

PACIFIC THERAPEUTICS LTD.
(A Development Stage Company)
INTERIM FINANCIAL STATEMENTS

Three month periods ended March 31, 2012 and 2011
(Expressed in Canadian Dollars)

Unaudited – Prepared by Management

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

The accompanying unaudited interim financial statements of Pacific Therapeutics Ltd. (“the Company”) have been prepared by and are the responsibility of the Company’s management.

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

PACIFIC THERAPEUTICS LTD.
(A Development Stage Company)

Condensed Interim Balance Sheets
 Unaudited
 (Expressed in Canadian Dollars)

AS AT:	March 31, 2012	December 31, 2011
	\$	\$
ASSETS		
CURRENT		
Cash and cash equivalents	7,221	6,094
Restricted cash (Note 4)	-	300,000
Harmonized sales tax recoverable	1,550	13,976
Prepaid expenses	15,156	5,119
	<u>23,927</u>	<u>325,189</u>
NON-CURRENT ASSETS		
PROPERTY AND EQUIPMENT (Note 5)	5,905	6,358
INTANGIBLE ASSETS (Note 6)	89,673	90,631
	<u>119,505</u>	<u>422,178</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	185,243	161,771
Shareholder Demand Loan (Note 9)	44,300	20,300
Shareholder Short Term Loan (Note 9)	181,844	-
	<u>411,387</u>	<u>182,071</u>
NON-CURRENT LIABILITIES		
Irrevocable subscriptions (Note 7)	-	230,481
Due to shareholders' (Note 9)	-	175,935
	<u>-</u>	<u>406,416</u>
SHAREHOLDERS' (DEFICIENCY)		
Share capital (Note 10)	1,775,754	1,765,754
Contributed surplus	173,616	162,052
Deficit accumulated during the development stage	(2,241,252)	(2,094,115)
	<u>(291,882)</u>	<u>(166,309)</u>
	<u>119,505</u>	<u>422,178</u>

Nature and Continuance of Operations (Note 1) and Commitments (Note 14)

On behalf of the Board:

"Douglas H. Unwin" Director
 Douglas H. Unwin

"Doug Wallis" Director
 Doug Wallis

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

PACIFIC THERAPEUTICS LTD.
(A Development Stage Company)

Interim Statements of Comprehensive Loss and Deficit
 Unaudited
 (Expressed in Canadian Dollars)

	For the three month period ended 31 March 2012	For the three month period ended 31 March 2011
	\$	\$
Expenses		
Advertising and promotion	943	723
Amortization of property and equipment	453	452
Amortization of intangible assets	957	782
Bank charges & interest	130	118
Computer	1,130	-
Insurance	3,961	3,633
Investor relations	4,750	-
Office and miscellaneous	430	1,311
Professional fees	8,850	17,525
Rent and occupancy costs	4,847	3,898
Research and development	3,933	-
Stock-based compensation	11,564	-
Telephone and utilities	1,137	1,110
Transfer agent	55	-
Travel	-	-
Wages and benefits	25,597	39,442
Total Expense	68,737	68,994
Interest (Income)/Expense		
Interest Income	(30)	-
ISA interest incurred (Note 7)	3,001	6,000
ISA-accretion of deemed discount (Note 7)	69,520	-
Shareholder loan accretion of deemed discount (Note 9)	5,909	2,097
Class B Series I Preferred Shares accretion of deemed discount	-	6,754
Total Interest (Income)/Expense	78,400	14,851
Net Loss and Comprehensive Loss	(147,137)	(83,845)
Loss per share Basic and Diluted	(\$ 0.01)	(\$ 0.01)
Weighted average number of common shares outstanding	20,966,447	16,306,604

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

PACIFIC THERAPEUTICS LTD.
(A Development Stage Company)

Interim Statements of Changes in Shareholders' Equity
Unaudited
(Expressed in Canadian Dollars)

	Number of common shares	Number of Series II Preferred shares	Share capital \$	Share Subscriptions received	Contributed surplus \$	Deficit \$	Total \$
Balance at December 31, 2010	15,930,452	203,250	1,133,136	-	136,110	(1,564,296)	(295,050)
Loss for the period	-	-	-	-	-	(463,768)	(463,768)
Exercise of common share warrants @ \$0.10	300,000	-	30,000	-	-	-	30,000
Common shares issued under Irrevocable Subscription Agreements	750,000	-	112,500	-	-	-	112,500
Common shares issued under Irrevocable Subscription Agreements	357,142	-	49,999	-	-	-	49,999
Series I Preference Shares converted @ \$0.20	1,500,000	-	300,000	-	-	-	300,000
Class B Series II Preference Shares converted to common shares	1,791,563	(203,250)	66,051	-	-	(66,051)	-
Repricing of common shares	-	-	41,600	-	-	-	41,600
Share issue costs	-	-	(21,532)	-	-	-	(21,532)
Common shares issued for cash @ \$0.15	250,000	-	37,500	-	-	-	37,500
Common shares issued to settle debt	110,000	-	16,500	-	-	-	16,500
Discount on shareholder loans	-	-	-	-	20,078	-	20,078
Stock based compensation	-	-	-	-	5,864	-	5,864
Balance at December 31, 2011	20,989,157	-	1,765,754	-	162,052	(2,094,115)	(166,309)
Share subscriptions received	66,666	-	10,000	-	-	-	10,000
Stock based compensation	-	-	-	-	11,564	-	11,564
Loss for the period	-	-	-	-	-	(147,137)	(147,137)
Balance at March 31, 2012	21,055,823	-	1,775,754	-	173,616	(2,241,252)	(291,882)

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

PACIFIC THERAPEUTICS LTD.

(A Development Stage Company)

Interim Statements of Cash Flow
 Unaudited
 (Expressed in Canadian Dollars)

	For the three month period ended 31 March 2012 \$	For the three month period ended 31 March 2011 \$
Cash flows used in operating activities		
Net loss and Comprehensive loss	(147,137)	(83,845)
Adjustments for items not affecting cash		
Amortization of property and equipment	453	453
Amortization of intangible assets	957	782
Amortization of deemed discounts on ISA, Class B Series I Preferred Shares and shareholder loans	75,429	8,851
Loss on conversion of Series I Preferred Shares	-	-
Stock based compensation	11,564	-
Changes in non-cash working capital balances		
Harmonized sales tax recoverable	12,426	(1,051)
Prepaid expenses	(10,037)	(8,164)
Security deposit	-	-
Unearned revenue	-	(2,600)
Accounts payable and accrued liabilities	23,472	(21,116)
	<u>(32,873)</u>	<u>(106,690)</u>
Cash flows used in investing activities		
Additions to property and equipment	-	-
Additions to intangible assets	-	(278)
	<u>-</u>	<u>(278)</u>
Cash flows from financing activities		
Issue of common shares for cash	10,000	80,067
Due to shareholders short term	24,000	5,000
ISA proceeds from partial draw down of funds	-	-
	<u>34,000</u>	<u>85,067</u>
Decrease in cash and cash equivalents	1,127	(21,901)
Cash and cash equivalents, beginning of period	<u>6,094</u>	<u>30,457</u>
Cash and cash equivalents, end of period	<u>7,221</u>	<u>8,556</u>

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

Pacific Therapeutics Ltd.

(A Development Stage Company)

Notes to Financial Statements

1. NATURE AND CONTINUANCE OF OPERATIONS

Pacific Therapeutics Ltd. ("the Company" or "PTL") was incorporated under the laws of the Province of British Columbia, Canada on September 12, 2005. The Company is a development stage company focused on developing proprietary drugs to treat certain types of lung disease including fibrosis. On October 14, 2011, the Company became a reporting company in British Columbia and was approved by the Canadian National Stock exchange ("CNSX") and opened for trading on November 16, 2011.

PTL has financed its cash requirements primarily from share issuances and payments from research collaborators. The Company's ability to realize the carrying value of its assets is dependent on successfully bringing its technologies to market and achieving future profitable operations, the outcome of which cannot be predicted at this time. It will be necessary for the Company to raise additional funds for the continuing development of its technologies.

The financial statements have been prepared on a going concern basis, which contemplates continuity of operations and the realization of assets and settlement of liabilities in the ordinary course of business. The Company is subject to risks and uncertainties common to drug discovery companies, including technological change, potential infringement on intellectual property of and by third parties, new product development, regulatory approval and market acceptance of its products, activities of competitors and its limited operating history. All of these factors create uncertainty in the Company's ability to successfully bring its technologies to market, to achieve future profitable operations and to realize the carrying value of its assets. Given these uncertainties, there is significant doubt as to the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of these uncertainties.

2. STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

(a) Statement of Compliance

These interim condensed financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") and using the accounting policies adopted and disclosed in Note 3 of Pacific Therapeutics 2011 Annual Report. These interim condensed financial statements should be read in conjunction with Pacific Therapeutics' 2011 Annual Report.

These interim financial statements were approved and authorized for issue by the Board of Directors on May 23, 2012.

(b) Basis of Presentation

These financial statements have been prepared on a historical cost basis and are presented in Canadian dollars which is the Company's functional currency.

(c) Use of Estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting periods. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

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

Pacific Therapeutics Ltd.

(A Development Stage Company)

Notes to Financial Statements

3. RECENT ACCOUNTING PRONOUNCEMENTS

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board (“IASB”) or International Financial Reporting Interpretations Committee (“IFRIC”) that are mandatory for accounting periods beginning after January 1, 2013 or later periods. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements. The new standards are summarized below:

IFRS 9 – Financial Instruments addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaced the models for measuring equity instruments and such instruments are either recognized at fair value through profit and loss or at fair value through other comprehensive income.

IFRS 10 – Consolidated Financial Statements requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 11 – Joint Arrangements, requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures.

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

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

4. RESTRICTED CASH

The Company’s restricted cash balance at March 31, 2012 is \$Nil (December 31, 2011 - \$300,000.) The funds consisted of monies held in an escrow account, pursuant to the terms of the Irrevocable Subscription Agreements (“ISAs”) with investors (Note 7). The release of the invested funds was governed by the terms of the ISAs (Note 7) and an Escrow Agreement. The agreement included Draw Down Terms that permitted the Company at its sole discretion to draw down the restricted cash to purchase Class A Common shares at the greater of \$0.10 per share and the closing market price of the Securities on the day prior to the dissemination of a news release announcing the allotment less the maximum discount prescribed by the Canadian National Stock Exchange. On January 31, 2012, the Company terminated the irrevocable subscription agreements entered into by the Issuer on January 31, 2011 and May 16, 2011, respectively, and the \$300,000 of restricted funds held by the Company were returned to the investors.

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

Pacific Therapeutics Ltd.
(A Development Stage Company)

Notes to Financial Statements

5. PROPERTY AND EQUIPMENT

Cost

	Computer Equipment	Furniture and Fixtures	Leasehold Improvements	Total
Balance at January 1, 2011	\$ 5,876	\$ 8,093	\$ 8,330	\$ 22,299
Additions	-	-	-	-
Disposals	-	-	-	-
Balance at December 31, 2011	\$ 5,876	\$ 8,093	\$ 8,330	\$ 22,299
Additions	-	-	-	-
Disposals	-	-	-	-
Balance at March 31, 2012	\$ 5,876	\$ 8,093	\$ 8,330	\$ 22,299

Amortization

	Computer Equipment	Furniture and Fixtures	Leasehold Improvements	Total
Balance at January 1, 2011	\$ 5,169	\$ 4,364	\$ 4,598	\$ 14,131
Amortization for the year	318	746	746	1,810
Balance at December 31, 2011	\$ 5,487	\$ 5,110	\$ 5,344	\$ 15,941
Amortization for the period	80	186	187	453
Balance at March 31, 2012	\$ 5,567	\$ 5,296	\$ 5,531	\$ 16,394

Carrying amounts

At January 1, 2011	\$ 707	\$ 3,729	\$ 3,732	\$ 8,168
At December 31, 2011	\$ 389	\$ 2,983	\$ 2,986	\$ 6,358
At March 31, 2012	\$ 309	\$ 2,797	\$ 2,799	\$ 5,905

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

Pacific Therapeutics Ltd.
(A Development Stage Company)

Notes to Financial Statements

6. INTANGIBLE ASSETS

Cost

	Technology Licenses (i)	Patents (ii)	Total
Balance at January 1, 2011	\$ 30,738	\$ 46,632	\$ 77,370
Additions	11,772	10,808	22,580
Disposals	-	-	-
Balance at December 31, 2011	\$ 42,510	\$ 57,440	\$ 99,950
Additions	-	-	-
Disposals	-	-	-
Balance at March 31, 2012	\$ 42,510	\$ 57,440	\$ 99,950

Amortization

	Technology Licenses (i)	Patents (ii)	Total
Balance at January 1, 2011	\$ -	\$ 5,830	\$ 5,830
Amortization for the year	-	3,489	3,489
Balance at December 31, 2011	\$ -	\$ 9,319	\$ 9,319
Amortization for the period	-	957	957
Balance at March 31, 2012	\$ -	\$ 10,276	\$ 10,276

Carrying amounts

At January 1, 2011	\$ 30,738	\$ 40,802	\$ 71,540
At December 31, 2011	\$ 42,510	\$ 48,121	\$ 90,631
At March 31, 2012	\$ 42,510	\$ 47,164	\$ 89,674

- (i) On April 25, 2007, the Company entered into a license agreement with Dalhousie University ("Dalhousie"). The license covers Pentoxifylline and Functional Derivatives/Metabolites and its applications. The fields of use include pulmonary indications and radiation induced fibrosis. The company has paid license fees to date of \$42,510 to secure this license which is to be credited towards future royalties. As part of the agreement the Company must make milestone payments of up to \$825,000 to Dalhousie based on patient enrolment, clinical studies, and regulatory approval for sale of the product as well as a \$25,000 payment into the patent fund maintained by Dalhousie, details of which are further explained in Note 14, Commitments.

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

Pacific Therapeutics Ltd.

(A Development Stage Company)

Notes to Financial Statements

- (ii) The Company is currently pursuing a patent application for the compositions and methods of treating fibro proliferative disorders. Costs of this application incurred to date are \$57,440. The application is still pending as at March 31, 2012, however due to a finite life of the patent which begins from the date of application; the Company is amortizing these costs over the expected life of the patent.
- (iii) In 2011, in accordance with the Company's policy on impairment testing, per Note 2(f), the Company concluded that no impairment in its intangible asset values existed and consequently no impairment loss was recognized in the year.

7. IRREVOCABLE SUBSCRIPTION AGREEMENTS ("ISA")

On January 31, 2012, the Company terminated the ISAs, explained in detail in Note 8 of the annual financial statements. Termination of these agreements eliminated the reservation of the 3,000,000 shares reserved for issue under the agreements thereby improving the Issuer's capital structure. The termination also eliminates the 1% per month interest expense on the money that was in trust and the transaction costs associated with issuing shares associated with the draw downs.

During the three month period ended March 31, 2012, the Company recorded total interest expense of \$72,521 (2011 - \$140,597) on the ISAs, for the one month period in this quarter prior to its cancellation on January 31, 2012, inclusive of 1% interest per month recorded on the ISA funds held in escrow of \$3,001, and accretion of the amount allocated to bonus shares, i.e., the ("deemed discount") of \$69,520.

See ISA continuity schedule below:

	March 31, 2012	December 31, 2011
Principal amount of ISA received from investors	\$ 300,000	\$ 375,000
Amount allocated to Bonus shares ("Deemed Discount")	(105,000)	(112,500)
Net amount allocated to ISA	210,000	262,500
Amount returned to investor on demand	-	(25,000)
Draw down of funds	-	(49,999)
Accretion of deemed discount in 2011	90,000	42,980
Termination of ISA	(300,000)	-
Net carrying amount	\$ -	\$ 230,481

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

Pacific Therapeutics Ltd. (A Development Stage Company)

Notes to Financial Statements

8. INCOME TAXES

As at March 31, 2012, the Company had available for deduction against future taxable income, non-capital losses of approximately \$1,918,000. The potential income tax benefit of these losses has been offset by a full valuation allowance. These losses, if unutilized, will expire as follows:

2025	\$ 23,000
2026	130,000
2027	451,000
2028	245,000
2029	254,000
2030	283,000
2031	402,000
2032	130,000
	<hr/>
	\$ 1,918,000

The Company has un-depreciated capital cost of \$68,299 [2011 - \$68,299] available to be deducted against future taxable income.

9. DUE TO SHAREHOLDERS

Shareholders of the Company as at March 31, 2012 are owed \$44,300 (December 31, 2011 - \$20,300) that is unsecured and payable on demand, \$24,000 being loaned to the Company by Doug Unwin during the quarter ended March 31, 2012. In addition, as at March 31, 2012 there is \$181,844 owed to shareholders that is unsecured, non-interest bearing and short term (as at December 31, 2011 there was \$175,935 owed to shareholders and shown as long-term), these amounts are carried on the face of the financial statements at amortized cost, using a discount rate of 15%. See continuity schedule below:

	March 31, 2012		December 31, 2011	
Principal amount of shareholder loan liability	\$	202,470	\$	202,470
Less discount allocated to contributed surplus		(41,853)		(41,853)
Shareholder loan outstanding (net of discount)		160,617		160,617
Accretion of discount		21,227		15,318
Net carrying amount	\$	181,844	\$	175,935

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

Pacific Therapeutics Ltd.
(A Development Stage Company)

Notes to Financial Statements

10. SHARE CAPITAL

Authorized

Unlimited	Class A common shares without par value
1,500,000	Class B Series I preferred shares without par value
1,000,000	Class B Series II preferred shares without par value

Issued

21,055,823	Class A common shares without par value
NIL	Class B Series I preferred shares without par value
NIL	Class B Series II preferred shares without par value

Class A Common Shares

On January 31, 2012 the Company terminated the Irrevocable Subscription Agreements (ISAs) entered into by the Issuer on January 31, 2011 and May 16, 2011. Termination of these agreements eliminated 3,000,000 shares that were reserved under the terms of the agreements.

On January 31, 2012, an officer and director of the Company exercised 66,666 warrants at \$0.15, for net proceeds of \$9,999.90, and resulting in 66,666 of total shares being issued.

Stock options and share based compensation:

At March 31, 2012, the Company had 1,525,000 (December 31, 2011 - 1,650,000) stock options outstanding, of which 1,500,000 (December 31, 2011 - 1,550,000) are exercisable, at a weighted average exercise price of \$0.25 (December 31, 2011 - \$0.26) per common share and expiring at various dates from May 1, 2012 to March 5, 2015.

Details of the stock option transactions are summarized as follows:

	Number of Stock Options Outstanding	Weighted Average Exercise Price \$
Balance, December 31, 2011	1,650,000	0.26
Expired	(125,000)	0.27
Balance, March 31, 2012	1,525,000	0.25

The Company recognized \$11,564 in share based compensation expense for the three months ended March 31, 2012 compared to \$5,864 for the twelve months ended December 31, 2011. Share based compensation expenses are comprised of awards of options granted to employees and non employees of the Company. The Company's Board of Directors has discretion as to the number, vesting period, and expiry dates of options granted. Stock options are granted to both employees and non-employees.

The fair value of share based awards is determined using the Black-Scholes option pricing model. Like other accepted option valuation models, the Black-Scholes model was developed to estimate fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differs from the Company's stock option awards. The Black-Scholes option pricing model is also based on several subjective assumptions including the expected life of the option and expected future stock price volatility. Changes in these assumptions can materially affect the estimated fair value of the Company's stock options.

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

Pacific Therapeutics Ltd.

(A Development Stage Company)

Notes to Financial Statements

The estimated fair value of options granted to the Company's employees and directors is calculated at the grant date and amortized using graded vesting over the vesting period of the options. The fair value of non-employee awards are estimated each reporting period until the final measurement date.

The following table summarizes assumptions used in the Black-Scholes option pricing model for employees and directors for the three month period ending March 31, 2011 and December 31, 2011.

	Employees and Directors	
	2012	2011
Dividend yield	0%	0%
Expected volatility	91%	47%
Risk free interest rate	1.19%	1.4% and 1.8%
Expected life in years	2	1 - 4
Fair value per share	\$0.07	\$0.05

Warrants

As at March 31, 2012, the following share purchase warrants were outstanding:

	Issued	Weighted Average Exercise Price (\$)
December 31, 2011	3,830,422	0.16
Expired	(28,200)	0.15
Exercised	(66,666)	0.15
March 31, 2012	3,763,756	0.16

On January 31, 2012, 66,666 warrants were exercised at \$0.15 each for gross proceeds of \$9,999.90. On March 1, 2012, 28,200 warrants expired at an original exercise price of \$0.15.

11. CAPITAL DISCLOSURE

The Company considers its capital under management to be comprised of shareholders' equity and any debt that it may issue. As at March 31, 2012 the Company's shareholders' deficiency was \$291,881 (December 31, 2011 - \$166,309). The Company's outstanding issued debt includes due to shareholders' long-term of \$Nil (December 31, 2011 - \$175,935), due to shareholders short-term of \$226,144 (2011 - \$20,300) and Irrevocable Subscriptions of \$Nil (December 31, 2011 - \$230,481). The Company's objectives when managing capital are to maintain financial strength and to protect its ability to meet its on-going liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term. Protecting the ability to pay current and future liabilities includes maintaining capital above minimum regulatory levels, current financial strength rating requirements and internally determined capital guidelines and calculated risk management levels. The Company is not subject to any capital restrictions. There has been no change in the Company's objectives in managing its capital.

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Pacific Therapeutics Ltd.

(A Development Stage Company)

Notes to Financial Statements

12. RELATED PARTY TRANSACTIONS AND BALANCES

Details of the transactions between the Company and its related parties are disclosed below:

(a) Related Party Transactions

	Three months ended March 31, 2012		2011
Accounting fees paid to a shareholder of the Company	\$	4,500	\$ 21,000
Legal fees incurred from a consultant and director of the Company	\$	Nil	\$ 7,934
Share based payments to employees and directors of the Company	\$	Nil	\$ 5,864
Salaries, directors fees and other benefits	\$	25,597	\$ 115,433

(b) Related Party Balances

	Three months ended March 31, 2012		2011
Amounts in accounts payable and accrued liabilities owing to a consultant and director of the Company for legal fees	\$	14,991	\$ 14,991
Amount in accounts payable and accrued liabilities owing to a shareholder and director of the Company for unpaid salary and expenses	\$	27,299	\$ 23,306
Amounts in accounts payable and accrued liabilities owing to a shareholder of the Company for accounting fees	\$	8,400	\$ 3,360

13. FINANCIAL INSTRUMENTS AND RISK

Financial Instruments

As at March 31, 2012, the Company's financial instruments consist of cash and cash equivalents, accounts payable and accrued liabilities and amounts due to shareholders. The fair values of cash and cash equivalents and accounts payable and accrued liabilities approximate their carrying values due to their short term maturity.

The Company classifies its cash and cash equivalents as loans and receivables and its accounts payable and accrued liabilities and amounts due to shareholders as other financial liabilities.

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents. To minimize the credit risk the Company places these instruments with a high credit quality financial institution.

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

Pacific Therapeutics Ltd.

(A Development Stage Company)

Notes to Financial Statements

Liquidity Risk

The Company ensures its holding of cash and cash equivalents is sufficient to meet its short-term general and administrative expenditures. All of the Company's financial liabilities are subject to normal trade terms. The Company does not have investments in any asset-backed deposits. The Company's liabilities as at March 31, 2012, are due as follows:

Liabilities Outstanding		
On demand	\$	-
0 – 30 days		185,243
31 – 90 days		-
<365 days		226,144
Over 365 days		-
Total	\$	411,387

Foreign Exchange Risk

The Company is not exposed to foreign exchange risk on its financial instruments.

Interest Rate Risk

At March 31, 2012 the Company is not exposed to significant interest rate risk as its interest bearing debt is at fixed rates.

14. COMMITMENTS

The Company's commitments are as follows:

- (a) On April 25, 2007, the Company entered into a license agreement with Dalhousie University ("Dalhousie"). The license covers Pentoxifylline and Functional Derivatives/Metabolites and its applications. The fields of use include pulmonary indications and radiation induced fibrosis.

The Company is required to make annual maintenance payments of \$7,500 which are credited towards future royalties. In addition the Company must make milestone payments of up to \$825,000 to Dalhousie based on patient enrolment, clinical studies, and regulatory approval for sale of the product as well as a \$25,000 payment into the patent fund maintained by Dalhousie.

As further consideration under the Assignment Agreement, the Company is required to pay to Dalhousie a royalty on revenue earned from marketing, manufacturing, licensing, sale or distribution of the technology, improvements relating to the technology or products.

Under the terms of the license agreement, the Company was required to a) secure \$2,000,000 in capital or debt financing by December 31, 2010, b) complete enrolment of a first patient in a Phase II clinical study and c) expend \$200,000 per year in research and development related activities. The Company has received a waiver from Dalhousie for the requirement (a) and (b) above, and requirement (c) was amended to include a requirement that a first human subject be dosed by December 31, 2012 and initiation of a Phase II study by December 12, 2015.

- (b) The Company's rental lease agreement terminates on July 31, 2012 and will not be renewed.

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