



**56 Million**

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



[www.theralase.com](http://www.theralase.com)

**Third Quarter Report**  
September 30, 2008

3

## ***President's Message***

---

### **Highlights**

- Total 3Q 2008 sales increased by 32% to \$459,789, compared to \$347,580 in 3Q 2007
- Canadian product sales in 3Q 2008 (66% of total sales) rose by 72% year-over-year
- US product sales in 3Q 2008 (25% of total sales) decreased by 32% year-over-year
- Delivered a proprietary light system to be tested, in conjunction with Theralase's patented photodynamic compounds, in the destruction of additional cancer cell lines
- Independent scientific research demonstrated Theralase's superiority for its proprietary laser technology

**Theralase Technologies Inc. (TSXV: TLT)** today announced financial results for the three and nine months ended September 30, 2008.

### **Financial Review**

Revenue for the three months ended September 30, 2008 was \$459,789, an increase of 32% compared to \$347,580 in the same period in 2007.

Product and product-related sales for 3Q 2008 increased by 36% to \$455,400, compared to \$344,471 in 3Q 2007. Canadian product sales rose 72% while US product sales decreased by 32% compared to 3Q 2007.

The strong growth in Canadian product sales and the subsequent decrease in American product sales is a reflection of the Company focusing its sales and marketing initiatives on the Canadian market and the weakening US economy.

Clinic services revenue increased by 56% to \$4,389 compared to \$2,809 in 3Q 2007 as the Company launched its new Theralase laser rehabilitation clinic in July 2008. Clinic services revenue is expected to increase going forward due to the hiring of a new and experienced clinic director in June 2008. The Company's in-house laser rehabilitation clinic is utilized to treat patients as well as to showcase Theralase's products to healthcare practitioners.

Gross margin for 3Q 2008 was \$327,756, or 71% of revenue, compared to \$250,946, or 72% of revenue, in 3Q 2007. The increase in product related costs is due to the addition of personnel required by the Company to expand its production capacity.

The net loss for the three months ended September 30, 2008 was \$240,751, which included \$84,550 of non-cash expenses (amortization, stock-based compensation expense, foreign exchange gain/loss and lease inducements). This compares to a net loss for the three months ended September 30, 2007 of \$366,418, which included \$173,129 of non-cash expenses.

### **Key Corporate Developments**

#### **TLC-2000: Biofeedback Laser Technology**

In the third quarter, Theralase completed the alpha prototype of the TLC-2000 biofeedback therapeutic laser system. Clinical studies, have been designed, in conjunction with the Mayo Clinic (Rochester, Minnesota), the Scripps Institute (La Jolla, California) and the University of Buffalo (Buffalo, New York) to demonstrate the efficacy of the new technology in the areas of knee osteoarthritis, diabetic wound healing and myofascial pain, respectively. These clinical studies, if proven successful, could secure a new Current Procedural Terminology (CPT) code for reimbursement of laser treatments in the U.S. Theralase expects to start selling the TLC-2000 in the first half of 2009.

#### **TLC-3000: Cancer Therapy and Wound Healing**

In preparation for the next round of pre-clinical evaluation, Theralase designed, manufactured and delivered the alpha prototype of the TLC-3000 light source to University Health Network in September 2008. The TLC-3000 will be used to activate Theralase's patented Photo Dynamic Compounds (PDCs) in the presence of additional cancer cell lines. The patented PDC's have been proven to selectively destroy two distinct types of brain cancer and colorectal cancer. Published results on the analysis of the PDCs are expected in the fourth quarter of 2008.

## **Breakthrough Scientific Research**

Independent research conducted at University Health Network, demonstrated the superiority of the Company's proprietary laser technology over competitive laser and light based systems. The Company's technology was proven to dramatically influence a cellular process that is key to the efficacy of laser technology. The Company's proprietary technology is able to increase the production of nitric oxide in cells by 700% versus little to no effect by all other competitive wavelengths evaluated. Nitric oxide production is key to tissue healing since it increases the blood supply and reduces inflammation in injured tissue.

## **Outlook**

The Company will focus on increasing product sales and market acceptance of the TLC-1000 laser technology in the fourth quarter of 2008, supported by the new independent scientific research that confirms the superiority of the Company's proprietary technology over other competitive technology. The Company will continue to commercialize its patented next generation TLC-2000 biofeedback technology for launch in the first half of 2009, while researching and developing its patented TLC-3000 photodynamic compounds aimed at the destruction of cancer, bacteria, viruses and fat cells. Due to the requirement of capital to fund the Company's growth, the Company is investigating financing options – on both the debt and the equity side. The Company feels that these initiatives will increase shareholder value as the Company achieves its strategic objectives.

November 27, 2008



---

Roger Dumoulin-White  
President & CEO

*This President's Message contains forward-looking statements which reflect the Company's current expectations regarding future events. The forward-looking statements involve risks and uncertainties. Actual results could differ materially from those projected herein. The Company disclaims any obligation to update these forward-looking statements*

## **Management's Discussion and Analysis of Financial Condition and Operations**

---

The following Management Discussion and Analysis ("MD&A"), of **Theralase Technologies Inc.** (the "Company" or "Theralase") should be read in conjunction with the Company's unaudited interim consolidated financial statements for the nine months ended September 30, 2008 and its audited annual consolidated financial statements for the year ended December 31, 2007. This MD&A has been filed in accordance with the provisions of National Instrument 51-102 (*Continuous Disclosure Regulation*). Copies of the further relevant financial documents, and earlier corporate filings to date, may also be referenced on the regulatory website - SEDAR at [www.sedar.com](http://www.sedar.com). This MD&A is prepared as of November 27, 2008.

The Company's common shares are listed for trading on the TSX Venture Exchange (**Symbol: TLT**).

### **Forward Looking Statements**

*Certain statements contained or incorporated in this MD&A which deal with the Company's financial condition and operating results, include information, analyses and projections as to future corporate developments which are currently in the planning stage, and on the projected operating financial performance of the Company, which constitute forward-looking statements. Such forward-looking statements, made with special reference to the Company's ongoing technologically complex healthcare and medical device research and development efforts, which may include in-house and independent clinical trials, testing new medical technologies and their applications, involve known and unknown risks and uncertainties that could cause actual events and results to differ materially from those estimated or anticipated and which may have been implied or expressed in such forward-looking statements. No conclusions as to the successful outcome of the ongoing and planned research and development projects in which the Company is involved are intended or implied nor can they be foreseen or predicted prior to definitive corporate announcements as to their outcome.*

*Furthermore, the forward-looking statements contained in this MD&A are made as of the date hereof and the Company does not undertake any obligations to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events, or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.*

### **Company Profile**

**Theralase Technologies Inc.** 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.

### **Advancing the Theralase Technology Platform**

The following summarizes several material technical and business developments that management considers will fuel and accelerate near and longer term Company growth:

#### **TLC-2000: Biofeedback Laser Technology**

In the third quarter, Theralase completed the alpha prototype of the TLC-2000 biofeedback therapeutic laser system. Clinical studies, have been designed, in conjunction with the Mayo Clinic (Rochester, Minnesota), the Scripps Institute (La Jolla, California) and the University of Buffalo (Buffalo, New York) to demonstrate the efficacy of the new technology in the areas of knee osteoarthritis, diabetic wound healing and myofascial pain, respectively. These clinical studies, if proven successful, could secure a new Current Procedural Terminology (CPT) code for reimbursement of laser treatments in the U.S. Theralase expects to start selling the TLC-2000 in the first half of 2009.

## TLC-3000: Cancer Therapy and Wound Healing

In preparation for the next round of pre-clinical evaluation, Theralase designed, manufactured and delivered the alpha prototype of the TLC-3000 light source to University Health Network in September 2008. The TLC-3000 will be used to activate Theralase's patented Photo Dynamic Compounds (PDCs) in the presence of additional cancer cell lines. The patented PDC's have been proven to selectively destroy two distinct types of brain cancer and colorectal cancer. Published results on the analysis of the PDCs are expected in the fourth quarter of 2008.

## Breakthrough Scientific Research

Independent research conducted at University Health Network, demonstrated the superiority of the Company's proprietary laser technology over competitive laser and light based systems. The Company's technology was proven to dramatically influence a cellular process that is key to the efficacy of laser technology. The Company's proprietary technology is able to increase the production of nitric oxide in cells by 700% versus little to no effect by all other competitive wavelengths evaluated. Nitric oxide production is key to tissue healing since it increases the blood supply and reduces inflammation in injured tissue.

*For further background on Theralase's pain therapy capabilities -- including testimonials on its laser units' role in non-invasive pain management, control and therapy -- please refer to the corporate website at [www.theralase.com](http://www.theralase.com).*

## Overview of Financial Performance

During the nine-months under review, the Company's financial performance and its operating results reflected investment in research and development initiatives production ramp-up and sales of the Theralase therapeutic laser system.

## Summary of Quarterly Results (Unaudited)

	2008			2007
	September 30	June 30	March 31	December 31
Total revenues	459,789	604,996	324,026	382,993
Net loss	(240,751)	(222,581)	(339,948)	(414,890)
Basic and diluted loss per share	\$ (0.0069)	\$ (0.0063)	\$ (0.0097)	\$ (0.0114)
Total assets	3,233,543	3,409,720	3,570,502	3,707,277
Total liabilities	534,884	509,663	394,008	335,122
Deficit	(7,247,551)	(7,006,800)	(6,784,219)	(6,444,271)
S hareholders' E equity	2,698,659	2,900,507	3,115,048	3,372,155

  

	2007 (Restated)			2006 (Restated)
	September 30	June 30	March 31	September 30
Total revenues	347,580	431,133	398,144	326,793
Net loss	(366,418)	(176,463)	(155,602)	(6,625)
Basic and diluted loss per share	\$ (0.0105)	\$ (0.0053)	\$ (0.0047)	\$ (0.0002)
Total assets	3,999,918	3,573,587	3,615,249	3,645,768
Total liabilities	172,656	297,672	281,359	119,768
Deficit	(6,184,983)	(5,818,565)	(5,486,500)	(4,779,272)
S hareholders' E equity	3,827,262	3,275,915	3,333,890	3,526,000

Note: The restatement of the interim consolidated financial statements for the nine-month period ended September 30, 2008 is explained in note 2 of the financial statements.

## Liquidity and Capital Resources

As at June 30, 2008, current assets aggregated to \$726,658 compared with current liabilities of \$477,040, netting a working capital position of \$249,618 and a current ratio (current assets vs. current liabilities) of approximately 1.5:1.

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.

At the end of September 30, 2008, the Company had cash and cash equivalents on hand of \$57,164. 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 of 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, management believes that the Company will be able to secure the necessary financing through a combination of 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.

## Results of Operations

### Revenue

Revenue increased 32% to \$459,789 for the three-month period ended September 30, 2008, compared to \$347,580 for the same period in 2007.

Product and product-related sales for the three month period ended September 30, 2008 totaled \$455,400 representing a 32% increase over the \$344,771 in product and product-related sales reported for 2007. Product and product-related sales for the three and nine month period ended September 30, 2008 and 2007 consist of the following items:

	Three Months Ended September		Nine Months Ended September	
	2008	2007	2008	2007
Sales Revenue	\$ 434,003	\$ 318,297	\$ 1,310,118	\$ 1,085,717
Service Revenue	13,356	12,296	31,999	28,566
Other Revenue	8,041	14,178	30,625	46,876
	<b>455,400</b>	<b>344,771</b>	<b>1,372,742</b>	<b>1,161,159</b>

Product sales increased 36% to \$434,003 for the three-month period ended September 30, 2008, compared to \$318,297 for the same period in 2007. Product sales for the three-month period ended September 30, 2008 increased in Canada by 72% to \$306,935 and decreased in the U.S. by 32% to \$112,951 as compared to the same period in 2007. The strong growth in Canadian product sales and the subsequent decrease in American product sales is a reflection of the Company focusing its sales and marketing initiatives on the Canadian market and the weakening US economy. The Company is currently evaluating augmenting our direct sales force with leading U.S. and Canadian healthcare product distributors to market products in the US and Canadian market respectively.

Clinic services revenue increased by 56% to \$4,389 compared to \$2,809 in 3Q 2007 as the Company launched its new Theralase laser rehabilitation clinic in July 2008. Clinic services revenue is expected to increase going forward due to the hiring of a new and experienced clinic director in June 2008. The Company's in-house laser rehabilitation clinic is utilized to treat patients as well as to showcase Theralase's products to healthcare practitioners.

### Cost of sales

Cost of sales for the three-month period ended September 30, 2008 was \$132,003, resulting in a gross profit of \$327,756 or 71% of revenue, compared with \$96,634 or 72% for the same period in 2007. The change is primarily due to the addition of production personnel. Cost of sales is represented by the following costs: raw materials, sub-contracting, direct and indirect labour, and the applicable share of manufacturing overhead.

## Operating Expenses

Selling expenses for the three month-period ended September 30, 2008 were \$160,040, representing 35% of product sales, compared with \$118,901 or 34% of product sales for the same period in 2007.

Administrative expenses for the three-month period ended September 30, 2008 were \$321,838, representing a slight decrease from \$322,267 reported for the same period in 2007, and consisted of the following items:

	Three Months Ended September		Nine Months Ended September	
	2008	2007	2008	2007
Insurance	\$ 15,314	\$ 13,546	\$ 42,984	\$ 40,463
Professional fees	26,949	31,186	79,875	40,570
Rent	26,400	24,723	79,199	46,020
Advisory and board fees	9,999	19,188	48,226	62,313
Other	37,857	15,796	153,257	87,217
Compensation	181,786	102,894	484,499	293,450
Stock-based compensation	23,533	114,934	113,964	344,802
	<b>321,838</b>	<b>322,267</b>	<b>1,002,004</b>	<b>914,835</b>

Note: The restatement of the interim consolidated financial statements for the nine-month period ended September 30, 2008 is explained in note 2 of the financial statements.

The increase in administrative expenses for the three-month period ended June 30, 2008 is attributed to the following:

- Compensation increased by 77% due to the addition of marketing, accounting and administrative personnel.
- Advisory and board fees decreased by 48% because in June 2008, the Board decreased from 5 Members to 3 Members.

## Research and Development Costs

Research and Development costs expensed totaled \$40,523 for the three-month period ended September 30, 2008, compared to \$133,803 (includes stock-based compensation expense of \$3,573) during the same period in 2007.

Research and Development costs capitalized on the Consolidated Balance Sheet during the three-month period ended September 30, 2008 totaled \$10,858, compared to \$Nil during the same period in 2007. The increase in capitalized Research and Development costs for the current period under review is due to the commercialization phase of the TLC-2000 biofeedback technology in 2008.

## **Assets (other than Cash and Equivalents)**

The Company holds essential and valuable intellectual property rights and assets, including patents, trademarks, development and related costs. The depreciated book value of these assets is \$549,595 to which is added \$1,861,078 in goodwill. Management considers that the value of the Company's intellectual and related property rights and assets is significantly higher than its carrying amount.

## **Commitments**

As of September 30, 2008, the Company's commitments consist of the following:

	2008	2009	2010	2011	2012	Total
Lease obligations	\$ 11,836	\$ 48,703	\$ 51,968	\$ 53,873	\$ 31,426	\$ 197,806
Research commitments	116,383	65,762	-	-	-	\$ 182,145
<b>Total</b>	<b>\$ 128,219</b>	<b>\$ 114,465</b>	<b>\$ 51,968</b>	<b>\$ 53,873</b>	<b>\$ 31,426</b>	<b>\$ 379,951</b>

- 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 University Health Network and Ontario Centres of Excellence Photonics Centre 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. For the nine-month period ended June 30, 2008, the Company paid \$88,790 (\$32,142 – 2007) under this agreement.
- 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 August 2008.

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.

### **Share Capital Analysis**

As at June 30, 2008 and at the date of this MD&A, the share capital of the Company consisted of 34,936,725 common shares. Each common share entitles the holder to one vote per share. At June 30, 2008, there were 2,550,000 options outstanding, of which 1,566,666 were only vested and exercisable into an equivalent number of the Company's common shares at the exercise price of \$0.60

To the knowledge of the Directors and senior officers of the Corporation, the only person or persons or companies beneficially owning or controlling, directly or indirectly, common shares carrying more than ten percent(10%) of the voting rights attached to all common shares of the Corporation, is Roger Dumoulin-White who directly holds 4,251,370 (12.2%) of the outstanding common shares of the Corporation (not including 197,756 shares held by his spouse, Kristina Hachey, over which shares Mr. White disclaims any beneficial interest or control), and S. Donald Moore, who directly holds 1,028,430 common shares, and indirectly holds 10,543,025 common shares through his associate, Talent Oil and Gas Ltd., and effectively controls, or exercises direction over, an aggregate of 11,573,455 (33%) of the outstanding common shares of the Corporation.

### **Segmented Information**

The statements and projections herein are understood to be limited to one reportable operating segment which, for the purposes of this MD&A, comprises the manufacturing and sales of the Company's therapeutic medical laser equipment, largely in the North American market, without any differentiation as to geographic areas or locations. Manufacturing and marketing affiliations are being investigated in the European and Pacific Rim markets, but no firm business arrangements have been concluded to date.

### **Selected Financial Information and Accounting Policies**

The interim Consolidated Financial Statements for three and nine month periods ended September 30, 2008, and all other Financial Statements referred to herein, have been prepared in accordance with Canadian generally accepted accounting principles (GAAP), consistently applied, and all amounts and currencies reported therein, and in this MD&A, are in Canadian dollars, unless otherwise noted. The ongoing accounting policies are more particularly described in the Notes to the audited Consolidated Financial Statements for the fiscal year ended December 31, 2007. Please refer to the Company's historic annual and quarterly financial statement filings, including material interim Press Releases, on the regulatory website -- [www.SEDAR.com](http://www.SEDAR.com).

## **Use of 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 is held to maturity and would not result in a significant risk of fair value changes if held to maturity. At September 30, 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 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.

The Company has not entered into any conventional or other financial instruments designed to minimize its investment risk, currency risk or commodity risk. No off-balance sheet arrangements have been established nor are there any pending proposals or indicated business requirements to this effect.

## **Disclosure Controls and Procedures**

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures, including adherence to the Disclosure Policy adopted by the Company. The Disclosure Policy requires all staff to keep the Chief Executive Officer and Chief Financial Officer fully apprised of all material information affecting the Company so that they may evaluate and discuss this information and determine the appropriateness and timing for public release. Access to such material information by the Chief Executive Officer and Chief Financial Officer is facilitated by the small size of the Company's senior management and regular communication between them.

The Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures as of September 30, 2008, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its subsidiaries would have been known to them.

The Company's Chief Executive Officer and Chief Financial Officer are also responsible for the design of internal controls over financial reporting. The fundamental issue is ensuring all transactions are properly authorized and identified and entered into a well designed, robust and clearly understood system on a timely basis to minimize risk of inaccuracy, failure to fairly reflect transactions, failure to fairly record transactions necessary to present financial statements in accordance with generally accepted accounting principles, unauthorized receipts and expenditures, or the inability to provide assurance that unauthorized acquisition or dispositions of assets can be detected. The relatively small size of the Company

makes the identification and authorization process relatively efficient and a process for reviewing internal controls over financial reporting has been developed. To the extent possible given the Company's small size, the internal control procedures provide for appropriate segregation of duties.

As a result of a thorough review of the Company's prior financial statements, the Company has determined that the previously filed financial statements contained errors requiring restatement as reflected in Note 2 to the December 31, 2007 and 2006 consolidated financial statements. The Company has concluded that there were material weaknesses in the internal control over financial reporting as of December 31, 2007 and that the Company lacked sufficient in-house expertise to ensure compliance with the measurement and recognition requirements under Canadian GAAP for certain transactions.

The Company undertook efforts to improve its internal control over financial reporting and to remediate the material weaknesses identified above. The Company has taken the following actions:

- On-going commitment from Management and the Board of Directors to strengthen internal controls.
- When complex or unusual transactions surface, management has committed to actively seeking a solution in-house and then consulting its actions with third party consultants prior to final resolution.
- Management has committed to updating its Canadian GAAP knowledge and has established a number of control procedures designed to strengthen its capabilities to both identify and address any potential errors before they are reported in the future.

With the implementation of these corrective actions, the Company believes that the above noted actions will address the material weaknesses that were identified in its internal control over financial reporting as of September 30, 2008. However, the proof of the effectiveness of these procedures remains to be tested in 2008 and several fiscal quarters may be required prior to management being able to conclude that the material weaknesses have been remediated. The Company will continue to periodically review its disclosure controls and procedures and internal control over financial reporting and may make additional modifications from time to time as considered necessary or desirable.

### **Critical Accounting Policies and Estimates**

The Company's critical accounting policies and estimates are disclosed in the notes to the annual consolidated financial statements contained in our 2007 Annual Report.

### **Changes in Accounting Policies**

#### **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, 11 and 12 of the interim consolidated financial statements for the nine month period ended September 30, 2008.

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.

### **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 International Financial Reporting Standards ("IFRS"). In May 2007, the CICA published an updated version of its "Implementation Plan for Incorporating IFRS 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.

### **Risks and Uncertainties**

The Company's operations involve certain risks and uncertainties that are inherent to the Company's industry. The most significant known risks and uncertainties faced by the Company are described below.

#### Capital Resources

In order to achieve its long term development and commercialization strategy for the Company's range of biomedical laser systems and photodynamic compounds, the Company will need to raise additional capital through the issuance of shares, collaboration agreements or partnerships that would allow the Company to finance its activities. Nothing guarantees that additional funds will be available or that they may be acquired according to acceptable terms and conditions. Additional financing may result in dilution of shareholder value.

#### Volatility of Share Price

The market price of the Company's shares is subject to volatility. General market conditions as well as differences between the Company's financial, scientific and clinical results and the expectations of investors as well as securities analysts can have a significant impact on the trading price of the Company's shares.

#### Regulatory Approvals

The Company is directly and indirectly engaged in the design, manufacture, sale and marketing of biomedical laser equipment, a category of medical device which is subject to regulatory oversights, audits and controls by various national regulatory agencies (FDA, Health Canada, CE) and authoritative quality standards bodies (UL, CSA, ISO and TUV), all with strict quality certification procedures. The Company is in full compliance with all the governing regulatory and quality standards approval requirements pertaining to the medical laser devices it currently designs, manufactures and markets.

No assurance can be given that current regulations relating to regulatory approval will not change or become more stringent and it must be noted that product approvals may be withdrawn if compliance with regulatory standards is not maintained.

#### Licenses and Patents

The Company's success will depend in part on its ability to obtain licenses and patents, protect its trade secrets and operate without infringing the exclusive rights of other parties. There is no guarantee that any license and patent that will be granted to the Company will bring any competitive advantage to the Company, that its license and patent protection will not be contested by third parties, or that the licenses and patents of competitors will not be detrimental to the Company's commercial activities. It cannot be assured that competitors will not independently develop products similar to the Company's products, that they will not imitate the Company's products or that they will not circumvent or invalidate licenses and patents granted to the Company.

#### Currency Risk

The Company is exposed to currency risk through export sales, primarily in U.S. dollars. Changes in exchange rates may result in foreign exchange gains or losses. The Company does not use derivative instruments to reduce our exposure to foreign currency risk and do not anticipate using any hedging strategies in a material way in the immediate future. Management will continue to assess the situation and may, as a result, change its approach to hedging foreign exchange currency fluctuations.

#### Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, cash equivalents and accounts receivable. Cash and cash equivalents are in place with major financial institutions. The Company, in the normal course of business, is exposed to credit risk from its customers substantially all of whom are in the Medical industry. These accounts receivable are subject to normal industry credit risks. The Company manages its credit risk through its credit evaluation, approval and monitoring processes.

#### Human Resources

The Company's success is dependent upon its ability to attract and retain a highly qualified work force, and to establish and maintain close relationships with research centers. Competition is intense and the Company's success will depend, to a great extent, on its senior executives, scientific staff, and collaborators. The loss of key personnel could compromise the rhythm and success of product development.

#### Product Liability

The Company has obtained product liability insurance coverage in the total amount of \$1,000,000. These insurance coverages are a limited guarantee and a product liability claim could potentially be greater than these coverages. The Company's profitability would be adversely affected by a successful product liability claim in excess of its insurance coverage.

### **Outlook**

The Company continues to invest in its future through expanding its Canadian and U.S sales force for its TLC-1000 laser technology, commercializing its patented TLC-2000 biofeedback technology, and researching and developing its TLC-3000 photodynamic compound technology aimed at the destruction of cancer, bacteria and fat cells. Theralase will also increase its revenue by exploring new vertical medical markets (i.e. dental, veterinarian, esthetic and physician), introducing a recurring revenue model and a take-home consumer laser system, launching its therapeutic laser rehabilitation and training center and partnering with existing medical facilities to create Theralase certified laser centers.

November 27, 2008



---

Roger Dumoulin-White  
President & CEO

# THERALASE® TECHNOLOGIES INC.

Consolidated Balance Sheets - Unaudited

As at September 30, 2008 and December 31, 2007

Stated in Canadian Dollars

	2008	2007
<b>Assets</b>		
Current assets		
Cash and cash equivalents (note 4)	\$ 57,164	\$ 507,969
Accounts receivable	352,238	327,851
Inventory	264,298	220,136
Prepaid expenses and other assets	52,958	75,081
	726,658	1,131,037
Property, plant and equipment	96,212	96,939
Intangibles	549,595	618,223
Goodwill	1,861,078	1,861,078
	<b>\$ 3,233,543</b>	<b>\$ 3,707,277</b>
<b>Liabilities</b>		
Current liabilities		
Bank loan	\$ 36,000	\$ -
Accounts payable and accrued liabilities	438,984	291,316
Deferred revenue current	2,056	-
Total current liabilities	477,040	291,316
Deferred revenue	19,400	10,000
Leasehold inducement	38,444	33,806
Total liabilities	534,884	335,122
<b>Shareholders' Equity</b>		
Share capital	7,089,139	7,089,139
Share purchase warrants	-	103,495
Contributed surplus (note 7)	2,857,071	2,623,792
Deficit	(7,247,551)	(6,444,271)
	2,698,659	3,372,155
	<b>\$ 3,233,543</b>	<b>\$ 3,707,277</b>

Going Concern (note 1)

Commitments (note 11)

Approved on Behalf of the Board

\_\_\_\_\_

Director

\_\_\_\_\_

Director

# ThERALASE® TECHNOLOGIES INC.

Consolidated Statements of Operations, Comprehensive Loss and Deficit - Unaudited

For the nine and three month period ended September 30

Stated in Canadian Dollars

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007 Restated (note 2)	2008	2007 Restated (note 2)
<b>Revenue</b>				
Product sales	\$ 455,400	\$ 344,771	\$ 1,372,742	\$ 1,161,159
Clinic services	4,389	2,809	16,069	15,698
	459,789	347,580	1,388,811	1,176,857
Cost of Sales	132,033	96,634	454,852	299,049
Gross Margin	327,756	250,946	933,959	877,808
<b>Operating Expenses</b>				
Selling	160,040	118,901	458,019	364,491
Administrative	321,838	322,267	1,002,004	914,835
Research and development	40,523	133,803	150,149	156,472
Amortization of property, plant and equipment	6,586	3,925	19,079	11,324
Amortization of intangibles	36,905	36,026	110,717	111,585
(Gain) loss on foreign exchange	1,573	5,065	391	18,659
	567,465	619,987	1,740,359	1,577,366
Loss before the following	(239,709)	(369,041)	(806,400)	(699,558)
Interest expense	1,732	1,385	5,005	6,538
Interest income	(690)	(4,008)	(8,125)	(7,613)
Loss and comprehensive loss for the period	(240,751)	(366,418)	(803,280)	(698,483)
Deficit, beginning of period	(7,006,800)	(5,662,963)	(6,444,271)	(5,330,898)
Deficit, end of period	(7,247,551)	(6,029,381)	(7,247,551)	(6,029,381)
Basic and diluted loss and comprehensive loss per common share (note 6)	(0.0069)	(0.0055)	(0.0230)	(0.0200)
Weighted average number of shares outstanding (note 6)	34,936,725	34,936,725	34,936,725	34,936,725

Going Concern (note 1)

# THERALASE® TECHNOLOGIES INC.

Consolidated Statements of Cash Flows - Unaudited

For the nine and three month period ended September 30

Stated in Canadian Dollars

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	2007 Restated (note 2)	2008	2007 Restated (note 2)
<b>Cash flows from operating activities</b>				
Net loss for the period	\$ (240,751)	\$ (366,418)	\$ (803,280)	\$ (698,483)
Items not involving cash				
Amortization of property, plant and equipment	6,586	3,925	19,079	11,324
Amortization of intangibles	36,905	36,026	110,717	111,585
Stock-based compensation (note 5)	39,352	119,742	129,783	359,226
Foreign exchange (gain) loss	1,573	5,065	391	18,659
Lease inducements	134	8,371	4,638	8,371
Non-monetary transactions	-	-	-	-
	(156,201)	(193,289)	(538,672)	(189,318)
Change in operating assets and liabilities other than cash				
Accounts receivable	30,077	92,393	(24,778)	83,671
Inventory	(65,915)	(9,501)	(44,162)	(66,700)
Prepaid expenses and other assets	9,271	30,295	22,123	(33,124)
Accounts payable and accrued liabilities	54,087	(1,886)	159,124	(42,957)
	(128,681)	(81,988)	(426,365)	(248,428)
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment	(6,874)	(7,314)	(18,352)	(7,730)
Investment in development costs	(10,858)	-	(29,643)	(37,783)
Investment in patents and trademarks	(6,885)	(697)	(12,445)	(3,327)
	(24,617)	(8,011)	(60,440)	(48,840)
<b>Cash flows from financing activities</b>				
(Repayment) additions of bank loan	(29,000)	(95,000)	36,000	(70,000)
Capital stock issuance		799,278		799,278
	(29,000)	704,278	36,000	729,278
Increase (decrease) in cash and cash equivalents during the period	(182,298)	614,279	(450,805)	432,010
Cash and cash equivalents, beginning of period	239,463	52,329	507,969	234,598
Cash and cash equivalents, end of period	\$ 57,165	\$ 666,608	\$ 57,164	\$ 666,608
<b>Cash and cash equivalents</b>				
Cash	\$ (12,809)	\$ 621,796	\$ (12,809)	\$ 621,796
Cash equivalents	69,973	44,812	69,973	44,812
	\$ 57,164	\$ 666,608	\$ 57,164	\$ 666,608

# THERALASE® TECHNOLOGIES INC.

Statement of Shareholders' Equity - Unaudited

As at September 30

Stated in Canadian Dollars

	Number of Shares	Share Capital	Contributed Surplus	Common Share Purchase Warrants	Deficit	Total Shareholders' Equity
	#	\$	\$	\$	\$	\$
<b>Balance, December 31, 2006</b>	33,236,725	6,403,317	2,147,424	-	(5,330,898)	3,219,843
Stock Options Exercised	-	-	-	-	-	-
Stock Options Expired	-	-	-	-	-	-
Stock-based compensation expense	-	-	476,368	-	-	476,368
Issued pursuant to private placement, net	1,700,000	685,822	-	103,495	-	789,317
Net Loss for the year	-	-	-	-	(1,113,373)	(1,113,373)
<b>Balance, December 31, 2007</b>	34,936,725	7,089,139	2,623,792	103,495	(6,444,271)	3,372,155
Stock-based compensation expense	-	-	129,784	-	-	129,784
Expired share purchase warrants	-	-	103,495	(103,495)	-	-
Net Loss for the nine-month period ended September 30, 2008	-	-	-	-	(803,280)	(803,280)
<b>Balance, September 30, 2008</b>	34,936,725	7,089,139	2,857,071	-	(7,247,551)	2,698,659

# **THERALASE<sup>®</sup> TECHNOLOGIES INC.**

## **Notes to Interim Consolidated Financial Statements - Unaudited**

**For the nine months ended September 30, 2008**

---

### **1. Nature of operations and going concern**

#### **Nature of operations**

Theralase<sup>®</sup> 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".

#### **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 nine-month period ended September 30, 2008, the Company reported a loss of \$803,280 and an accumulated deficit of \$7,247,551 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 \$57,164 at September 30, 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, management believes that the Company will be able to secure the necessary financing through a combination of 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 were 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 nine and three month period ended September 30, 2007 to correct errors.

# THERALASE® TECHNOLOGIES INC.

## Notes to Interim Consolidated Financial Statements - Unaudited

For the nine months ended September 30, 2008

The effect of the restatements for the nine-month period ended September 30, 2007 were as follows:

Line Item	As Previously Reported (iii)	Restatements	As Restated
<b>Consolidated Statement of Operations and Deficit</b>			
Administrative expense (i)	730,646	184,189	914,835
Research and development expense (i), (ii)	5,023	151,449	156,472
Loss for the year	(362,845)	(335,638)	(698,483)
Deficit, beginning of year (ii)	(5,023,630)	(307,268)	(5,330,898)
Deficit, ending of year	(5,386,475)	(642,906)	(6,029,381)
<b>Consolidated Statement of Cash Flows</b>			
Cash flows from operating activities	(78,226)	(111,122)	(189,348)
Cash flows from investing activities	(159,962)	111,122	(48,840)
<b>Loss per common share</b>			
Basic and fully diluted loss per common share	(0.0104)	(0.0096)	(0.0200)

- (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% to 100.5%. As well, the Company did not correctly account for non-employee stock options granted, which are required to be revalued until the time the awards vest. As a result, administrative and research and development expenses were understated by \$184,189 and \$5,695, respectively, for the nine-month period ended September 30, 2007.
- (ii) Development costs and costs relating to patents and trademarks for the TLC-3000 – Cancer Therapy project in the amount of \$328,583 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 \$145,754 adjusted as an increase in research and development expense for the nine-month period ended September 30, 2007.
- (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 \$167,448, where this amount has been reclassified to administrative and research and development expenses in the amounts of \$162,425 and \$5,023
- (iv) Respectively, prior to reflecting the adjustments described above. Expenses relating to advertising, marketing and travel in the amount of \$192,233 were reclassified out of administrative expense and into selling expense, and \$44,550 was reclassified from administrative expense to cost of sales, representing overhead cost on product sales for the nine-month period ended September 30, 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

# THERALASE® TECHNOLOGIES INC.

## Notes to Interim Consolidated Financial Statements - Unaudited

For the nine months ended September 30, 2008

---

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.

### 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.

#### 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

# THERALASE® TECHNOLOGIES INC.

## Notes to Interim Consolidated Financial Statements - Unaudited

For the nine months ended September 30, 2008

---

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 International Financial Reporting Standards (“IFRS”). In May 2007, the CICA published an updated version of its “Implementation Plan for Incorporating IFRS 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 short-term bankers’ acceptance yielding an interest rate of 2.65% and maturing on October 15, 2008 and cash held and bank indebtedness in bank accounts.

#### 5. Incentive stock options

The Company has a rolling 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 nine-month period ended September 30 is provided below.

	2008		2007	
	Number of Options	Exercise Price	Number of Options	Exercise Price
Outstanding beginning of period	2,750,000	\$0.60	2,650,000	\$0.60
Granted during the period <sup>(1)</sup>	100,000	\$0.21	-	-
Exercised during the period	-	-	-	-
Expired or cancelled during the period <sup>(2,3)</sup>	(300,000)	\$0.60	-	-
<b>Options outstanding at end of year</b>	<b>2,550,000</b>		<b>2,650,000</b>	

<sup>(1)</sup> On June 26, 2008, the Company granted a total of 100,000 to a director of the Company

<sup>(2)</sup> On June 26, certain Board Members resigned from the Board or did not stand for re-election and forfeited all non-vested options totaling 200,000.

<sup>(3)</sup> On July 26, previous options granted to certain Board Members that resigned from the Board or did not stand for re-election expired totaling 100,000

# THERALASE® TECHNOLOGIES INC.

## Notes to Interim Consolidated Financial Statements - Unaudited

For the nine months ended September 30, 2008

The following table summarizes information on the stock options outstanding at September 30, 2008:

Options Outstanding				Options Exercisable	
Options outstanding	Exercise Price	Weighted Average Remaining Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
350,000	\$ 0.60	2.3 years	\$ 0.60	233,333	\$ 0.60
2,000,000	\$ 0.60	2.2 years	\$ 0.60	1,333,333	\$ 0.60
100,000	\$ 0.60	3.9 years	\$ 0.60	-	-
100,000	\$ 0.21	4.9 years	\$ 0.21	-	-

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 September 30, 2008, 1,566,666 of the options were vested. All outstanding options as at September 30, 2008 will be fully vested by June 26, 2011.

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

	2008	2007
Risk-free interest rate (%)	2.99%	4.51%
Expected volatility (%)	93.0%	100.1%
Expected life (years)	5	5
Expected dividends	-	-
Weighted average grant date fair value	\$0.152	\$0.345

For the nine-month period ended September 30, 2008, the Company recognized a stock-based compensation expense of \$129,783 for options issued to directors, employees and medical scientific and advisory board (2007 - \$359,226 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 and nine month periods ended September 30:

	Three months ended September 30		Nine months ended September 30	
	2008	2007 <i>Restated (note 2)</i>	2008	2007 <i>Restated (note 2)</i>
Net loss	\$ (240,751)	\$ (366,418)	(803,280)	(698,483)
Weighted average number of common shares	34,936,725	34,936,725	34,936,725	34,936,725
<b>Basic and diluted loss and comprehensive loss per common share</b>	<b>\$ (0.0069)</b>	<b>\$ (0.0105)</b>	<b>\$ (0.0230)</b>	<b>\$ (0.0200)</b>

Options to purchase 2,550,000 common shares were not included in the computation of diluted loss and comprehensive loss per common share for the nine month periods ended September 30, 2008 and 2007 due to their anti-dilutive nature.

# THERALASE<sup>®</sup> TECHNOLOGIES INC.

## Notes to Interim Consolidated Financial Statements - Unaudited

For the nine months ended September 30, 2008

---

### 7. Contributed surplus

As at September 30, 2008 and 2007, contributed surplus consisted of the following:

	2008	2007
		Restated (note 2)
Balance, beginning of period	\$ 2,623,792	\$ 2,147,424
Stock-based compensation expense	129,783	357,276
Expired share purchase warrants	103,496	
<b>Balance, end of period</b>	<b>\$ 2,857,071</b>	<b>\$ 2,504,700</b>

### 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 September 30, 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.

# THERALASE® TECHNOLOGIES INC.

## Notes to Interim Consolidated Financial Statements - Unaudited

For the nine months ended September 30, 2008

Accounts exposed to foreign exchange risk as at:

	September 30, 2008			December 31, 2007		
	CDN\$ Balance	USD\$ Balance (1)	Total	CDN\$ Balance	USD\$ Balance (1)	Total
Cash and equivalents	\$ 69,524	\$ (12,360)	\$ 57,164	\$ 501,772	\$ 6,197	507,969
Accounts receivable	\$ 190,296	161,942	352,238	208,622	119,229	327,851
Accounts payable	\$ 259,325	179,659	438,984	259,005	32,311	291,316
<b>Total</b>	<b>\$ 519,145</b>	<b>\$ 329,241</b>	<b>\$ 848,386</b>	<b>\$ 969,399</b>	<b>\$ 157,737</b>	<b>\$ 1,127,136</b>

<sup>(1)</sup> All USD 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 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:

	September 30, 2008	December 31, 2007
	10% Foreign Currency Strengthening	10% Foreign Currency Strengthening
Cash and equivalents	(1,236)	620
Accounts receivable	16,194	12,028
Accounts payable	17,966	3,260
<b>Total</b>	<b>(3,008)</b>	<b>9,388</b>

## 9. Management of Capital

The Company's objective is to maintain a sufficient capital base so as to sustain future research and development initiatives, strategic 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 nine-month period ended September 30, 2008, the Company reported a loss of \$803,280 and an accumulated deficit of \$7,247,551 at that date. Although the Company has cash and cash equivalents on hand of \$57,164 at September 30, 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, management believes that the Company will be able to secure the necessary financing through a combination of 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.

# THERALASE® TECHNOLOGIES INC.

## Notes to Interim Consolidated Financial Statements - Unaudited

For the nine months ended September 30, 2008

The Company is not subject to an externally imposed 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 and nine month periods ended September 30:

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Canada	\$ 306,935	\$ 178,337	\$ 792,633	\$ 567,167
International	35,514	-	220,000	-
United States	112,951	166,434	360,109	593,992
	455,400	344,771	1,372,742	1,161,159

Revenue from clinic services is all earned in Canada.

As at September 30, 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	\$ 11,836	\$ 48,703	\$ 51,968	\$ 53,873	\$ 31,426	\$ 197,806
Research commitments	116,383	65,762	-	-	-	\$ 182,145
<b>Total</b>	<b>\$ 128,219</b>	<b>\$ 114,465</b>	<b>\$ 51,968</b>	<b>\$ 53,873</b>	<b>\$ 31,426</b>	<b>\$ 379,951</b>

- 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. For the nine-month period ended September 30, 2008, the Company paid \$88,790 (\$32,142 – 2007) under this agreement.
- 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.