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 annual consolidated financial statements for the twelve month period ended December 31, 2013. This MD&A has been filed in accordance with the provisions of National Instrument 51-102 (*Continuous Disclosure Regulation*). Copies of further relevant financial documents and earlier corporate filings to date may also be referenced on the regulatory website - SEDAR at www.sedar.com. This MD&A is prepared as of April 29, 2014.

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., founded in 1995, designs, develops, manufactures and markets patented, superpulsed laser technology utilized in various biostimulation and biodestruction applications. The technology has been proven safe and effective in the treatment of: pain, neural muscular skeletal conditions and wound healing. When combined with patented, light-sensitive Photo Dynamic Compounds (PDCs), Theralase laser technology is able to specifically target and effectively destroy cancers, bacteria and viruses.

Theralase is focused on a two part strategy:

1. Production, marketing and distribution of the TLC-1000 and TLC-2000 Theralase Superpulsed Laser Technologies to healthcare practitioners internationally, who are interested in the safe and effective treatment of pain, reduction of inflammation and acceleration of tissue healing of neuromuscular skeletal conditions.

2. Commercialization of the patented TLC-3000 Photo Dynamic Compound Cancer Technology through pre-clinical research, clinical trials and new technology development to destroy cancers for oncological applications and to destroy bacteria in human, animal and sterilization applications.

Advancing the Theralase Technology Platform

The following summarizes several scientific, clinical and business developments that management considers will fuel and accelerate near, mid and long term Company growth:

TLC-2000: Biofeedback Laser Technology

Theralase continues to make progress on commercializing its next generation therapeutic laser – the patented TLC-2000. The TLC-2000 Biofeedback Therapeutic Laser Technology targets tissue at depth with exact precision, unattainable by any of its competitors, thus enabling exact doses of energy to be delivered to injured tissue for enhanced efficacy and accelerated healing. The TLC-2000 is also a learning device that remembers the most optimized protocols based on an individual patient's optical tissue profiles.

Currently, Theralase has completed the pre-commercial prototype of the TLC-2000 Biofeedback Therapeutic Laser System, which will lead to the commercial version in 4Q2014. Theralase is on track to launch 10 beta prototypes for beta testing by Key Opinion Leaders (KOLs) in the beginning of 3Q2014 and then supply gamma prototypes to its Territory Sales Managers (TSMs) at the end of 3Q2014 for solicitation of orders and trade-ups of the existing TLC-1000 technology from its existing customers. The TLC-2000 will commercially launch the patented TLC-2000 Biofeedback Therapeutic Laser Technology in the beginning of 4Q2014. Theralase intends to utilize a recurring revenue sales model; whereby, Theralase will partner with practitioners and participate in the revenue stream generated through the use of the therapeutic laser technology for patient treatments.

TLC-3000: Cancer Therapy

The proprietary TLC-3000 medical laser system has been custom designed by Theralase for the activation of Theralase's patented Photo Dynamic Compounds (PDCs), resulting in the successful destruction of cancer cell lines in-vitro. In 2009, in vitro experiments conducted at the Ontario Cancer Institute at Princess Margaret Cancer Centre, University Health Network (UHN) demonstrated complete destruction of brain tumour cells (9L) following administration of Theralase's patented PDCs and subsequent activation with Theralase's proprietary TLC-3000 light source. In early 2010, UHN demonstrated complete destruction of breast cancer cells following administration of Theralase's patented PDCs and subsequent activation with Theralase's proprietary TLC-3000 light source. This completed Milestone 1 – in-vitro Pre Clinical Study of the cancer research project; specifically, the successful destruction of cancer cell lines in-vitro.

The Company commenced Milestone 2 – in-vivo Small Animal Pre Clinical Study in 2Q2010; specifically, the evaluation of the safety and efficacy in destruction of numerous cancer cell lines utilizing in-vivo small animal models. Theralase received the necessary approvals on its Animal Utilization Protocol by UHN Ethics Review Committee in 3Q2010, allowing hands-on evaluation of the PDCs in a small animal model.

Lothar Lilge, Ph.D., the principal investigator of the PDCs and a senior researcher at the world renowned UHN facility has evaluated the toxicity of the patented PDCs on small animals, by choosing an escalating dose analysis. In 1Q2011, Theralase announced that its patented PDCs were as safe as any PDC presently approved on the market by a factor of 10. Remarkably, only 10 minutes of light exposure by Theralase's proprietary light source was required to effectively activate Theralase's patented PDCs to destroy human brain or colon cancer cells in-vitro. Moreover, initial drug stability testing suggests that the efficacy of the PDC was not compromised even after one year of storage at appropriate conditions. This suggests a highly stable compound, which is an important consideration in product clinical development and commercialization.

With toxicity in a small animal in-vivo model successfully completed, Dr. Lilge demonstrated in 4Q2011 the efficacy of the PDCs in the destruction of tumours in a small animal in-vivo subcutaneous malignant tumour model. The Company's patented light activated PDC technology was up to 100% successful in destroying cancerous tumours located under the skin of a live animal. Theralase has now validated its PDC technology in the destruction of cancerous tumours in live animals demonstrating up to 100% cancer cell kill and an extremely high safety profile. The Theralase PDC treatment was successful and well tolerated by the animals and as a result, this preclinical success will help the Company to identify the leading PDC to take forward for additional animal and human cancer destruction applications. The preclinical results were independently reviewed by the international scientific community of SPIE (International Society for Optics and Photonics) and were accepted by the Conference Chairs for presentation at the SPIE Photonics Europe conference in April, 2012 in Brussels, Belgium.

This new research greatly expanded the application of Theralase's patented PDC technology in the cancer field and introduced the potential for a successful impact on two devastating forms of cancer; specifically, brain and colon cancer.

Theralase's research has demonstrated a significant kill rate of up to 100% in specific human brain and colon cancer cells lines. These results now lay the groundwork for further pre-clinical trials, which if proven successful may lead to human clinical trials in 1Q2015. Theralase plans to aggressively pursue commercialization of its ground-breaking PDC technology through the accelerated FDA regulatory approval process. This FDA process involves "fast-track" and "breakthrough status" designations granted to a technology, when the treatment is shown, through a proven success rate, to have a positive impact on a serious, life-threatening medical condition for which no other drug or treatment exists or is as effective. Theralase also plans to continue its research and development to optimize its PDCs, from the same platform, to destroy a variety of life threatening cancers.

In 1Q2012, Theralase announced that it had successfully identified the leading drug candidate, which will be used for safety and efficacy clinical testing in human cancer patients. In multiple preclinical studies, the leading drug candidate has been selected from Theralase's library of PDCs and has repeatedly demonstrated:

- extremely high efficacy, virtually 100% kill rate, in various cancer cell lines including brain and colorectal cancers
- robust destruction of sub cutaneous (under the skin) cancerous tumours in animals
- extremely low toxicity
- high stability, allowing for a long shelf life

In 1Q2012, Theralase announced that its anti cancer PDC technology was found to completely destroy subcutaneous (under the skin) colon cancer tumours in a mouse model. Four weeks post treatment; the mice continue to be cancer free. In cancer treatment, destroying the tumour is half the battle, while the other half is preventing the cancer from recurring. These findings are important because they demonstrate that the Company's leading drug candidate, in combination with a specific dose of light, can prevent the cancer from recurring. Preventing cancer from recurring in animal models is an important benchmark in developing new cancer therapeutics aimed at prolonged life. Theralase's PDC technology was able to completely destroy subcutaneous cancer in mice and allowed them to live cancer free for up to four weeks post treatment. Mice not treated with the Company's PDC technology did not survive beyond 2 weeks. Based on recent successes in Theralase's research, the Company is confident that it is well positioned to expedite the required steps to initiate human trials in 1Q2015..

The following summarizes the research conducted by Theralase scientists:

- In early February 2012, mice were injected under the skin with 350,000 colon cancer cells.
- All tumours were allowed to grow until they reached 5 mm in size.
- On February 21, 2012, half the mice were used as a control group where no therapy was administered, while the remaining animals became the treatment group and were administered an intratumour injection of Theralase's lead PDC.
- The PDC was allowed to distribute within the cancerous tumour for 4 hours.
- The PDC was then activated by Theralase's proprietary laser light protocol for 32 minutes.
- After 24 hours, the tumours were no longer visible on the treated mice.
- All mice were monitored and examined daily thereafter.
- Tumours in the control mice grew to the maximum allowable size of 12 mm, as determined by the study protocol, and did not survive beyond 2 weeks.
- The mice treated with Theralase's PDC technology continue to be cancer free four weeks post treatment and counting.

Theralase's work in this area was presented at an International Symposium on "Photodynamic Therapy and Photodiagnosis in Clinical Practice" conference held in Brixton, Italy in October 2012.

As of May 2013, all the mice have lived cancer free and thrived for over 120 days (equivalent to approximately 10 human years). On follow-up, the cancer free status was maintained in two-thirds of the animals for 20 months without recurrence of cancer (equivalent to 50 human years).

These small animal pre-clinical trials represent the next step forward in Theralase's cancer therapy research program. Successful completion of this milestone, lays the groundwork for exploring the use of these PDCs in the destruction of cancer and bacterial pathogens in humans.

In 2Q2012, Theralase announced that it had selected bladder cancer as the first clinical target in its novel Photo Dynamic Compound (PDC) research. Bladder cancer is the fifth most common cancer in North America being the fourth most common in men and the eighth most common in woman. In North America, it is estimated that there will be over 77,000 new cases and over 15,000 deaths annually. "With a recurrence rate of nearly 80%, bladder cancer is the most expensive cancer to treat on a per patient basis, costing $100,000 to $200,000 each," says Dr. Michael Jewett, a specialist in uro-oncology and a member of Bladder Cancer Canada's (BCC) Medical Advisory Board. "The high recurrence rate raises many issues affecting quality of life." Theralase now has a clear direction with which to proceed with FDA Clinical Trials.

In 1Q2013, Theralase 's proprietary Photo Dynamic Compound (PDC) technology was approved for use in a live animal bladder cancer model by University Health Network (UHN) Research Ethics Board. This approval expedited the Company's progress towards commercializing its advanced bladder cancer therapy.

Theralase's leading patented oncology PDC has repeatedly demonstrated that it is:

- toxic to bladder cancer cells when light activated (100% kill rate)
- exceeds potency of current FDA approved PDCs by 200x to over 600,000x
- highly stable ensuring optimal tumour destruction

Theralase will validate its PDC technology in an animal cancer model to support an Investigational New Drug (IND) application to be filed with the FDA in 4Q2013. This IND application will allow Theralase to commence a Phase 1/2a human clinical trial to prove the safety and efficacy of its PDC technology on a 30 subject population with commencement 1Q2015 and scheduled completion in 2015.

Theralase has a growing portfolio of intellectual property patents protecting the Theralase PDC technology for many decades allowing the company to enjoy the fruits of its labours for many years under intellectual patent protection. Theralase's anti cancer technology pipeline includes numerous drug candidates, in various advanced stages of preclinical development. Theralase will continue to validate its extensive data with additional cancer animal models and toxicology analyses to bring these PDC drug candidates online for various cancer and bacterial applications.

Success in Destruction of Listeria Monocytogenes Bacteria

The patented Theralase PDCs have shown an ability to destroy Escherichia Coli (E. coli) and Listeria Monocytogenes (Listeria) bacteria in vitro when light activated, in research performed at the Princess Margaret Cancer Centre, University Health Network (UHN). Future applications of the PDC technology in bacteria destruction may involve: animal applications, human applications, food safety through food processing equipment sterilization, hospital treatment room sterilization, medical equipment sterilization, bacterial load elimination in wounds and other bacteria destruction applications.

Theralase in developing and commercializing this new application of the PDC technology plans to work with a variety of organizations, including: organizations involved in human or animal applications, food processing organizations, academic institutions, hospitals, practitioners and medical equipment manufacturers interested in bacterial destruction applications.

The first conference, BiOS SPIE Photonics West Conference (the largest photonics conference in the world) was held in California in January, 2012 and Theralase presented a new cost effective methodology to quickly identify and quantify bacteria in food such as the E. coli and Listeria strains. This technology would be beneficial for food manufacturing and handling facilities, restaurants, schools and hospitals allowing early detection of food borne pathogens, which could then be quickly destroyed utilizing Theralase's patented Photo Dynamic Compounds (PDCs) and proprietary light sources. A very simplistic one two punch that could prove invaluable to an industry plagued with food recalls that are estimated to cost the industry over $157 billion a year in North America and the loss of lives.

At a second conference, Photonic Solutions for Better Health Care, a part of SPIE Photonics Europe, held in Belgium in April, 2012, Theralase presented new scientific data supporting the application of Theralase's advanced sterilization platform technology that enables 8 log kill (99.999999%) of life threatening infectious microorganisms, such as Staphylococcus Aureus (S. aureus). Theralase's PDCs were effective in oxygenated (normoxic) and in non-oxygenated (hypoxic) experimental conditions. These results demonstrate that the unique Photo Dynamic Therapy (PDT) effect of Theralase's patented compounds does not depend on oxygen availability and are therefore able to act as a Type I photosensitizers (oxygen independent).

Staphylococcus Aureus, the most virulent of the many staphylococcal species, has demonstrated its versatility by remaining a major cause of morbidity and mortality despite the availability of numerous effective antistaphylococcal antibiotics. S. aureus is a pluripotent pathogen, causing disease through both toxin-mediated and non–toxin-mediated mechanisms. This organism is responsible for both Hospital Acquired Infections (HAI) and Community Acquired Infections (CAI) that range from relatively minor skin and soft tissue infections to life-threatening systemic infections. Each year, more than 500,000 patients in American hospitals contract a staphylococcal infection through Methicillin Resistant Staphylococcus Aureus (MRSA) or Vancomycin-resistant Staphylococcus Aureus (VRSA) and are two of a number of greatly feared microbes that have become resistant to most antibiotics. These microbes are most often found associated with institutions such as hospitals, but are becoming increasingly prevalent in community-acquired infections. The ability of Theralase's PDC to impart cytotoxicity (bacteria cell kill) across a wide range of oxygenation levels indicates its potential to eliminate treatment resistant microbial cell populations.

In the USA alone, more than 99,000 people die each year from these infections. While this cost on human life is high, the financial toll is equally staggering. The World Health Organization (WHO) has called HAIs one of the biggest causes of avoidable harm and unnecessary deaths in the developed world. The Centers for Disease Control and Prevention estimate that HAIs add an additional $35 to $45 billion in costs to the US healthcare system, annually.

From a commercial viewpoint, the higher the "kill rate" in normoxic and hypoxic conditions combined with the shortest time to accomplish this task, the more favorably physicians and hospital administrators will view the disinfection approach.

Warrant Extension

On April 12, 2013, approval was received from the Toronto Venture Exchange (TSXV) to extend the expiry of the warrants to April 12, 2017. The exercise price of the warrants remains unchanged at $0.38 per warrant, with the exception that the warrants will be cancelled if they are not exercised within thirty (30) days from written notice that the closing price of Theralase's common shares had been $0.75 or greater for 10 consecutive trading days.

Private Placement Equity Financing

On November 7, 2013, the company closed a non-brokered private placement which raised gross proceeds of $3,150,000 by issuing 21,000,000 units to investors at a price of $0.15 per Unit. Each Unit consists of one common share in the capital of the Company and one non-transferable common share purchase warrant. Each whole Warrant entitles the purchaser to purchase one additional common share in the capital of the Company until November 7, 2015 at a price of $0.20 per Warrant Share.

The company will utilize the proceeds of the Private Placement to provide working capital to develop the Company's strategic initiatives in a number of areas, specifically:

- Canadian and USA sales and marketing expansion
- Launch of patented next generation Theralase TLC-2000 therapeutic laser in 4Q2014
- Completion of patented bladder cancer technology preclinical investigation and commencement of Phase 1/2a clinical study in 1Q2015

As a condition of closing, the Chairman of the Board of the Corporation was required to sell 8,000,000 common shares to third parties following which he ceased to be a "Control Person", as defined under Canadian securities laws.

Overview of Financial Performance

During the year ended under review, the Company's financial performance and its operating results reflect the continued investment in the Company's future through research and development initiatives aimed at commercializing the TLC-3000 patented cancer therapy, as well as production ramp-up and expansion of sales of the Theralase TLC-1000 and TLC-2000 therapeutic laser systems into the US and international markets.

Summary of Selected Annual Information

	2013	2012	2011
Total revenues	1,203,620	1,824,313	2,027,058
Net profit / (loss)	(1,152,209)	(1,509,569)	(1,453,974)
Basic and diluted loss per share	$ (0.02)	$ (0.03)	$ (0.04)
Total assets	2,684,877	1,132,654	1,410,870
Total liabilities	920,989	1,197,384	955,713
Deficit	(13,070,831)	(11,918,622)	(10,409,053)
Shareholders' Equity	1,763,888	(64,730)	455,157

Summary of Quarterly Results

	2013			
	December 31	September 30	June 30	March 31
Total revenues	38,404	313,020	509,296	342,900
Net profit / (loss)	(555,336)	(185,794)	(78,644)	(332,435)
Basic and diluted loss per share	$ (0.01)	$ -	$ -	$ (0.01)
Total assets	2,684,877	1,145,036	1,248,157	1,109,266
Total liabilities	920,989	1,711,767	1,645,473	1,464,441
Deficit	(13,070,831)	(12,515,495)	(12,329,702)	(12,251,057)
Shareholders' Equity	1,763,888	(566,731)	(397,316)	(355,175)

	2012			
	December 31	September 30	June 30	March 31
Total revenues	268,357	437,060	670,537	448,359
Net profit / (loss)	(508,522)	(348,478)	(199,284)	(453,285)
Basic and diluted loss per share	$ -	$ (0.01)	$ (0.00)	$ (0.02)
Total assets	1,132,654	1,198,920	1,373,467	1,131,200
Total liabilities	1,197,384	848,971	721,155	1,058,425
Deficit	(11,918,622)	(11,410,099)	(11,061,621)	(10,862,338)
Shareholders' Equity	(64,730)	349,949	652,311	72,775

Liquidity and Capital Resources

As of December 31, 2013, current assets aggregated to $2,327,533 compared with current liabilities of $913,269 netting working capital of $1,414,264 and a current ratio (current assets vs. current liabilities) of approximately 2.5:1.

The Company's objective is to maintain a sufficient capital base to support future research, development and strategic business initiatives allowing the Company to invest in its future and hence maintain investor, creditor and market confidence. The capital structure of the Company consists of cash and cash equivalents and shareholders' equity. The Company makes every attempt to manage its liquidity to minimize shareholder dilution where possible.

As of December 31, 2013, the Company had cash and cash equivalents on hand of $1,768,329. The Company completed a private placement on November 7, 2013 for gross proceeds of $3,150,000. 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 research, development and commercialization efforts and, accordingly, management is pursuing alternate financing sources to fund the Company's research, development and commercialization efforts. Similar to the financing secured through the private placement that took place on November 7, 2013, the Company believes it will be able to secure the necessary financing through a combination of the issue of new equity instruments, new debt instruments, entering into joint venture arrangements and/or entering into strategic alliances. Nevertheless, there is no assurance that these initiatives will be successful.

Results of Operations

For the twelve month period ended December 31, 2013 total revenue decreased to $1,203,620 compared to $1,824,313 for the same period in 2012.

	2013	2012
Sales Revenue	$ 1,040,167	$ 1,670,928
Service Revenue	90,667	63,661
Clinic Revenue	10,462	2,451
Other Revenue	62,323	87,273
	1,203,620	**1,824,313**

Revenue for the twelve month period ended December 31, 2013 decreased by 34% from the same period in 2012. In Canada, revenue decreased by 35% to 805,152 from $1,240,222, in the US, 36% to $279,608 from $434,360 and 21% internationally to $118,860 from $149,731. The decrease in revenue is mainly attributable to the relocation of its head office and increased focus on the research and development of its Photo Dynamic Compound (PDC) technology in 2013. In 2014, the Company will continue expansion of its sales and marketing initiatives in Canada in 2Q2014 and then expansion of its sales and marketing initiatives in the US in 3Q2014 to expand sales in this key market, while maintaining its dominant position in Canada. The Company has established and is further evaluating augmenting its direct Canadian and US sales force with additional direct representatives while growing its sales internationally through the strategic partnering with international medical product distributors.

Cost of sales

Cost of sales for the twelve month period ended December 31, 2013 was $404,540 resulting in a gross margin of $799,080 or 66% of revenue, compared to a cost of sales of $575,163, in 2012, resulting in a gross margin of $1,249,150 or 68% of revenue. Cost of sales is represented by the following costs: raw materials, subcontracting, direct and indirect labour and the applicable share of manufacturing overhead.

Operating Expenses

Selling expenses for the twelve month period ended December 31, 2013 were $433,622 representing 36% of sales, compared with $626,380 or 35% in 2012, and consisted of the following items:

	2013	2012
Sales salaries	$ 291,734	$ 382,279
Advertising	15,775	58,556
Commission	55,459	75,445
Travel	45,072	93,421
Amortization and depreciation allocation	25,582	16,679
Total selling expenses	**$433,622**	**$626,380**

The decrease is due to reduced spending in advertising and decreases in sales personnel. Selling expenses are expected to increase in the future as the Company expands into Canada, the US and international markets. On-going investment in sales personnel, marketing events and advertising are necessary expenses to generate and increase revenues in subsequent terms.

Administrative expenses for the twelve month period ended December 31, 2013 were $937,018 representing a 24% decrease from $1,238,900 in 2012, and consisted of the following items:

	2013	2012
Insurance	51,519	52,091
Professional fees	90,866	68,275
Rent	85,601	136,336
General and administrative expenses	105,767	122,460
Administrative salaries	486,024	540,876
Director and advisory fees	(46,400)	30,212
Stock based compensation	150,972	279,183
Amortization and depreciation allocation	17,720	9,467
Total administrative expenses	**942,069**	**1,238,900**

Decreases in administrative expenses for the twelve month period ended December 31, 2013 are attributed to the following:

- Stock based compensation expenses decreased 46% as a result of stock options granted to certain employees and directors and officers of the Company on October 25, 2011.
- Rent decreased by 37% because the Company relocated to a new location.
- General and administrative expenses decreased 14% due to reduced spending on office expenses
- Administrative salaries decreased by 10% due to a reduction in administrative personnel.

Research and Development Costs

Gross research and development costs expensed totaled $527,233 for the twelve month period ended December 31, 2013 compared to $873,335 in 2012. This represents a 39% decrease attributable to decreased expenditures and investment into the commercialization of the TLC-2000 biofeedback laser technology.

Net Profit (Loss)

The net loss for the twelve month period ended December 31, 2013 was $1,152,209 which included $211,543 of net non-cash expenses (amortization, stock-based compensation expense, foreign exchange gain/loss and lease inducements). This compared to a net loss for 2012 of $1,509,569 which included $322,915 of net non-cash expenses. The decrease in net loss is predominantly due to reduction in TLC-2000 Biofeedback Research and Development expenditures, reduced spending in advertising and reductions in sales and administrative personnel.

Cash Flows

Funds used in operating activities prior to net changes in other operating items amounted to $940,666 for the twelve month period ended December 31, 2013 compared to funds used in operating activities of $1,186,654 in 2012. The increase is primarily a result of decreased stock based compensation costs. Funds used in operating activities after taking into account net changes in other non-cash operating items were $916,675 for the twelve month period ended December 31, 2013 compared to funds used of $606,715 for the same period in 2012.

Funds used in investing for the twelve month period ended December 31, 2013 amounted to $92,454 compared to $129,808 for 2012, the decrease is a result of decreased spending on leasehold improvements relating to the new corporate headquarters.

For the twelve month period ended December 31, 2013, funds obtained from financing activities amounted to $2,755,484 compared to $715,438 obtained through financing activities for 2012.

Assets (other than Cash)

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 $112,303.

Commitments

As of December 31, 2013 the Company's commitments consisted of the following:

	Total	2014	2015	2016	2017
Lease obligations (a)	$ 301,883	$ 84,713	$ 84,170	$ 84,000	$ 49,000
Total	$ 301,883	$ 84,713	$ 84,170	$ 84,000	$ 49,000

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

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

Share Capital Analysis

As at December 31, 2013, the share capital of the Company consisted of 65,726,309 common shares. Each common share entitles the holder to one vote per share.

As at December 31, 2013, there were 2,220,000 options outstanding, of which 1,613,333 were vested and exercisable into an equivalent number of the Company's common shares as follows:

Stock Options Outstanding			Stock Options Exercisable	
Stock Options Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price $	Stock Options Exercisable	Weighted Average Exercise Price $
100,000	0.04	$ 0.15	100,000	$ 0.15
300,000	0.6	$ 0.35	300,000	$ 0.35
1,820,000	2.8	$ 0.50	1,213,333	0.50
2,220,000		$ 0.46	1,613,333	$ 0.45

As at December 31, 2013 there were 24,485,900 warrants outstanding. Each whole warrant entitles the holder thereof to purchase one additional common share. The warrants are exercisable as follows: 1,500,000 at a price of $0.38 until April 12, 2017, 22,985,900 at a price of $0.20 exercisable until November 7, 2015.

	Number outstanding	Weighted average exercised price $	Fair value at date of grant $
Outstanding, January 1, 2012	1,115,000	0.68	247,116
Issued with private placement shares	1,500,000	0.38	42,223
Outstanding, December 31, 2012	2,615,000	0.51	289,339
Expired	(1,115,000)	0.68	(247,115)
Issued with private placement shares	22,985,900	0.20	1,180,925
Outstanding, December 31, 2013	24,485,900	0.21	1,223,149

Segmented Information

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

The following table displays revenue and direct expenses from the TLT and PDT division for the twelve month period ended December 31:

	2013			2012		
	TLT	PDT	Total	TLT	PDT	Total
Sales	$ 1,203,620	$ -	$ 1,203,620	$ 1,824,313	$ -	$ 1,824,313
Cost of Sales	404,540	-	404,540	575,163	-	$ 575,163
Gross Margin	799,080	-	799,080	1,249,150	-	1,249,150
Operating Expenses						
Selling expenses	433,622	-	433,622	626,380	-	626,380
Administrative expenses	798,710	143,360	942,070	1,080,482	158,418	1,238,900
Research and development expenses	47,196	480,037	527,233	130,902	742,433	873,335
(Gain) loss on foreign exchange	14,081	-	14,081	10,225	-	10,225
Interest expense	21,382	21,382	42,764	11,499	11,499	22,998
Interest income	(8,481)	-	(8,481)	(13,119)	-	(13,119)
	1,306,510	644,779	1,951,289	1,846,369	912,350	2,758,719
Loss and comprehensive loss for the period	$ (507,430)	$ (644,779)	$ (1,152,209)	$ (597,219)	$ (912,350)	$ (1,509,569)
Total Assets	$ 2,601,278	$ 83,599	$ 2,684,877	$ 1,036,264	$ 96,390	$ 1,132,654
Total Liabilities	920,989	-	920,989	1,197,384	-	1,197,384

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

	2013			2012		
	Canada	USA	International	Canada	USA	International
Sales	805,152	279,608	118,860	1,240,222	434,360	149,731
Cost of Sales	261,447	90,794	52,299	377,182	132,100	65,881
Selling Expenses	268,076	157,161	8,386	358,544	249,634	18,202
	275,628	31,653	58,176	504,496	52,626	65,648

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

Selected Financial Information and Accounting Policies

The Consolidated Interim Financial Statements for the twelve month period ended December 31, 2013, and all other Financial Statements referred to herein, have been prepared in accordance with International Financial Reporting Standards (IFRS), 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 year ended December 31, 2013. 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.

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.

IFRS 7 Financial Instruments Disclosures establishes a fair value hierarchy that reflects the significance of inputs used in making fair value measurements as follows:

Level 1 quoted prices in active markets for identical assets or liabilities;

Level 2 inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. from derived prices)

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

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As of December 31, 2013, the Company's Cash and Cash Equivalents are categorized as Level 1 measurement. Fair value of other financial assets is determined based on transaction value and is categorized as Level 1 measurement.

(i) Credit risk:
Credit risk is the risk of financial loss to the Company if a customer or counter-party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's accounts receivable. The amounts reported in the balance sheet are net of allowances for bad debts, estimated by the Company's management based on prior experience and their assessment of the current economic environment. The Company reviews its trade receivable accounts regularly and reduces amounts to their expected realizable values by adjusting the allowance for doubtful accounts as soon as the account is determined not to be fully collectible. The Company has adopted credit policies in an effort to minimize those risks.

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 classified as held to maturity and would not result in a significant risk of fair value changes if held to maturity. As of December 31, 2013 no cash equivalents were held (2012- $Nil).

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

(iii) Interest rate risk:
Interest rate risk is the risk that changes in interest rates will affect the Company's income or the value of the financial instruments held. The Company is subject to interest rate risk on its amount due to officer; however, it does not expect a movement in the interest rate to have a significant impact on the Company's financial position.

(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.

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.

Critical Accounting Policies, estimates and judgments

As noted above, our interim consolidated financial statements as of December 31, 2013 and December 31, 2012 and for the twelve month periods ending December 31, 2013 and 2012 have been prepared in accordance with IFRS. In addition, and subject to certain transition exceptions and exemptions, the Company's management has consistently applied the same accounting policies in the IFRS consolidated statement of financial position as of January 1, 2010 and throughout comparative periods as if these policies had always been in effect.

The policies applied in the interim consolidated financial statements as of December 31, 2013 and 2012 and for the twelve month periods ending December 31, 2013 and 2012 are based on IFRS issued and outstanding as of April 28, 2014, which is the date at which the Company's Board of Directors approved the audited annual consolidated financial statements.

Additionally, the preparation of consolidated financial statements in accordance with IFRS often requires management to make estimates about and apply assumptions or subjective judgment to future events and other matters that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. Assumptions, estimates and judgments are based on historical experience, expectations, current trends and other factors that management believes to be relevant at the time at which the consolidated financial statements are prepared. Management reviews, on a regular basis, the Company's accounting policies, assumptions, estimates and judgments in order to ensure that the consolidated financial statements are presented fairly and in accordance with IFRS.

Critical accounting estimates and judgments are those that have a significant risk of causing material adjustment and are often applied to matters or outcomes that are inherently uncertain and subject to change. As such, management cautions that future events often vary from forecasts and expectations and that estimates routinely require adjustment. A summary of those areas where the Company's management believe critical accounting policies affect the significant judgments and estimates used in the preparation of the financial statements can be found in note 2 to the interim consolidated financial statements as of December 31, 2013 and 2012 and for the twelve month periods ended December 31, 2013 and 2012.

Accounting standards issued

The IASB has issued the following standards which have not yet been adopted by the Corporation. Each of the new standards is effective for annual years beginning on or after January 1, 2014 with the exception of IFRS 9. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements.

The following is a description of the new standards:

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

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

IFRS 9 is available for application, however, previous mandatory effective date of January 1, 2015 has been removed as the IASB decided that this date would not allow sufficient time for entities to apply the new standard because the impairment phase of the IFRS 9 has not yet been completed. The IASB will decide upon a new date when the entire IFRS 9 project is closer to completion.

IAS 32 Financial Instruments Presentation was amended by the IASB in December 2011. Offsetting Financial Assets and Financial Liabilities amendment addresses inconsistencies identified in applying some of the offsetting criteria.

IAS 36 Impairment of Assets was amended by the IASB in June 2013. Recoverable Amount Disclosures for Non-Financial Assets amendment modifies certain disclosure requirements about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

IAS 39 Financial Instruments Recognition and Measurement was amended by the IASB in June 2013. Novation of Derivatives and Continuation of Hedge Accounting amendment will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one).

IFRIC Interpretation 21 Levies was issued by the IFRIC in May 2013. The Interpretation on the accounting for levies imposed by governments clarifies the obligating event that gives rise to a liability to pay a levy.

As the following standards came into effect during 2013 and are applicable to the Company, these were adopted during the year, however they do not result in material impact to the financial statements.

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

Purpose Entities and parts of IAS 27 *Consolidated and Separate Financial Statements*.

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

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

Disclosure Controls and Procedures

The Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures as of and for the twelve month period ended December 31, 2013. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of the Company's disclosure controls and procedures were effective as of December 31, 2013 to provide reasonable assurance that material information relating to the Company would be made known to them by others and information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation.

Internal Control over Financial Reporting

As of December 31, 2013, an evaluation of the effectiveness of internal controls over financial reporting, as defined in the rules of the Canadian Securities Administrators, was carried out to provide reasonable assurance regarding the reliability of financial reporting and financial statement compliance with IFRS. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that the internal controls over financial reporting of the Company were effective and provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

All control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention or overriding of the controls or procedures. As a result, there is no certainty that our disclosure controls and procedures or internal control over financial reporting will prevent all errors or all fraud.

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 US dollars. Changes in exchange rates may result in foreign exchange gains or losses. The Company does not use derivative instruments to reduce its exposure to foreign currency risk and does 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 will continue to focus on increasing product sales and market acceptance of the TLC-1000 laser technology in the Canadian, US and international medical markets in 2014, supported by the latest independent scientific and clinical research, which continues to confirm that the Company's proprietary technology has a higher safety and effectiveness as compared to other competitive technologies. The Company will continue to invest in scientific and clinical research aimed at unlocking the mechanisms of action as to how Theralase laser light can so dramatically heal tissue.

The Company will continue to commercialize its patented next generation TLC-2000 biofeedback laser technology for launch in the fourth quarter of 2014.

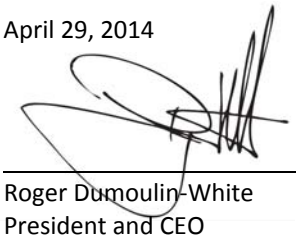
The Company will continue to commercialize its patented TLC-3000 Photo Dynamic Compound (PDC) technology aimed at the destruction of cancer, bacteria and viruses by researching, developing and executing on its strategic development plan of advancing to human clinical trials in bladder cancer in 1Q2015.

Due to the on-going requirement of capital to fund the Company's growth in 2014 in both divisions, the Company will continue to investigate financing options on both the debt and the equity side, in order to achieve its strategic initiatives and unlock shareholder value.

One of the Company's primary focuses for 2014 is to increase share liquidity, thus allowing shareholders the opportunity to participate in the Company's growth on their specific investing terms.

The Company feels that these initiatives will dramatically increase shareholder value as the Company achieves its strategic objectives in 2014 and 2015.

April 29, 2014



Roger Dumoulin-White
President and CEO