

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

**Three month period ended March 31, 2013 and 2012**  
**(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)**

Statements of Financial Position  
(Expressed in Canadian Dollars)

<b>AS AT:</b>	<b>31-Mar-13</b>	<b>31-Dec-12</b>
	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	7,220	9,854
Harmonized sales tax recoverable	57	809
Prepaid expenses	57,664	97,444
	64,941	108,107
<b>NON-CURRENT ASSETS</b>		
<b>PROPERTY AND EQUIPMENT</b> (Note 3)	4,009	4,864
<b>INTANGIBLE ASSETS</b> (Note 4)	52,125	93,562
	121,075	206,533
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	374,577	341,872
Convertible note (Note 6)	21,161	16,739
Derivative liability (Note 6)	49,839	30,889
Shareholder demand loan (Note 5)	23,553	45,553
Due to shareholders (Note 5)	202,470	202,470
	671,600	637,523
<b>SHAREHOLDERS' DEFICIENCY</b>		
Share capital (Note 7)	2,078,686	1,995,716
Subscriptions received (Note 7)	-	30,000
Contributed surplus	208,242	206,212
Deficit accumulated during the development stage	(2,837,453)	(2,662,918)
	(550,525)	(430,990)
	121,075	206,533

**Nature and Continuance of Operations** (Note 1) and **Commitments** (Note 10)

**Subsequent Events** (Note 11)

**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)**

Statements of Comprehensive Loss  
(Expressed in Canadian Dollars)

<b>FOR THE THREE MONTHS ENDING MARCH 31</b>	<b>2013</b>	<b>2012</b>
<b>Expenses</b>		
Advertising and promotion	\$ 20,101	\$ 943
Amortization of property and equipment	855	453
Amortization of intangible assets	957	957
Bank charges and interest	4,602	130
Computer	-	1,130
Insurance	4,180	3,961
Investor relations	22,500	4,750
Office and miscellaneous	1,943	430
Professional fees	15,753	8,850
Rent and occupancy costs	3,601	4,847
Research and development	-	3,933
Telephone and utilities	497	1,137
Transfer agent	1,450	55
Travel	736	-
Wages and benefits	35,000	37,161
	<b>\$ 112,175</b>	<b>\$ 68,737</b>
<b>Interest expense</b>		
Interwest loan interest	\$ 900	\$ 3,001
ISA interest incurred	-	3,001
ISA-accretion of deemed discount	-	69,520
Shareholder loan accretion of deemed discount (Note 5)	-	5,909
Interest expense on convertible note (Note 6)	-	(30)
	<b>\$ 900</b>	<b>\$ 78,400</b>
<b>Other Expenses (Income)</b>		
Loss on derivative liability (Note 6)	\$ 18,950	\$ -
Write-off of license (Note 4)	42,510	-
	<b>\$ (174,535)</b>	<b>\$ (147,137)</b>
<b>Net Loss and Comprehensive Loss</b>	<b>\$ (174,535)</b>	<b>\$ (147,137)</b>
<b>Loss per share Basic and Diluted</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of common shares outstanding</b>	<b>23,526,825</b>	<b>18,172,472</b>

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

**PACIFIC THERAPEUTICS LTD.**  
**(A Development Stage Company)**

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

	Number of common shares	Share capital \$	Share Subscriptions received \$	Contributed surplus \$	Deficit \$	Total \$
<b>Balance at December 31, 2011</b>	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)
<b>Balance at March 31, 2012</b>	21,055,823	1,775,754	-	173,616	(2,241,252)	(291,882)
Common shares issued for cash	789,336	118,401	-	-	-	118,401
Share issue costs	-	(8,500)	-	-	-	(8,500)
Loss for the period	-	-	-	-	(89,056)	(89,056)
<b>Balance at June 30, 2012</b>	21,845,159	1,885,655	-	173,616	(2,330,308)	(271,037)
Common shares issued for cash @ \$0.15	741,666	111,250	-	-	-	111,250
Share issue costs	-	(825)	-	-	-	(825)
Stock based compensation	-	-	-	25,634	-	25,634
Loss for the period	-	-	-	-	(163,355)	(163,355)
<b>Balance at September 30, 2012</b>	22,586,825	1,996,080	-	199,250	(2,493,663)	(298,333)
Subscriptions received for 600,000 shares @ \$0.05	-	-	30,000	-	-	30,000
Transfer from contributed surplus on expiry of options	-	-	-	(36,665)	36,665	-
Share issue costs	-	(364)	-	-	-	(364)
Warrant reserve	-	-	-	5,799	-	5,799
Stock based compensation	-	-	-	37,828	-	37,828
Loss for the period	-	-	-	-	(205,920)	(205,920)
<b>Balance at December 31, 2012</b>	22,586,825	1,995,716	30,000	206,212	(2,662,918)	(430,990)

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

**PACIFIC THERAPEUTICS LTD.**  
**(A Development Stage Company)**

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

	Number of common shares	Share capital \$	Share Subscriptions received \$	Contributed surplus \$	Deficit \$	Total \$
<b>Balance at December 31, 2012</b>	22,586,825	1,995,716	30,000	206,212	(2,662,918)	(430,990)
Common shares issued for cash @ \$0.05	1,800,000	90,000	(30,000)	-	-	60,000
Share issue costs	-	(7,030)	-	2,030	-	(5,000)
Loss for the period	-	-	-	-	(174,535)	(174,535)
<b>Balance at March 31, 2013</b>	24,386,825	2,078,686	-	208,242	(2,837,453)	(550,525)

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

**PACIFIC THERAPEUTICS LTD.**  
**(A Development Stage Company)**

Statements of Cash Flow  
(Expressed in Canadian Dollars)

<b>For three months ending March 31,</b>	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows used in operating activities</b>		
Net loss and Comprehensive loss	(174,535)	(147,137)
Adjustments for items not affecting cash		
Amortization of property and equipment	855	453
Amortization of intangible assets	957	957
Amortization of deemed discounts on ISAs, Class B series I preferred shares, shareholder loans, and convertible note	-	75,429
Stock based compensation	-	11,564
Loss on derivative liability	18,950	-
Changes in non-cash working capital balances		
Harmonized sales tax recoverable	752	12,426
Prepaid expenses	39,780	(10,037)
Write-off of license	42,510	-
Accounts payable and accrued liabilities	32,705	23,472
	<b>(38,026)</b>	<b>(32,873)</b>
<b>Cash flows used in investing activities</b>		
Additions to intangible assets	(2,030)	-
	<b>(2,030)</b>	<b>-</b>
<b>Cash flows from financing activities</b>		
Issue of common shares for cash	82,970	10,000
Subscriptions received	(30,000)	-
Issuance of finders' warrants	2,030	-
Promissory note	4,422	-
Shareholder demand loan	(22,000)	-
Due to shareholders	-	24,000
	<b>37,422</b>	<b>34,000</b>
<b>Change in cash and cash equivalents</b>	<b>(2,634)</b>	<b>1,127</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>9,854</b>	<b>6,094</b>
<b>Cash and cash equivalents, end of period</b>	<b>7,220</b>	<b>7,221</b>

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

# **Pacific Therapeutics Ltd.**

## **(A Development Stage Company)**

Notes to Financial Statements

Three Months Ended March 31, 2013 and 2012

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### **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. BASIS OF PRESENTATION**

The unaudited condensed consolidated interim financial statements were authorized for issue on May 23, 2013 by the directors of the Company.

#### **Statement of Compliance and conversion to International Financial Reporting Standards**

These unaudited condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standard 34 "Interim Financial Reporting" ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee.

These unaudited condensed consolidated interim financial statements do not include all of the information required of a full annual financial report and should be read in conjunction with the annual financial statements of the Company for the year ended December 31, 2012.



**Pacific Therapeutics Ltd.**  
**(A Development Stage Company)**

Notes to Financial Statements  
 Three Months Ended March 31, 2013 and 2012

**3. PROPERTY AND EQUIPMENT**

**Cost**

<b>Balance at:</b>	<b>Computer Equipment</b>	<b>Furniture and Fixtures</b>	<b>Leasehold Improvements</b>	<b>Lab Equipment</b>	<b>Total</b>
December 31, 2011	\$ 5,876	\$ 8,093	\$ 8,330	-	\$ 22,299
Additions	-	-	-	6,200	6,200
Disposals	-	(8,093)	(8,330)	-	(16,423)
December 31, 2012	\$ 5,876	\$ -	\$ -	\$ 6,200	\$ 12,076
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
March 31, 2013	\$ 5,876	\$ -	\$ -	\$ 6,200	\$ 12,076

**Amortization**

<b>Balance at:</b>	<b>Computer Equipment</b>	<b>Furniture and Fixtures</b>	<b>Leasehold Improvements</b>	<b>Lab Equipment</b>	<b>Total</b>
December 31, 2011	\$ 5,487	\$ 5,110	\$ 5,344	-	\$ 15,941
Disposals	-	(5,657)	(5,891)	-	(11,548)
Amortization for the year	175	547	547	1,550	2,819
December 31, 2012	\$ 5,662	\$ -	\$ -	\$ 1,550	\$ 7,212
Disposals	-	-	-	-	-
Amortization for the period	80	-	-	775	855
March 31, 2013	\$ 5,742	\$ -	\$ -	\$ 2,325	\$ 8,067

**Carrying amounts**

At December 31, 2011	\$ 389	\$ 2,983	\$ 2,986	-	\$ 6,358
At December 31, 2012	\$ 214	\$ -	\$ -	\$ 4,650	\$ 4,864
At March 31, 2013	\$ 134	\$ -	\$ -	\$ 3,875	\$ 4,009

**Pacific Therapeutics Ltd.**  
**(A Development Stage Company)**

Notes to Financial Statements  
 Three Months Ended March 31, 2013 and 2012

**4. INTANGIBLE ASSETS**

**Cost**

	<b>Technology Licenses (i)</b>	<b>Patents (ii)</b>	<b>Total</b>
Balance at December 31, 2011	\$ 42,510	\$ 57,440	\$ 99,950
Additions	-	6,875	6,875
Disposals	-	-	-
Balance at December 31, 2012	\$ 42,510	\$ 64,315	\$ 106,825
Additions	\$ -	\$ 2,030	\$ 2,030
Disposals	\$ -	\$ -	\$ -
Written-off	\$ 42,510	\$ -	\$ 42,510
Balance at March 31, 2013	\$ -	\$ 66,345	\$ 66,345

**Amortization**

	<b>Technology Licenses (i)</b>	<b>Patents (ii)</b>	<b>Total</b>
Balance at December 31, 2011	\$ -	\$ 9,319	\$ 9,319
Amortization for the year	-	3,944	3,944
Balance at December 31, 2012	\$ -	\$ 13,263	\$ 13,263
Amortization for the period	-	957	957
Balance at March 31, 2013	\$ -	\$ 14,220	\$ 14,220

**Carrying amounts**

At December 31, 2011	\$ 42,510	\$ 48,121	\$ 90,631
At December 31, 2012	\$ 42,510	\$ 51,052	\$ 93,562
At March 31, 2013	\$ -	\$ 52,125	\$ 52,125

- (i) On January 9, 2013 the technology license agreement with Dalhousie University was terminated due to breach of contract for non-payment of maintenance amounts due and the asset value was written-off.
- (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 \$66,345 (2012 - \$64,315). The application is still pending as at March 31, 2013, 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.

# Pacific Therapeutics Ltd. (A Development Stage Company)

Notes to Financial Statements  
Three Months Ended March 31, 2013 and 2012

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## 5. DUE TO SHAREHOLDERS

### (a) Shareholder demand loan

Shareholders of the Company are owed \$23,553 as at March 31, 2013 (December 31, 2012 - \$45,553) consisting of short term amounts loaned to the company that are unsecured, non-interest bearing, and payable on demand.

### (b) Due to shareholders

Due to shareholder balances are unsecured and non-interest bearing, with a due date of January 1, 2013. The balance as at March 31, 2013 was \$202,470 (December 31, 2012 - \$202,470). This loan is in default and due on demand.

## 6. CONVERTIBLE NOTES

On September 24, 2012 the Company issued a convertible note ("the Note") with a face value of \$30,000 plus 200,000 two year \$0.22 warrants (Bonus Warrants) for \$30,000 in cash. The Note has a term of one year and is repayable by the Issuer at any time. The holder of the Note may convert the whole note or any portion into units at any time. Each unit will consist of 1 common share (the Share Option) and 1 warrant (the warrant option), with each warrant option exercisable to acquire an additional common share for a period of 2 years from the date the warrant was issued. Subject to regulatory approval the conversion price per unit will be at a 25% discount to the ten day weighted average price of the issuer's shares at the date of conversion. Subject to regulatory approval the exercise price per warrant option will be at a 25% premium to the ten day weighted average price of the issuer's shares at the date of conversion. Each bonus warrant is exercisable to acquire an additional common share for a period of two years from the closing date at a price of \$0.22. The Note accrues interest at the rate of 1% per month, payable in quarterly installments.

The estimated fair value of the share options was calculated on the grant date as \$18,232.

Upon initial recognition, the Company bifurcated the \$30,000 proceeds between the component parts of the convertible note using the relative fair value method with \$12,317 allocated to convertible loan, \$12,248 to share and warrant option (derivative liability) and \$5,435 to warrant reserve.

The discount on the component parts of the convertible note are accredited as interest expense over the one year term of the note. As at March 31, 2013 the derivative liability was re-measured to fair value. This resulted in a loss on derivative liability being recognized on the face of the financial statements of \$18,950 (December 31, 2012 - \$18,641).

		31-Mar-13	31-Dec-12
Fair value	\$	30,000	\$ 30,000
Unamortized debt discounts			
Bonus warrants		(2,717)	(4,076)
Share conversion		(2,381)	(3,582)
Option conversion		(3,741)	(5,613)
	\$	21,161	\$ 16,729

# Pacific Therapeutics Ltd. (A Development Stage Company)

Notes to Financial Statements  
Three Months Ended March 31, 2013 and 2012

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## 7. 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

24,386,825	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 66,666 common share warrants with an exercise price of \$0.15 were exercised by an officer of the company for 66,666 common shares and proceeds of \$10,000.

On June 20, 2012, the Company completed a private placement of 732,670 units at \$0.15 per unit for gross proceeds of \$109,901. Each unit is comprised of one common share and one warrant to purchase one common share at \$0.22 per share exercisable until June 20, 2014.

On June 20, 2012, certain finders were issued 56,666 units with the same terms as in the foregoing, which were valued at \$8,500.

On September 21, 2012, the Company completed a private placement of 741,666 units at \$0.15 per unit for gross proceeds of \$111,250. Each unit is comprised of one common share and one warrant to purchase one common share at \$0.22 per share exercisable until September 21, 2014.

On February 7, 2013 the Company completed a private placement of 1,800,000 units at \$0.05 per unit for gross proceeds of \$90,000, with \$30,000 relating to the share subscription received before the 2012 yearend. Each unit is comprised of one common share and one-half a purchase warrant, each warrant being exercisable for one common share at an exercise price of \$0.22 until February 7, 2015.

### SHARE SUBSCRIPTIONS RECEIVED

In December 2012 the Company received \$30,000 for a share subscription for 600,000 units as part of a private placement of 1,800,000 units that was completed on February 7, 2013. The Company paid issue costs of \$5,000 and issued 40,000 warrants to acquire common shares at \$0.22 until February 7, 2015 valued at \$2,030.

### **Stock options and share based compensation:**

At March 31, 2013, the Company had 1,675,000 (December 31, 2012 - 1,675,000) stock options outstanding, of which 1,675,000 (2012 - 1,650,000) are exercisable, at a weighted average exercise price of \$0.18 (2012 - \$0.18) per common share, and expiring at various dates from October 31, 2014 to December 21, 2017.

**Pacific Therapeutics Ltd.**  
**(A Development Stage Company)**

Notes to Financial Statements  
 Three Months Ended March 31, 2013 and 2012

As at March 31, 2013 and December 31, 2012, the following stock options were outstanding:

<b>Expiry Date</b>	<b>Exercise Price</b>	<b>31-Mar-13</b>	<b>31-Dec-12</b>
31-Oct-14	\$ 0.27	150,000	150,000
4-Nov-14	0.27	150,000	150,000
5-Mar-15	0.27	375,000	375,000
1-Jun-15	0.27	75,000	75,000
3-Jul-17	0.10	475,000	475,000
21-Dec-17	0.10	450,000	450,000
<b>Balance</b>	<b>\$ 0.17</b>	<b>1,675,000</b>	<b>1,675,000</b>

The options outstanding and exercisable at March 31, 2013, have a weighted average remaining contractual life of 3.3 years (2012 – 3.5 years). Stock option activity was as follows:

	<b>2013 - 3 months</b>		<b>2012 - 12 months</b>	
	<b>Options Outstanding</b>	<b>Exercise Price</b>	<b>Options Outstanding</b>	<b>Exercise Price</b>
Balance at January 1	1,675,000	\$ 0.17	1,650,000	\$ 0.25
Exercised	-	-	-	-
Expired/Cancelled	-	-	(1,000,000)	0.24
Issued	-	-	1,025,000	0.10
<b>Balance at period end</b>	<b>1,675,000</b>	<b>\$ 0.17</b>	<b>1,675,000</b>	<b>\$ 0.17</b>

The fair value of share based awards is determined using the Black-Scholes option pricing model. The model utilizes certain 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.

There were no stock options granted in the quarter ended March 31, 2013.

**Pacific Therapeutics Ltd.**  
**(A Development Stage Company)**

Notes to Financial Statements  
 Three Months Ended March 31, 2013 and 2012

**Warrants**

As at March 31, 2013, the following share purchase warrants were issued and outstanding:

<b>Expiry Date</b>	<b>Exercise Price \$</b>	<b>31-Mar-13</b>	<b>31-Dec-12</b>
1-Feb-13	\$0.15	-	2,473,334
28-Feb-13	\$0.25	-	60,000
1-Feb-14	\$0.15	2,473,334	-
28-Feb-14	\$0.25	60,000	-
16-May-13	\$0.15	-	600,000
16-May-14	\$0.15	600,000	-
15-Nov-13	\$0.15	602,223	602,223
20-Jun-14	\$0.22	732,670	732,670
20-Jun-14	\$0.22	56,666	56,666
21-Sep-14	\$0.22	747,166	747,166
24-Sep-14	\$0.22	200,000	-
12-Feb-15	\$0.22	1,000,000	-
		<b>6,472,059</b>	<b>5,272,059</b>

The warrants outstanding and exercisable at March 31, 2013, have a weighted average remaining contractual life of 1.1 years (2012 – 0.6 years). Warrant activity was as follows:

	<b>March 31, 2013</b>		<b>December 31, 2012</b>	
	<b>Outstanding</b>	<b>Weighted Average Exercise Price (\$)</b>	<b>Outstanding</b>	<b>Weighted Average Exercise Price (\$)</b>
Balance, December 31, 2012	5,272,059	0.18	3,830,423	0.16
Expired	-	-	(28,200)	0.10
Exercised	-	-	(66,666)	0.15
Modified	(3,133,333)	0.15	-	-
Modified	3,133,333	0.15	-	-
Issued	1,200,000	0.22	1,536,502	0.22
Balance, March 31, 2013	<b>6,472,059</b>	<b>0.18</b>	<b>5,272,059</b>	<b>0.18</b>

**Pacific Therapeutics Ltd.**  
**(A Development Stage Company)**

Notes to Financial Statements  
Three Months Ended March 31, 2013 and 2012

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**8. RELATED PARTY TRANSACTIONS AND BALANCES**

All transactions with related parties are in the normal course of operations. Amounts due to or from related parties are in the normal course of operations.

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

**(a) Related Party Transactions**

		<b>Three months ended 31-Mar-2013</b>		<b>Three months ended 31-Mar-2012</b>
Accounting fees paid to a shareholder of the Company	\$	7,500	\$	4,500
Legal fees incurred from a consultant and director of the Company	\$	-	\$	3,200

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**(b) Related Party Balances**

		<b>31-Mar-2013</b>		<b>31-Dec-2012</b>
Amounts in accounts payable and accrued liabilities owing to a consultant and director of the Company for legal services	\$	18,575	\$	18,575
Amount in accounts payable and accrued liabilities owing to a shareholder and director of the Company for unpaid salary and expenses	\$	141,166	\$	100,798
Amounts in accounts payable and accrued liabilities owing to a shareholder of the Company for accounting services	\$	31,917	\$	22,917

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Balances are due on demand with no fixed term, security or interest.

**(c) Key Management and Personnel Compensation:**

		<b>Three months ended 31-Mar-2013</b>		<b>Three months ended 31-Mar-2012</b>
Wages, salaries, and consulting fees	\$	35,000	\$	25,597
Share-based payments		-		11,564
Total key management personnel compensation	\$	35,000	\$	37,161

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# Pacific Therapeutics Ltd. (A Development Stage Company)

Notes to Financial Statements  
Three Months Ended March 31, 2013 and 2012

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## 9. FINANCIAL INSTRUMENTS AND RISK

As at March 31, 2013, the Company's financial instruments consist of cash and cash equivalents, accounts payable and accrued liabilities, shareholder demand loan, a convertible note and a derivative liability. The convertible note has been bifurcated and presented in the financial statements using its component parts.

The fair value of cash and cash equivalents, accounts payable and accrued liabilities and shareholder demand loans approximate their carrying values because of the short term nature of these instruments. These are classified as level 1 in the fair value hierarchy.

The derivative liability is measured at fair value at the end of each reporting period. Because revaluation at fair value includes the use of valuation techniques, the derivative liability is classified as level 3 in the fair value hierarchy.

### *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.

### *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, 2013, are due as follows:

<b>Liabilities Outstanding</b>		
On demand	\$	264,899
0 – 30 days		30,831
31-90 days		9,898
91-365 days		227,198
Over 365 days		138,774
<b>Total</b>	<b>\$</b>	<b>671,600</b>

### *Foreign Exchange Risk*

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

### *Interest Rate Risk*

At March 31, 2013 the Company is not exposed to significant interest rate risk as its interest bearing debt is at fixed rates.

## 11. SUBSEQUENT EVENTS

On April 4, 2013, the Company issued 350,000 five year stock options to purchase common shares of the company at \$0.10 per share to various employees and directors and consultants. The Company used the Black-Scholes pricing model to determine the value of the options granted. The assumptions used in the Black-Scholes option pricing model for the 350,000 options granted were:



**Pacific Therapeutics Ltd.**  
**(A Development Stage Company)**

Notes to Financial Statements

Three Months Ended March 31, 2013 and 2012

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Dividend yield	0%
Expected volatility	254.04%
Risk free interest rate	1.19%
Expected life in years	5
Fair value per share	\$10

On May 1, 2013, the Company closed the second tranche of a non-brokered private placement and issued an additional 2,200,000 units at \$0.05 per unit for gross proceeds of \$110,000. When combined with the first tranche the Company has issued a total of 4,000,000 units for gross proceeds of \$200,000. Each unit was comprised of one common share and one-half a purchase warrant. Each whole warrant may be exercised for \$0.22 to purchase one common share for a period of two years from closing. The Company will pay finder's fees of \$6,000 and issue 260,000 finders warrants total to finders in the second tranche. He finders' warrants have the same terms as the warrants that are part of the above Units.