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 interim financial statements for the period ended September 30, 2014 and the annual consolidated financial statements for the year 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 November 27, 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 patented TLC-2000 Theralase superpulsed laser technologies to healthcare practitioners locally and internationally, who are interested in the safe and effective elimination of pain, reduction of inflammation and acceleration of tissue healing of neuromuscular skeletal conditions.

2. Commercialization of the patented TLC-3000 PDC anti-cancer technology through pre-clinical research, clinical trials and 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, the TLC-2000 Biofeedback Therapeutic Laser System is being reviewed by an organization authorized by the Canadian Standards Association ("**CSA**") and Health Canada approval is expected by end of Q42014, which will lead to the commercial version launching in Canada in 4Q2014. Pre-commercial prototypes will be supplied to Theralase's Canadian Territory Sales Managers ("**TSMs**") and Key Opinion Leaders ("**KOLs**") in the middle of December 2014 for solicitation of orders via "trade-ups" of the existing TLC-1000 technology from its existing customer base and product evaluations, respectively.

TLC-3000: Cancer Therapy

The proprietary TLC-3000 medical laser system has been custom designed by Theralase for the activation of Theralase's patented PDCs, resulting in the successful destruction of various animal and human cancer cell lines, including human bladder cancer cell line (HT1376), in-vitro.

In 2012, Theralase announced that it had successfully identified leading drug candidates, one of which will be used for safety and efficacy clinical testing in human cancer patients. In multiple preclinical studies, the leading drug candidates have been selected from Theralase's library of PDCs and have repeatedly demonstrated:

- extremely high efficacy, virtually 100% kill rate, in various cancer cell lines including: brain, prostate, bladder, breast 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 2012, Theralase announced that its anti-cancer PDC technology was found to completely destroy subcutaneous colon cancer tumours in a mouse model. On follow-up, the cancer free status was maintained in a majority of the animals for twenty months without recurrence of cancer (equivalent to 50 human years).

The Company commenced Milestone 2 – in-vivo Small Animal Pre Clinical Study in 2013; specifically, the evaluation of the safety and efficacy of the PDCs in the destruction of aggressive tumors utilizing in-vivo small animal models.

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

- 100% cancer cell kill at very low concentrations (< 0.8μM) leading to high efficacy
- 0% toxicity at high concentrations (> 100μM) with no side effects leading to very high safety profile
- More effectiveness at killing cancer cells than FDA approved drugs (668,000 x ALA, 198 x PHOTOFRIN®)
- Excellent specificity and selectivity with a quick evacuation from healthy cells and a high light fluence required for activation
- Ultra low toxicity as the PDC remains in the bladder for less than two hours in the destruction of bladder cancer
- A water soluble, small molecule that readily penetrates cellular membrane and localizes to the organelles
- An ability to treat solid core hypoxic tumours, using a Type 1 (oxygen independent) or Type 2 (oxygen dependent) activation, important in hypoxic solid core tumours, such as: breast, prostate, lung and bladder

- An ability to be activated at a variety of wavelengths allowing shallow and deep tumour destruction

The in vitro results have been validated in three independent labs including: Acadia University (Canada) , Toledo University (USA) and Princess Margaret Cancer Centre, University Health Network ("**UHN**") (Canada).

Theralase is currently completing preclinical research to validate its PDC technology in an animal cancer model to provide additional support to an Investigational New Drug ("**IND**") application and Clinical Trial Application ("**CTA**")to be submitted to the Food and Drug Administration ("**FDA**") and Health Canada, respectively, at the end of 1Q2015. These IND / CTA applications will allow Theralase to commence a Phase I / IIa human clinical trial to prove the safety and efficacy of its PDC technology in a 20 to 30 patient bladder cancer population with commencement pending FDA and Health Canada approval with anticipated completion in late 2015 / early 2016.

Theralase has a growing portfolio of intellectual property patents to comprehensively protect the Theralase PDC technology allowing the company to enjoy the benefits of intellectual patent protection for many decades.

Issued USA Patents: 6,962,910, 7,612,057, 8,148,360, 8,445,475

Pending USA Patent Applications: 61/801,674, 13/863,089, PCT/US13/36595

Theralase's anti-cancer technology pipeline includes numerous highly effective drug candidates, in various advanced stages of preclinical development. Theralase will continue to validate its extensive scientific and preclinical data with additional cancer animal models and toxicology analyses to bring these PDC drug candidates online for various cancer and bacterial applications.

TLC-3000: Cancer Vaccine Research

In 2Q2014, preclinical animal testing, performed at UHN, demonstrated that Theralase's lead PDC, intended for the destruction of cancer, demonstrated an ability to render animals immune to repeated exposures of the same cancer. This initial data was presented at the 37th Annual American Society for Photobiology that took place in San Diego, California in June 2014.

In previous research conducted at UHN by Theralase, mice were injected with 350,000 colon cancer cells (murine cell line CT26.CL25) to produce tumours that were allowed to grow to approximately five millimeters in size. They were treated with an intra-tumoural injection of Theralase's lead PDC (3 mg/kg TLDOsH2IP) and then illuminated by Near Infrared ("**NIR**") light (808 nm, 600 J cm-2) to activate the PDC. The vast majority of tumours were completely destroyed, with the PDC treatment demonstrating prolonged tumour regression.

In the latest research, the same mice who received the initial, successful Photo Dynamic Therapy ("**PDT**") were re-injected with the same number of colon cancer cells, 13 to 23 days later. With no further treatment intervention, mice in these experiments, demonstrated either a small tumour regrowth, which quickly regressed (in 40% of animals that were re-challenged by live cancer cells 13 days after the PDT), or in the majority of animals, no tumour regrowth at all (in 100% of animals who were re-challenged by live cancer cell 23 days after the PDT), suggesting a short-term immune-mediated (immune "memory response") tumour rejection.

To further prove the resilience of the PDT treatment, these same animals were then injected a third time with an additional 350,000 colon cancer cells at ten months post PDT treatment. None of these animals showed any sign of tumour regrowth (100%), even at 3 months post follow up, suggesting the presence of a long-term anti-tumour immunity, responsible for complete tumour rejection.

To strengthen the data, control experiments were conducted where age matched mice without prior tumour exposure or PDT treatment were injected with the same number of colon cancer cells; whereby, the majority of these mice proceeded to develop tumours and did not survive more than one month following the injection.

These initial results were further researched by Theralase and UHN scientists to confirm the immune-mediated (immune "memory response") tumour rejection in additional subject animals. In November 2014, the mice who received the initial, successful Photo Dynamic Therapy ("**PDT**") were re-injected with the same number of colon cancer cells, 20 days later. With no further treatment intervention, mice in these experiments, demonstrated no tumour regrowth at all (100% of animals who were re-challenged by live cancer cell 20 days after the PDT), suggesting a short-term immune-mediated (immune "memory response") tumour rejection.

This potential short and long term anti-cancer memory response suggests a major breakthrough in cancer research and may provide substantial treatment benefit and survival advantage to cancer patients. Technology that is able to rapidly and effectively destroy "patient-specific" cancer cells, prevent their recurrence and provide long lasting protection against local and distant metastasis, offers immense clinical benefit to cancer patients and the facilities that treat their disease.

This is one of the first preclinical trials to show that it's possible to generate a long-term anticancer memory response. For the first time in Theralase's research program, Theralase has demonstrated that NIR PDT leads not only to long standing clearance of colon cancer cells, but also provides long lasting protection against further tumour cell challenge in young (eight to ten weeks old) and older (ten to eleven month old) mice. It is the Company's first step toward the long-term goal of developing an affordable and practical vaccine to prevent cancer recurrence. The Company plans to further validate this research using orthotopic animal models and then find the best way of translating this research into a human clinical trial. To complete the preclinical and clinical development in this ground breaking work, Theralase has elected to collaborate with experts in: medical biophysics, immunology and clinical oncology at UHN, University of Toledo and with other internationally acclaimed clinical research institutes to further advance this remarkable platform technology.

Validated Success in Destruction of Bacteria

In 2012, Theralase presented new scientific data supporting the application of Theralase's advanced sterilization platform technology enabling 8 log kill (99.999999%) of life threatening infectious microorganisms, such as Staphylococcus Aureus (S. aureus), Escherichia Coli (E. coli) and Listeria Monocytogenes (Listeria) bacteria. Theralase's PDCs were effective in oxygenated (normoxic) and in non-oxygenated (hypoxic) conditions. These results demonstrate that the unique PDT effect of Theralase's patented compounds does not depend on oxygen availability and they are therefore able to act both as Type 1 and as Type 2 PCDs.

The photodynamic antibacterial effects of this new class of PDCs were evaluated against a strain of S. aureus (ATCC 25923) and a methicillin-resistant strain of S. aureus (MRSA, ATCC 33592). Bacterial samples were dosed with a range of photosensitizer concentrations (0.3-12 μM) and exposed to 530 nm light (90 J/cm^2) in normoxic conditions (ambient atmosphere) and in hypoxic conditions (0.5% O_2). The Theralase PDCs exerted Photo Dynamic Inactivation ("**PDI**") of the Staphylococcus aureus and Methicillin-resistant Staphylococcus aureus in normoxia with an 8 log kill (99.999999%) providing a complete sterilization effect in microgram concentrations. The Theralase PDCs maintained this PDI potency under hypoxic conditions (low oxygen), with one of the PDCs becoming even more active in low-oxygen environments.

The observation of activity in hypoxia suggests that there exists an oxygen-independent, Type 1 photo process for this new class of compounds in addition to the typical Type 2 pathway mediated by singlet oxygen.

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.

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, scientists 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 consisted of one common share in the capital of the Company and one non-transferable common share purchase warrant. Each whole Warrant entitled 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 utilized the proceeds of the Private Placement to provide working capital to develop the Company's strategic initiatives in a number of areas, specifically:

- Canadian 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 I / IIa clinical study in 2015

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 commercialization of the TLC-2000 therapeutic laser system and anticipated decrease in sales of the Theralase TLC-1000 therapeutic laser system into Canada, 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

	2014			2013
	September 30	June 30	March 31	December 31
Total revenues	134,036	499,258	361,179	38,404
Net profit / (loss)	(1,048,034)	(345,653)	(344,074)	(555,336)
Basic and diluted loss per share	$ (0.02)	$ (0.01)	$ (0.01)	$ (0.01)
Total assets	3,648,813	4,116,005	2,201,083	2,684,877
Total liabilities	376,923	322,582	611,336	920,989
Deficit	(14,808,592)	(13,760,558)	(13,414,905)	(13,070,831)
Shareholders' Equity	3,271,890	3,793,423	1,589,747	1,763,888

	2013			2012
	September 30	June 30	March 31	December 31
Total revenues	313,020	509,296	342,900	268,357
Net profit / (loss)	(185,794)	(78,644)	(332,435)	(508,522)
Basic and diluted loss per share	$ -	$ -	$ (0.01)	$ -
Total assets	1,145,036	1,248,157	1,109,266	1,132,654
Total liabilities	1,711,767	1,645,473	1,464,441	1,197,384
Deficit	(12,515,495)	(12,329,702)	(12,251,057)	(11,918,622)
Shareholders' Equity	(566,731)	(397,316)	(355,175)	(64,730)

Liquidity and Capital Resources

As of September 30, 2014, current assets aggregated to $3,339,272 compared with current liabilities of $371,423 netting working capital of $2,967,849 and a current ratio (current assets vs. current liabilities) of approximately 9:1.

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.

Results of Operations

For the nine-month period ended September 30, 2014, total revenue decreased 15% from $1,165,215 to $994,473 for the same period in 2013.

	2014	2013
Sales Revenue	$ 849,541	$ 1,048,894
Service Revenue	63,760	70,006
Clinic Revenue	28,505	8,054
Other Revenue	52,667	38,261
	994,473	**1,165,215**

In Canada, revenue decreased 10% to $621,435 from $690,451, in the US, revenue remained flat to $234,167 from $234,128 and internationally revenue decreased 42% to $138,871 from $240,637. The decrease in revenue is mainly attributable to Theralase launching a new sales team and also prospective customers preferring to wait for the introduction of the new TLC-2000 technology, which is scheduled to launch in Canada at the end of 4Q2014. In 1Q2015, the Company will expand its sales and marketing initiatives in Canada and then proceed to expand its sales and marketing initiatives in the US in 3Q2015, 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 manufacturer's representatives, while growing its sales internationally through strategic partnerships with international medical product distributors.

Cost of sales

Cost of sales for the nine-month period ended September 30, 2014 was $311,455 resulting in a gross margin of $683,018 or 69% of revenue, compared to a cost of sales of $307,051 in 2013, resulting in a gross margin of $858,165 or 74% 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 and marketing expenses for the nine-month period ended September 30, 2014 were $421,401 representing 35% of sales, compared with $344,136 or 28% in 2013, and consisted of the following items:

	2014	2013
Sales salaries	$ 197,719	$ 236,013
Advertising	82,965	9,324
Commission	38,478	47,213
Travel	81,440	29,727
Amortization and depreciation allocation	20,799	21,859
Total selling expenses	**$421,401**	**$344,136**

The increase is due to increased spending in advertising and travel, which will augment sales in future financial quarters. Selling expenses are expected to continue to increase in the future as the Company expands its revenue generation in Canada, the US and international markets. On-going investment in sales personnel, marketing events and advertising are required expenses to generate and increase revenues in subsequent financial quarters.

Administrative expenses for the nine-month period ended September 30, 2014 were $976,568 representing a 35% increase from $722,485 in 2013, and consisted of the following items:

	2014	2013
Insurance	38,927	38,039
Professional fees	71,883	75,821
Rent	60,900	60,900
General and administrative expenses	332,166	53,187
Administrative salaries	350,210	384,631
Director and advisory fees	17,351	200
Stock based compensation	90,551	94,872
Amortization and depreciation allocation	14,580	14,835
Total administrative expenses	**976,568**	**722,485**

Increases in administrative expenses for the nine month period ended September 30, 2014 are attributed to the following:

- General and administrative expenses increased 525% due to increased spending on investor relations activities.
- Director and advisory fees increased by 8,575% due to an increase in fees to Medical and Scientific Advisory Board ("**MSAB**") members.

- Administrative salaries decreased by 9% due to a reduction in administrative personnel.

Research and Development Costs

Gross research and development costs expensed totaled $1,021,717 for the nine-month period ended September 30, 2014 compared to $364,189 in 2013. This represents a 181% increase attributable to increased expenditures and investment into the commercialization of the TLC-2000 therapeutic laser technology and scientific and preclinical research into the development of the TLC-3000 anti-cancer technology.

Net Profit (Loss)

The net loss for the nine-month period ended September 30, 2014 was $1,737,761, which included $157,748 of net non-cash expenses (amortization, stock-based compensation expense, foreign exchange gain/loss and lease inducements). This compared to a net loss for the same period in 2013 of $596,873, which included $137,888 of net non-cash expenses. The increase in net loss is predominantly due to increases in TLC-2000 Biofeedback Research and Development expenditures, TLC-3000 scientific and preclinical research expenditures and increased spending in advertising, sales and administrative personnel.

Cash Flows

Funds used in operating activities prior to net changes in other operating items amounted to $1,580,013 for the nine-month period ended September 30, 2014 compared to funds used in operating activities of $458,985 in 2013. Funds used in operating activities after taking into account net changes in other non-cash operating items were $2,738,658 for the nine-month period ended September 30, 2014 compared to funds generated of $103,454 for the same period in 2013.

Funds used in investing for the nine-month period ended September 30, 2014 amounted to $17,417 compared to $86,078 for 2013, the decrease is a result of decreased spending on leasehold improvements related to the development of the new corporate headquarters.

For the nine-month period ended September 30, 2014, funds obtained from financing activities amounted to $3,129,232 compared to $39,022 used in financing activities for 2013. The increase is due to certain shareholders of record exercising their warrants.

Assets (other than Cash)

The Company holds essential and valuable intellectual property rights and assets, including: patents, trademarks, development and other related costs. The depreciated book value of these assets is $98,774.

Commitments

As of September 30, 2014, the Company's commitments consisted of the following:

	Total	2014	2015	2016	2017
Lease obligations (a)	$ 280,871	$ 84,713	$ 84,170	$ 84,000	$ 28,000
Research Agreement (b)	168,000	168,000	-	-	-
Research Agreement (c)	32,528	32,528	-	-	-
Research Agreement (d)	497,488	99,498	298,493	99,498	-
Research Agreement (e)	829,920	414,960	414,960	-	-
Total	$ 1,808,807	$ 799,699	$ 797,623	$ 183,498	$ 28,000

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.

b) Research commitments under a research collaboration agreement with University Health Network for the TLC-3000 cancer therapy project. Under the terms of this agreement, the Company is required to pay CAN$168,000 for the period from May 1, 2014 through December 31, 2014. The Company has paid CAN$63,000 relating to this commitment, in which $105,000 is the remaining commitment for 2014.

c) Research commitments under a research collaboration agreement with the University of Toledo for the TLC-3000 cancer therapy project. Under the terms of this agreement, the Company is required to pay USD$29,043 for the period from June 12, 2014 through December 31, 2014.

d) Research Commitments under a research collaboration agreement with JSS Medical Research Inc. for the TLC-3000 cancer therapy project. Under the terms of this agreement, the Company is required to pay $497,488 for the period from September 9, 2014 through to September 9, 2015. The Company has paid $124,372 relating to this commitment, in which $373,116 is the remaining commitment.

e) Research Commitments under a research collaboration agreement with SAFC for the TLC-3000 cancer therapy project. Under the terms of this agreement, the Company is required to pay USD$741,000 for the period from September 9, 2014 through to April 9, 2015. The Company has paid USD$370,500 relating to this commitment, in which USD$370,500 is the remaining commitment.

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 September 30, 2014, the share capital of the Company consisted of 81,509,376 common shares. Each common share entitles the holder to one vote per share.

As at September 30, 2014, there were 4,450,000 options outstanding, of which 1,200,000 were vested and exercisable into an equivalent number of the Company's common shares as follows:

	Common shares under option	Weighted average exercised price $
Outstanding, January 1, 2013	2,556,666	0.44
Forfeited (1)	(170,000)	0.50
Expired (2)	(166,666)	0.45
Outstanding, December 31, 2013	2,220,000	0.46
Granted (3)	2,650,000	0.50
Forfeited (4)	(20,000)	0.50
Exercised (5)	(100,000)	0.15
Expired (6)	(300,000)	0.35
Outstanding, September 30, 2014	4,450,000	0.50

As at September 30, 2014, there were 8,802,833 warrants outstanding. Each whole warrant entitles the holder thereof to purchase one additional common share. The warrants are exercisable as follows: 1,480,000 at a price of $0.38 until April 12, 2017, 7,322,833 at a price of $0.20 exercisable until November 7, 2015.

Segmented Information

For management purposes, the company is organized into two separate reportable operating divisions: Therapeutic Laser Therapy ("**TLT**") division and 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**") primarily for the destruction of cancer.

The following table displays revenue and direct expenses from the TLT and PDT division for the nine-month period ended September 30:

	2014			2013		
	TLT	PDT	Total	TLT	PDT	Total
Sales	$ 994,473	$ -	$ 994,473	$ 1,165,216	$ -	$ 1,165,216
Cost of Sales	311,455	-	311,455	307,051	-	307,051
Gross Margin	683,018	-	683,018	858,165	-	858,165
Operating Expenses						
Selling expenses	421,401	-	421,401	344,136	-	344,136
Administrative expenses	640,751	335,817	976,568	587,074	135,411	722,485
Research and development expenses	323,353	698,364	1,021,717	-	364,189	364,189
(Gain) loss on foreign exchange	(7,297)	-	(7,297)	10,558	-	10,558
Interest expense	6,671	6,671	13,342	-	19,877	19,877
Interest income	(4,953)	-	(4,953)	(6,207)	-	(6,207)
	1,379,926	1,040,854	2,420,778	935,561	519,477	1,455,038
Loss and comprehensive loss for the period	$ (696,908)	$ (1,040,854)	$ (1,737,761)	$ (77,396)	$ (519,477)	$ (596,873)
Total Assets	$ 2,117,138	$ 83,945	$ 2,201,083	$ 1,127,163	$ 120,994	$ 1,248,157
Total Liabilities	565,756	45,580	611,336	1,464,441	-	1,645,473

The following table displays revenue and direct expenses from TLT division product sales by geographic area for the nine-month period ended September 30:

	2014			2013		
	Canada	USA	International	Canada	USA	International
Sales	621,435	234,167	138,871	690,451	234,128	240,637
Cost of Sales	171,189	65,567	61,103	150,229	50,942	105,880
Selling Expenses	298,510	118,721	4,170	235,274	108,862	-
	151,737	49,879	73,598	304,948	74,324	134,757

As at September 30, 2014 and December 31, 2013, 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 three month period ended September 30, 2014, 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 September 30, 2014, 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 September 30, 2014, no cash equivalents were held (2013- $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 September 30, 2014 and December 31, 2013 and for the nine-month periods ending September 30, 2014 and 2013 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 September 30, 2014 and December 31, 2013 and for the three month periods ending September 30, 2014 and 2013 are based on IFRS issued and outstanding as of November 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 September 30, 2014 and December 31, 2013 and for the nine-month periods ending September 30, 2014 and 2013.

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 September 30, 2014 and for the nine-month period ending September 30, 2014. 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 September 30, 2014 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 September 30, 2014, 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 prepare for the anticipated reduction in product sales of the TLC-1000 laser technology in the Canadian market, while maintaining sales and marketing exposure of the TLC-1000 in US and international medical markets, in 4Q2014 and 2015, until the TLC-2000 launches in those respective countries.

The latest independent scientific and preclinical research confirms that the Company's patented TLC-2000 therapeutic laser technology has a higher safety and effectiveness as compared to any other competitive technologies in the world, including the Company's TLC-1000 technology. The Company will continue to invest in the scientific and clinical research aimed at unlocking the mechanisms of action as to how and why the Theralase TLC-2000 therapeutic laser technology can so dramatically and effectively heal tissue.

For its TLT division, the Company plans to launch its patented next generation TLC-2000 biofeedback therapeutic laser technology in Canada in 4Q2014 and in the US in 3Q2015. Theralase will invest in sales and marketing programs and direct personnel in 2015 and 2016 to meet its revenue objectives.

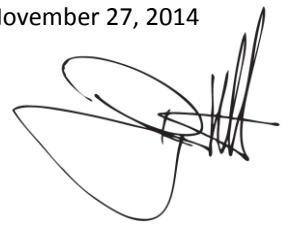
For its PDT division, the Company will continue to commercialize its patented TLC-3000 PDC technology aimed at the destruction of cancer by researching, developing and executing on its strategic development plan of advancing to FDA Phase I / II a human clinical trials in bladder cancer in 2015.

Due to the on-going requirement of capital to fund the Company's growth in 2014 and 2015 in both divisions, the Company will continue to investigate equity financing options in order to achieve its strategic initiatives and unlock shareholder value.

One of the Company's primary focuses for 2014 has been and will be to increase common 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.

November 27, 2014



Roger Dumoulin-White, President and CEO