intangibles	36,905	37,779
Stock-based compensation (note 5)	82,841	119,742
Foreign exchange (gain) loss	(2,763)	1,493
Lease inducements	7,082	-
Non-monetary transactions	-	-
	(209,688)	7,112
Change in operating assets and liabilities other than cash		
Accounts receivable	100,136	31,491
Inventory	(1,497)	(45,707)
Prepaid expenses and other assets	(21,213)	(43,551)
Accounts payable and accrued liabilities	113,249	(42,484)
	(19,013)	(93,139)
Cash flows from investing activities		
Purchase of property, plant and equipment	(7,010)	(416)
Investment in development costs	(8,596)	(21,806)
Investment in patents and trademarks	(4,442)	(2,630)
	(20,048)	(24,852)
Cash flows from financing activities		
(Repayment) additions of bank loan	-	10,100
	-	10,100
Increase (decrease) in cash and cash equivalents during the period	(39,061)	(107,891)
Cash and cash equivalents, beginning of period	507,969	234,598
Cash and cash equivalents, end of period	\$ 468,908	\$ 126,707
Cash and cash equivalents		
Cash	\$ (6,024)	\$ 26,825
Cash equivalents	474,932	99,882
	\$ 468,908	\$ 126,707

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

THERALASE[®] TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements - Unaudited

For the three months ended March 31, 2008

1. Nature of operations and going concern

Nature of operations

Theralase[®] Technologies Inc. ("the Company") designs, develops and manufactures patented, super-pulsed laser technology used in bio-stimulative and bio-destructive clinical applications. The Theralase[®] technology platform targets several healthcare sectors; firstly, for non-invasive pain management and clinical therapy, used in neural muscular skeletal conditions, (including arthritis and osteoarthritis) secondly, wound care and healing, (including: non-healing fractures and bone fracture regeneration) and thirdly, research and development into combining patented photodynamic compounds with patented super-pulsed, biofeedback laser technology to attack specifically targeted cancers, bacteria, viruses and fat cells.

The Company's common shares trade on the Toronto Stock Exchange Venture Exchange ("TSX Venture Exchange") under the symbol "TLT" and on the NASDAQ (OTC BB) under the symbol "TLTFF".

Going concern

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to 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 three-month period ended March 31, 2008, the Company reported a loss of \$339,948 and an accumulated deficit of \$6,784,219 at that date. The future success of the Company depends primarily upon the Company's ability to produce revenue on a timely basis from the development, commercialization and sale of its current and new therapeutic laser product offerings. These circumstances lend substantial doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

Although the Company has cash and cash equivalents on hand of \$468,908 at March 31, 2008, 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. Similar to the financing secured through the private placement that took place on August 15, 2007 (note 5), management believes that the Company will be able to secure the necessary financing through a combination of the exercise of existing warrants for the purchase of common shares, the issue 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 upon the successful completion of the development and commercialization of its future products and the sale of its current and future product offerings. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

2. Restatement of previously issued financial statements

The Company has determined that certain adjustments are required to restate the unaudited interim Consolidated Balance Sheet, Consolidated Statements of Operations, Comprehensive Loss and Deficit, and Consolidated Statement of Cash Flows for the three-month period ended March 31, 2007 to correct errors.

THERALASE[®] TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements - Unaudited

For the three months ended March 31, 2008

The effect of the restatements for the three-month period ended March 31, 2007 is as follows:

Line Item	As Previously Reported (iii)	Restatements	As Restated
Consolidated Statement of Operations and Deficit			
Administrative expense (i)	213,923	59,098	273,021
Research and development expense (i), (ii)	1,674	19,749	21,423
Loss for the year	(75,081)	(80,521)	(155,602)
Deficit, beginning of year (ii)	(5,023,630)	(307,268)	(5,330,898)
Deficit, ending of year	(5,098,711)	(387,789)	(5,486,500)
Consolidated Statement of Cash Flows			
Cash flows from operating activities	(75,289)	(17,850)	(93,139)
Cash flows from investing activities	(42,702)	17,850	(24,852)
Loss per common share			
Basic and fully diluted loss per common share	(0.0023)	(0.0024)	(0.0047)

- (i) The Company has determined that it incorrectly reported stock-based compensation included in administrative and research and development expenses. The fair value of the stock options granted was originally calculated using a volatility rate of 45.0% for each option grant in 2006, whereas the actual volatility rates range from 100.1% and 100.5%. As well, the Company did not correctly account for non-employee stock options granted, which require to be revalued until the time the awards vest. As a result, administrative and research and development expenses were understated by \$59,098 and \$3,573, respectively, for the three-month period ended March 31, 2007.
- (ii) Development costs and costs relating to patents and trademarks for the TLC-3000 – Cancer Therapy project in the amount of \$200,679 respectively were incorrectly capitalized by management. These costs did not meet the CICA Handbook criteria for deferral at the time of capitalization and as a result, these costs have been expensed. Of these costs, \$182,829 were capitalized prior to 2007 and they have been adjusted to the opening deficit for the year ended December 31, 2007, with the remaining \$17,850 adjusted as an increase in research and development expense for the year ended December 31, 2006.
- (iii) Certain comparative amounts in the financial statements have been reclassified to reflect current year presentation: Stock-based compensation expense was previously presented separately under operating expenses in the amount of \$55,816, where this amount has been reclassified to administrative and research and development expenses in the amounts of \$54,142 and \$1,674 respectively, prior to reflecting the adjustments described above. Expenses relating to advertising, marketing and travel in the amount of \$78,885 were reclassified out of administrative expense and into selling expense, and \$14,850 was reclassified from administrative expense to cost of sales, representing overhead cost on product sales for the three month period ended Mar 31, 2007.

3. Summary of significant accounting policies

These unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements ("Canadian GAAP") and are prepared following accounting policies consistent with the Company's annual financial statements and related notes thereto for the year ended December 31, 2007, with the exception of the changes in accounting policies described below.

THERALASE[®] TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements - Unaudited

For the three months ended March 31, 2008

Changes to existing accounting policies

Revenue recognition

Product sales revenue is recognized when title passes to the customer and collectability is reasonably assured. Clinic services revenue is recognized when the service is delivered to the patient and the collection is reasonably assured.

Deferred revenue consists of unearned revenue from the sale of extended warranty plans and sales with payment terms extending beyond one year.

Adoption of new accounting standards

Effective January 1, 2008, the Company adopted CICA Handbook Section 1535, *Capital Disclosures*. This section establishes standards for disclosing information about an entity's objectives, policies and processes for managing capital. This standard is effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2007 on a prospective basis.

Effective January 1, 2008, the Company adopted CICA Handbook Section 3862, *Financial Instruments - Disclosures*, and Section 3863, *Financial Instruments - Presentation*. These standards enhance existing disclosures in previously issued Section 3861, *Financial Instruments - Disclosure and Presentation*. Section 3862 places greater emphasis on disclosures about risks related to recognized and unrecognized financial instruments and how those risks are managed. Section 3863 carries forward the same presentation standards as Section 3861. These new standards are effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2007 on a prospective basis.

Effective January 1, 2008, the Company adopted amended CICA Handbook Section 1400, *General Standards of Financial Statement Presentation*. These amendments require management to disclose any uncertainties that cast significant doubt on the entity's ability to continue as a going concern. In assessing whether the going concern assumption is appropriate, management must take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet date.

The above sections relate to disclosure and presentation only and did not have an impact on the Company's financial results or position. See notes 1, 8 and 9.

Effective January 1, 2008, the Company adopted CICA Handbook Section 3031, "Inventories", which addresses the measurement and disclosure of inventory. The new standard is effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2008. The adoption of this standard did not have a material impact on the Company's financial statements.

THERALASE[®] TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements - Unaudited

For the three months ended March 31, 2008

Future accounting pronouncements

The potential impact that the application of a new GAAP standard will have on the financial statements in the period of initial adoption is as follows:

- In November 2007, the CICA issued Section 3064, "*Goodwill and Intangible Assets*" ("Section 3064"). Section 3064, which replaces Section 3062 "*Goodwill and Intangibles Assets*", and Section 3450 "*Research and Development Costs*", establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This standard is effective for the Company for its interim financial statements beginning on October 1, 2008. The Company is currently assessing the impact that this section will have on its financial statements.
- In 2005, the Accounting Standards Board of Canada ("AcSB") announced that accounting standards in Canada for public companies are to converge with IFRS. In May 2007, the CICA published an updated version of its "Implementation Plan for Incorporating International Financial Reporting Standards into Canadian GAAP". This plan includes an outline of the key decisions that the CICA will need to make as it implements the Strategic Plan for publicly accountable enterprises that will converge Canadian GAAP with IFRS. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy which must be addressed. The CICA has confirmed the changeover date from current Canadian GAAP to IFRS to be January 1, 2011. The Company is currently assessing the future impact of these new standards on its financial statements.

4. Cash and cash equivalents

The cash and cash equivalents consist of a bankers' acceptance yielding an interest rate of 3.20% and maturing on April 10, 2008, prime linked guaranteed investment certificate yielding an interest rate of 4.00% and redeemable at any time and cash held and bank indebtedness in bank accounts.

5. Incentive stock options

The Company has a stock option plan reserving for issue under this plan 10% (3,493,672 common shares) of the outstanding common shares. Under the Company's stock option plan, the Board of Directors may grant, at its discretion, options to purchase shares to certain employees, officers, directors and consultants of the Company. Terms and conditions of the option and vesting provisions are at the discretion of the Board of Directors.

A summary of options issued under the Stock Option Plan for the three-month period ended March 31 is provided below.

	2008		2007	
	Number of Options	Exercise Price	Number of Options	Exercise Price
Outstanding beginning of year	2,650,000	\$0.60	2,650,000	\$0.60
Granted during the year	-	-	-	\$0.00
Exercised during the year	-	-	-	-
Expired or cancelled during the year	-	-	-	-
<u>Options outstanding at end of year</u>	<u>2,650,000</u>	<u>\$0.60</u>	<u>2,650,000</u>	<u>\$0.60</u>

THERALASE® TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements - Unaudited

For the three months ended March 31, 2008

The following table summarizes information on the stock options outstanding at March 31, 2008:

Options outstanding	Options Outstanding			Options Exercisable	
	Exercise Price	Weighted Average Remaining Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
350,000	\$ 0.60	2.9 years	\$ 0.60	116,667	\$ 0.60
2,300,000	\$ 0.60	2.8 years	\$ 0.60	766,666	\$ 0.60
100,000	\$ 0.60	4.5 years	\$ 0.60	-	-

Under the stock option plan, the options vest in equal installments over a period of three years commencing one year after the grant. As at March 31, 2008, $\frac{1}{3}$ (883,333) of the options were vested. All outstanding options as at March 31, 2008 will be fully vested by October 4, 2010.

For the three months ended March 31, 2008, the Company recognized a stock-based compensation expense of \$82,841 for options issued to directors, employees and medical scientific and advisory board (2007 - \$119,742, as restated).

6. 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 ended March 31:

	2008	2007 Restated (note 2)
Net loss	\$ (339,948)	\$ (155,602)
Weighted average number of common shares	34,936,725	33,236,725
Basic and diluted loss and comprehensive loss per common share	\$ (0.0097)	\$ (0.0047)

Options to purchase 2,750,000 common shares and warrants to purchase 850,000 common shares were not included in the computation of diluted loss and comprehensive loss per common share for the three month periods ended March 31, 2008 and 2007 due to their anti-dilutive nature.

7. Contributed surplus

As at March 31, 2008 and March 31, 2007, contributed surplus consisted of the following:

	2008	2007 (Restated note 2)
Balance, beginning of year	\$ 2,266,516	\$ 2,147,424
Stock-based compensation expense	82,841	119,092
Balance, end of year	\$ 2,349,357	\$ 2,266,516

THERALASE[®] TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements - Unaudited

For the three months ended March 31, 2008

8. Financial instruments

The Company's financial instruments consists of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The fair values of cash, accounts receivable, accounts payable and accrued liabilities approximate carrying value because of the short-term nature of these instruments.

(i) Credit risk:

Cash equivalents are held in high-grade, bankers' acceptance and other low risk investments with no exposure to liquidity or other risk associated with Asset-Backed Securities. These financial instruments are classified as held for trading as they may periodically be traded before their maturity date. However, the majority of these financial instruments are held to maturity and would not result in a significant risk of fair value changes if held to maturity. At March 31, 2008 maturities on investments is 30 days.

(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 long-term financial liabilities.

(iii) Market risk:

Market risk is the risk that changes in market prices, such as foreign currency exchange rates and interest rates will affect the Company's income or the value of the financial instruments held.

(iv) Foreign currency exchange risk:

The Company's primary risks are exposure to foreign currency exchange risk. These risks arise from the Company's holdings of US and Canadian dollar denominated cash, accounts receivable and accounts payable. Changes arising from these risks could impact the Company's reported foreign exchange gains or losses. The Company limits its exposure to foreign currency risk by holding US denominated cash in amounts of up to 100% of forecasted twelve month US dollar expenditures, thereby creating a natural hedge against foreign currency fluctuations and limiting foreign currency risk to translation of US dollar balances at the balance sheet date.

Accounts exposed to foreign exchange risk as at:

	March 31, 2008			December 31, 2007		
	CDN\$ Balance	USD\$ Balance (1)	Total	CDN\$ Balance	USD\$ Balance (1)	Total
Cash and equivalents	\$ 439,709	\$ 29,199	\$ 468,908	\$ 501,772	\$ 6,197	507,969
Accounts receivable	\$ 171,366	59,112	230,478	208,622	119,229	327,851
Accounts payable	\$ 321,750	69,528	391,278	259,005	32,311	291,316
Total	\$ 932,825	\$ 157,839	\$ 1,090,664	\$ 969,399	\$ 157,737	\$ 1,127,136

(1) All USD balances are shown in Canadian dollar equivalents.

THERALASE[®] TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements - Unaudited

For the three months ended March 31, 2008

(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 their translation at the balance sheet date for a 10% change in foreign currency rates. For a 10% weakening of the US Dollar against the Canadian Dollar, there would be an equal and opposite impact on net and comprehensive loss for the period.

Change in foreign exchange gain/(loss) resulting from currency fluctuations as at:

	March 31, 2008	December 31, 2007
	10% Foreign Currency	10% Foreign Currency
	Strengthening	Strengthening
Cash and equivalents	2,914	620
Accounts receivable	5,899	12,028
Accounts payable	6,939	3,260
Total	1,874	9,388

9. Management of Capital

The Company's objective is to maintain a sufficient capital base so as to sustain future research and development and business initiatives and to maintain investor, creditor and market confidence. The Company makes every attempt to manage its liquidity to minimize shareholder dilutions when possible.

For the three month period ended March 31, 2007, the Company reported a loss of \$339,948 and an accumulated deficit of \$6,784,219 at that date. Although the Company has cash and cash equivalents on hand of \$468,908 at March 31, 2007, 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. Similar to the financing secured through the private placement that took place on August 15, 2007 (note 5), management believes that the Company will be able to secure the necessary financing through a combination of the exercise of existing warrants for the purchase of common shares, the issue 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 is not subject to an externally exposed capital requirements and the Company does not use financial ratios to manage capital.

10. Segmented information

The Company is organized and managed as a single reportable business segment. The Company's operations are substantially all related to the research, design, manufacture and sales of therapeutic laser products and services.

The following table displays revenue from product sales by geographic area for the three-month periods ended March 31:

	2008	2007
Canada	\$ 240,710	\$ 137,461
United States	83,316	260,683
	\$ 324,026	\$ 398,144

Revenue from clinic services is all earned in Canada.

THERALASE® TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements - Unaudited

For the three months ended March 31, 2008

As at March 31, 2008 and 2007, the Company's long-lived assets used in operations are all located in Canada.

11. Commitments

The Company's commitments consist of the following:

	2008	2009	2010	2011	2012	Total
Lease obligations	\$ 31,562	\$ 48,703	\$ 51,968	\$ 53,873	\$ 31,426	\$ 217,532
Research commitments	205,173	65,762	-	-	-	\$ 270,935
Total	\$ 236,735	\$ 114,465	\$ 51,968	\$ 53,873	\$ 31,426	\$ 488,467

- i) Lease obligations under a lease agreement related to its premises which commenced on August 1, 2007 and expires on July 31, 2012. 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.
- ii) Research commitments under a research collaboration agreement with The University Health Network and The Ontario Centres of Excellence for the TLC-3000 cancer therapy project. Under the terms of this agreement, the Company is required to pay a total of \$225,250 for the period of July 2007 to June 2009.
- iii) Research commitments under a research collaboration agreement with Virginia Polytechnic Institute and State University for the TLC-3000 cancer therapy project. Under the terms of this agreement the Company is required to pay \$75,686 for the period of May 2007 to April 2008.

12. Comparative figures

Certain comparative figures have been reclassified to conform with the consolidated financial statement presentation adopted in the current quarter.