

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 audited annual consolidated financial statements for the year ended December 31, 2009. This MD&A has been filed in accordance with the provisions of National Instrument 51-102 (*Continuous Disclosure Regulation*). Copies of the further relevant financial documents, and earlier corporate filings to date, may also be referenced on the regulatory website - SEDAR at www.sedar.com. This MD&A is prepared as of April 28, 2010.

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 designs, develops and manufactures patented, super-pulsed laser technology utilized in bio-stimulation and bio-destruction applications. The technology is safe and effective in the treatment of chronic pain, neural muscular skeletal conditions and wound care. When combined with light-sensitive Photo Dynamic Compounds Theralase laser technology is able to specifically target and destroy cancers, bacteria, and viruses.

Advancing the Theralase Technology Platform

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

TLC-2000: Biofeedback Laser Technology

Theralase made progress on commercializing its next generation therapeutic laser – the patented TLC-2000. The TLC-2000 biofeedback technology targets tissue at depth with higher precision than its competitors 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 individual patient's optical tissue profiles.

In 4Q2009, Theralase commenced the beta prototype of the TLC-2000 biofeedback therapeutic laser system, which is the second prototype prior to the final prototype which will lead to commercialization. Theralase is currently conducting clinical trials of the technology at the University of Buffalo (Buffalo, New York) to demonstrate the efficacy of the TLC-2000 in the areas of myofascial pain. These clinical studies, if proven successful, could secure a new Current Procedural Terminology (CPT) code for reimbursement of laser treatments in the US Theralase expects to start selling the TLC-2000 in

the first quarter of 2011. Theralase is currently working with the Scripps Institute and the University of California San Diego (La Jolla, California) in the commencement of clinical studies of the TLC-2000 biofeedback therapeutic laser system in diabetic wound healing.

TLC-3000: Cancer Therapy and Wound Healing

In February 2008, Theralase first announced positive research and development (R&D) results in the destruction of individual cancer cell lines. All three Theralase patented Photo Dynamic Compounds (PDCs) used in the trials were proven to have the ability to selectively target cancerous cells over cells derived from healthy tissue. Additional cancer cell lines and various bacterial species were next to be evaluated to determine cell kill by the PDCs.

In September 2008, Theralase designed, manufactured and delivered the alpha prototype of the TLC-3000 light source to University Health Network. The TLC-3000 alpha prototype is custom designed by Theralase for the Company's patented PDC's and will be instrumental in providing the initial pre-clinical and technical knowledge required to further develop future versions of the TLC-3000 PDC activating light source.

In March 2009, in-vitro experiments conducted at the Ontario Cancer Institute at Princess Margaret Hospital demonstrated complete destruction of brain tumour cells (9L) following application of the Company's patented PDCs and subsequent activation with the Company's TLC-3000 light source. The PDCs or TLC-3000 activation light source, when used individually, had no effect on normal cells or cancerous cells, attesting to the safety of both the PDCs and TLC-3000 light source; however, when combined this technology completely eradicated all brain tumour cells, proving the efficacy of this type of leading edge therapy in the destruction of cancer cells. This destructive effect was proven in a number of the PDCs evaluated, supporting the understanding that the patented PDC platform could produce multiple lead compounds, custom designed for targeting specific cancerous cells, dependent upon the application.

During January 2010 Theralase announced results of a pre-clinical study of its patented photodynamic compounds (PDCs) and their ability, when used with Theralase lasers, to destroy breast cancer cells. The research and development has further demonstrated that photoactivation of the PDCs can be achieved in the absence of oxygen furthering their usefulness in the destruction of cancer.

Further optimization is currently underway with the lead photodynamic compound and lead cancer cell line to prepare for evaluation in a small animal cancer model, slated to commence in 2Q 2010.

Theralase plans to pursue commercialization of its ground-breaking technology through the accelerated FDA regulatory approval process. This process "fast-tracks" approval when a treatment is shown, through proven success rate, to have a positive impact on disease. Theralase also plans to continue its research and development to optimize other PDCs, from the same platform for a variety of cancers such as skin and brain cancer, viruses and bacteria. Theralase has an exclusive license for the US patent rights, on the entire platform of PDCs for 17 years plus an additional 10 years under license agreement with Virginia Tech Intellectual Properties Inc., from the last patent's date-of-issue. Theralase PDC research and development initiative is partially funded by the Ontario Centres of Excellence's (OCE's) Centre of Excellence for Photonics.

Breakthrough Scientific Research

Independent research conducted at University Health Network, demonstrated the superiority of the Company's proprietary laser technology over competitive laser and light based systems, in the production of nitric oxide. Nitric oxide production is well researched and has been previously demonstrated in published clinical studies to increase the diameter of capillaries, bringing much needed oxygen and fuel molecules to injured tissue, accelerating their natural healing processes, as well as activating and controlling inflammation. The Company's proprietary technology is able to increase the production of nitric oxide in cells by 700% over baseline versus little to no effect by all other competitive wavelengths evaluated.

The independent scientific research was peer reviewed and accepted for publication in the March 2009 edition of the highly regarded "Lasers in Surgery and Medicine" publication.

Private Placement Equity Financing

Theralase completed an oversubscribed non-brokered private placement which raised gross proceeds of \$1,270,750 by issuing 4,235,833 units to investors at a price of \$0.30 per unit. Each unit consists of 1 common share and a ½ of a non-transferable common share purchase warrant. Each whole warrant entitles the holder thereof to purchase 1 additional common share at a price of \$0.45, until November 26th, 2011. All common shares sold under this private placement, including shares issuable upon the exercise of the warrants, were restricted from trading until March 27th, 2010.

These funds are earmarked for our long anticipated expansion of our sales and marketing efforts into US market, in addition to commercialization and subsequent launch of our next generation patented TLC-2000 biofeedback laser technology.

Overview of Financial Performance

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

Summary of Selected Annual Information

Year ended December 31	2009	2008	2007
Total revenues	2,359,855	2,168,411	1,559,850
Net profit / (loss)	(241,578)	(1,111,675)	(1,113,373)
Basic and diluted loss per share	\$ (0.01)	\$ (0.03)	\$ (0.03)
Total assets	4,190,841	3,181,538	3,707,277
Total liabilities	703,900	794,786	335,122
Deficit	(7,797,524)	(7,555,946)	(6,444,271)
Shareholders' Equity	3,486,941	2,386,752	3,372,155

Summary of Quarterly Results

	2009			
	December 31	September 30	June 30	March 31
Total revenues	768,210	501,263	629,004	461,378
Net profit / (loss)	89,001	(87,164)	(26,165)	(217,250)
Basic and diluted loss per share	\$ 0.00	\$ (0.00)	\$ (0.00)	\$ (0.01)
Total assets	4,190,841	2,865,647	3,029,982	2,980,349
Total liabilities	703,900	744,404	827,240	779,585
Deficit	(7,797,524)	(7,887,716)	(7,800,552)	(7,773,196)
Shareholders' Equity	3,486,941	2,121,243	2,202,742	2,200,764

	2008			
	December 31	September 30	June 30	March 31
Total revenues	779,600	459,789	604,996	324,026
Net profit / (loss)	(308,395)	(240,751)	(222,581)	(339,948)
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Total assets	3,181,538	3,233,543	3,409,720	3,570,502
Total liabilities	794,786	534,884	509,663	394,008
Deficit	(7,555,946)	(7,247,551)	(7,006,800)	(6,784,219)
Shareholders' Equity	2,386,752	2,698,659	2,900,507	3,115,048

Liquidity and Capital Resources

As at December 31, 2009, current assets aggregated to \$2,001,904 compared with current liabilities of \$596,742 netting a working capital position of \$1,405,162 and a current ratio (current assets vs. current liabilities) of approximately 3:1.

The Company's objective is to maintain a sufficient capital base so as to sustain future research and development and business initiatives and to maintain investor, creditor and market confidence. The Company makes every attempt to manage its liquidity to minimize shareholder dilution where possible.

The Company has a revolving line of credit of \$125,000, repayable on demand, which bears interest at the bank's prime rate plus 2%. It is secured by a general security agreement registered against the Company and its Canadian subsidiary. As at December 31, 2009, there are no amounts drawn on this line of credit.

As at December 31, 2009, the Company had cash and cash equivalents on hand of \$1,187,104. Sales of the TLC-1000, the Company's existing product line, have not been sufficient in and of themselves to enable the Company to fund all its continuing development and commercialization efforts and, accordingly, management is pursuing alternate financing sources to fund the Company's development and commercialization efforts. Similar to the financing secured through the private placement that took place on August 15, 2007, the Company completed an oversubscribed private placement equity financing raising \$1,270,750 in funds for the Company on November 27, 2009.

Results of Operations

Revenue

For the year ended December 31, 2009 revenue increased 9% to \$2,359,855, compared to \$2,168,411 for the same period in 2008.

	Twelve Months Ended December 31, 2009	
	2009	2008
Sales Revenue	2,172,793	2,028,187
Service Revenue	53,116	51,996
Clinic Revenue	26,603	28,309
Other Revenue	107,343	59,919
	<u>2,359,855</u>	<u>2,168,411</u>

Revenue for the year ended December 31, 2009 increased in Canada by 34% from \$1,452,070 in 2008 to \$1,952,406 in 2009 and decreased in the US by 60% from \$469,099 in 2008 to \$188,075 in 2009. The strong growth in Canadian product sales and the subsequent decrease in American product sales is a reflection of the Company focusing its sales and marketing initiatives predominantly on the Canadian market for the year due to a weak US economy and record unemployment rate in the US market. International sales for the year ended December 31, 2009 decreased 11% from \$246,562 in 2008 to \$219,374 in 2009. The decrease in International sales was due to the one time sale of the beta Photo

Dynamic light systems to the European market during fiscal 2008 which was partially offset with the establishment of international distributors during fiscal 2009. The Company has established and is further evaluating augmenting its direct sales force with leading US, Canadian and international healthcare product distributors to market its products in the US, Canadian and International markets respectively.

Cost of sales

Cost of sales for the year ended December 31, 2009 was \$799,729, resulting in a gross profit of \$1,560,126 or 66% of revenue, compared with \$1,479,469 or 68% of revenue for the same period in 2008. The change is primarily due to higher sub-contracting and direct / indirect labor costs in the production of therapeutic laser products. Cost of sales is represented by the following costs: raw materials, sub-contracting, direct and indirect labour, and the applicable share of manufacturing overhead.

Operating Expenses

Selling expenses for the year ended December 31, 2009 were \$476,416, representing 20% of product sales, compared with \$633,028 or 29% of product sales for the same period in 2008. The percentage drop as a percentage of sales is a reflection of the higher sales levels relative to the selling expenses, and reductions in travel and advertising expenses.

Administrative expenses for the year ended December 31, 2009 were \$992,742, representing a 26% decrease from \$1,336,675 reported for the same period in 2008, and consisted of the following items:

	2009	2008
Insurance	52,615	58,908
Professional Fees	91,643	122,548
Rent	107,582	108,942
Other	72,186	269,408
Compensation	540,017	611,309
Advisory	40,989	57,505
Stock Based	87,710	108,055
	992,742	1,336,675

Administrative expenses for the twelve-month period ended December 31, 2009 are attributed to the following:

- Insurance expense decreased by 12% due to decreased insurance renewal rates.
- Professional fees decreased by 25% due to higher audit and accounting fees billed in the prior year.
- Compensation expense decreased 12% due to the cessation of contracted recruitment consulting services
- Other expenses decreased by 73% largely due to reductions in office administrative and telephone expenses and collection of a doubtful accounts receivable that was previously allowed for.

Research and Development Costs

Gross Research and Development costs expensed, prior to the application of tax credits of \$85,614 (2008 -\$nil) totaled \$249,704 for the year ended December 31, 2009, compared to \$226,748 in 2008. This represents a 10% increase attributable to expenditures on the TLC-2000 biofeedback laser development and the TLC-3000 photodynamic compound research.

Government assistance

The Company is eligible to receive grants and tax credits from the federal and provincial government related to research and development activities. All such amounts are applied against related research and development expenses when collection is reasonably assured. In 2009, an amount of \$85,614 (2008 - \$nil) of tax credits has been recorded in accounts receivable and applied against research and development expense of which \$nil (\$nil – 2008) was received. Of this

amount, \$28,205 pertained to 2009, (\$28,489 – 2008). The tax credits relate to the TLC-2000 Biofeedback Therapeutic Laser and the TLC-3000 Photodynamic Compound research and development expenses, and \$57,409 has been received subsequent to December 31, 2009.

Net Profit (Loss)

The net loss for the year ended ended December 31, 2009 was \$241,578, which included \$264,423 of non-cash expenses (amortization, stock-based compensation expense, foreign exchange gain/loss and lease inducements). This compares to a net loss for the year ended ended December 31, 2008 of \$1,111,675 which included \$513,701 of non-cash expenses. The Company expenses the future product development costs of the TLC-2000 Biofeedback Therapeutic Laser and TLC-3000 Photo Dynamic Compounds from existing TLC-1000 Therapeutic Laser product sales, resulting in an overall net loss.

Cash Flows

Funds generated from operating activities prior to net changes in other operating items amounted to \$22,845 for 2009 compared to (\$597,974) for 2008, decreasing primarily as a result of our lower net loss. Funds used in net changes in other non-cash operating items were \$40,952 in 2009 compared to funds used of \$351,195 for 2008.

Funds used in investing activities for 2009 amounted to \$40,996 compared to \$103,682 in 2008, primarily reflecting the reduction in Investments in development costs. Capital expenditures for 2009 were primarily related to the acquisition of office equipment, patents and licensing fees for the Photo Dynamic Compounds.

For 2009, funds generated by our financing activities amounted to \$1,219,918 compared to \$3,958 in funds used in financing activities in 2008. The funds generated in 2009 were from our non-brokered private placement which raised gross proceeds of \$1,270,750 that closed on November 26, 2009.

Assets (other than Cash and Equivalents)

The Company holds essential and valuable intellectual property rights and assets, including patents, trademarks, development and related costs. The depreciated book value of these assets is \$222,326 to which is added \$1,861,078 in goodwill. Management considers that the value of the Company's intellectual and related property rights and assets is significantly higher than its carrying amount.

Goodwill is not subject to amortization but is assessed for impairment on at least an annual basis and, additionally, whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. Impairment of goodwill is tested by comparing the carrying amount of net assets, including goodwill, to the fair value of net assets. Fair value is estimated using the discounted cash flow approach. If the carrying amount of net assets exceeds its fair value, then a second step is performed to quantify the amount of the impairment loss, if any. Any impairment in the carrying value of goodwill is recognized in operating income.

In 2009, the Company performed the annual impairment test and determined there was no impairment in goodwill.

Commitments

As of December 31, 2009, the Company's commitments consist of the following:

	2010	2011	2012	2013	Total
Lease obligations	\$ 51,968	\$ 53,873	\$ 31,426	\$ -	\$ 137,267
Research commitments	\$ 43,390	-	-	-	43,390
Total	\$ 95,358	\$ 53,873	\$ 31,426	\$ -	\$ 180,657

- i) Lease obligations under a lease agreement related to its premises which commenced on August 1, 2007 and expires on July 31, 2012. Under the terms of this lease, the Company is required to pay a proportionate share of operating costs, realty taxes and utilities, in addition to the minimum rental payments. The future minimum

lease payments are shown in the table above.

- ii) Research commitments under a Research Collaboration Agreement with Virginia Polytechnic Institute and State University for the TLC-3000 cancer therapy project. Under the terms of this agreement the Company is required to pay \$86,780 for the period from September 2009 to August 2010. For the year ended December 31, 2009, the Company incurred \$43,390 in billings related to this commitment of which \$nil was paid under this agreement.

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, 2009 and at the date of this MD&A, the share capital of the Company consisted of 39,172,558 common shares. Each common share entitles the holder to one vote per share. At December 31, 2009, there were 2,950,000 options outstanding, of which 2,449,999 were vested and exercisable into an equivalent number of the Company's common shares as follows:

Options Exercisable	Weighted Average Exercise Price
2,416,666	\$0.60
33,333	\$0.10

To the knowledge of the Directors and senior officers of the Corporation as of December 31, 2009, the only person or persons or companies beneficially owning or controlling, directly or indirectly, common shares carrying more than ten percent (10%) of the voting rights attached to all common shares of the Corporation is Roger Dumoulin-White, who directly holds 4,841,806 (12%) of the outstanding common shares of the Corporation (not including 247,756 shares held by his spouse, Kristina Hachey, over which shares Mr. Dumoulin-White disclaims any beneficial interest or control), and S. Donald Moore, who directly holds 1,028,430 common shares, and indirectly holds 10,743,025 common shares through his associate, Talent Oil and Gas Ltd., and effectively controls, or exercises direction over, an aggregate of 11,771,455 (30%) of the outstanding common shares of the Corporation.

On November 26th, 2009, the Company closed a non-brokered private placement which raised gross proceeds of \$1,270,750 by issuing 4,235,833 units to investors at a price of \$0.30 per unit. Each unit consists of 1 common share and a ½ of a non-transferable common share purchase warrant. Each whole warrant entitles the holder thereof to purchase 1 additional common share at a price of \$0.45, until November 26th, 2011. All common shares sold under this private placement, including shares issuable upon the exercise of the warrants, were restricted from trading until March 27th, 2010.

Segmented Information

The statements and projections herein are understood to be limited to one reportable operating segment which, for the purposes of this MD&A, comprises the manufacturing and sales of the Company's therapeutic medical laser equipment, largely in the North American market, without any differentiation as to geographic areas or locations.

Selected Financial Information and Accounting Policies

The Consolidated Financial Statements for the year ended December 31, 2009, and all other Financial Statements referred to herein, have been prepared in accordance with Canadian generally accepted accounting principles (GAAP), consistently applied, and all amounts and currencies reported therein, and in this MD&A, are in Canadian dollars, unless otherwise noted. The ongoing accounting policies are more particularly described in the Notes to the audited Consolidated Financial Statements for the fiscal year ended December 31, 2009. 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.

(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. At December 31, 2009 the balance of investments held was \$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 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 cash and short-term investments; 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.

Disclosure Controls and Procedures

The Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures as at and for the year ended December 31, 2009. 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 at December 31, 2009 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 at December 31, 2009, 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 GAAP. 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 GAAP.

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.

The following changes in the Company's internal control over financial reporting have occurred as of December 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting:

- Dual signature requirements on all cheques
- Improved segregation of duties
- Increased reviews of financial reporting schedules

As the Company incurs future growth, the Company plans to continue to expand the number of individuals and the technical competence of the individuals involved in the accounting function.

With the implementation of the above corrective actions, the Company believes that the above noted actions addressed the material weaknesses that were identified in its internal control over financial reporting in 2008.

Critical Accounting Policies and Estimates

The Company's critical accounting policies and estimates are disclosed in the notes to the 2009 annual consolidated financial statements.

Effective January 1, 2009, the Company adopted CICA Handbook Section 3064, *Goodwill and Intangible Assets*. Section 3064, which replaces Section 3062 *Goodwill and Intangibles Assets*, and Section 3450 *Research and Development Costs*, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. These standards are effective for the Company for its consolidated financial statements fiscal years beginning January 1, 2009. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

On January 20, 2009, the Emerging Issues Committee ("EIC") of the Accounting Standards Board ("AcSB") issued EIC Abstract 173, *Credit Risk and Fair Value of Financial Assets and Financial Liabilities*, which establishes that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC 173 is applied retrospectively, without restatement of prior years, to all financial assets and liabilities measured at fair value in the interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of EIC 173 did not have an impact on the consolidated financial statements of the Company.

In June 2009, the AcSB issued amendments to CICA Handbook Section 3862, *Financial Instruments — Disclosures*, in order to align with IFRS 7, *Financial Instruments: Disclosures*. This Section has been amended to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure. The amendments establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The amendments apply to annual financial statements relating to fiscal years ended after September 30, 2009 and are

applicable to the Company as at December 31, 2009. The amended section relates to disclosure only and did not impact the financial results of the Company.

Future accounting pronouncements

The Company reviews all changes to the CICA Handbook when issued. The following will become effective after December 31, 2009:

- The CICA issued three new accounting standards in January 2009: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-controlling Interests*. The Company is in the process of evaluating the requirements of the new standards. Section 1582 establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3 — *Business Combinations*. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 and early application is permitted. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements. It is equivalent to the corresponding provisions of IFRS IAS 27 — *Consolidated and Separate Financial Statements*, Sections 1601 and 1602, and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011 and early application is permitted.
- CICA Handbook EIC 175, *Multiple Deliverable Revenue Arrangements*, replaces EIC 142, *Revenue Arrangements with Multiple Deliverables*. This abstract was amended to provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated. The abstract requires, in situations where a vendor does not have vendor-specific objective evidence (“VSOE”) or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; eliminates the use of the residual method and requires an entity to allocate revenue using the relative selling price method; and requires expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted.

Conversion to International Financial Reporting Standards

Canada’s Accounting Standards Board (AcSB) has announced that, effective January 1, 2011, International Financial Reporting Standards (IFRS) will replace the current Canadian GAAP for publicly accountable enterprises. Financial reporting under IFRS differs from Canadian GAAP in a number of respects, some of which are significant. Commencing in fiscal 2010, the Company will need to prepare accounts in accordance with Canadian GAAP and IFRS in order to have comparative financial statements upon full implementation of IFRS in 2011. The Company commenced its IFRS conversion project in 2009.

The IFRS conversion project has three primary phases as follows:

- **Phase one**, high-level assessment to identify key areas that may be impacted by the transition to IFRS, and ranking these as high, medium or low priority, as well as the creation of a formalized project plan including key milestones and timelines, resources required, education and training requirements. Phase one of the project is underway and is expected to be completed by 2Q2010.
- **Phase two**, each area identified from Phase one will be addressed by performing an in depth analysis of differences between the current Canadian GAAP and IFRS, evaluation and selection of available accounting policies, quantification of impacts and development of draft IFRS financial statement contents. This phase also includes the identification of operational impacts such as information technology, process and internal control changes. Phase two of the project is scheduled for completion by the end of Q32010.
- **Phase three**, the Company will integrate the new accounting policies and operational impacts into the Companies underlying information systems and business processes. Phase three of the project is scheduled for completion in 4Q2010.

The following section sets out the Company's preliminary potential IFRS policy decisions and significant accounting differences, based on the analysis of the current IFRS standards. Theralase intends to further investigate and quantify these policy choices in the first half of 2010. During this process, additional differences between Canadian GAAP and IFRS may be identified. As a result, these accounting policy choices may change prior to the adoption of IFRS on January 1, 2011. Although Theralase has identified key accounting policy differences, the impact of these differences to Theralase's consolidated financial statements has not been determined at this time. Decisions with respect to accounting policy changes, outlined below, may change once management has quantified and thoroughly analyzed the effects of such changes and has presented them for final review and approval by the Audit Committee.

As a first time adopter of IFRS, the Company is allowed to elect certain exemptions under IFRS 1 from a full retrospective application of IFRS. IFRS 1 has certain mandatory exceptions as well as limited optional exemptions. Based on a preliminary analysis to date, Theralase is currently investigating the following optional exemptions available under IFRS 1 that will be significant to the Company in preparing its consolidated financial statements under IFRS:

- **Business combinations** – IFRS 1 allows companies to have the option not to apply IFRS 3 (Revised) Business Combinations (IFRS 3(R)) retrospectively. The Company is currently assessing and quantifying the application of IFRS 3 (revised), Business combinations, for all business combinations completed after January 1, 2003.

In addition to the IFRS 1 exceptions and exemptions, the following are the preliminary assessments of key differences between the Company's Canadian GAAP accounting policies and those under IFRS.

- **Impairment of long-lived assets and goodwill** – Canadian GAAP uses a two-step approach to assess long-lived assets while, under IFRS, impairment testing is a one-step process. IFRS requires long-lived assets and goodwill to be tested at the level of the cash-generating unit (CGU), the smallest group of assets that generates cash inflows from continuing use that largely are independent of the cash inflows of other assets or groups thereof. Under Canadian GAAP, an asset group is the lowest level for which there are identifiable cash flows that largely are independent of the cash flows of other groups of assets. As a result, there is a higher probability that an impairment loss is recognized under IFRS. In addition, Canadian GAAP does not allow any impairment losses for assets to be reversed while under IFRS, if certain criteria are met, reversal is required, other than goodwill. Therefore detailed documentation of impairment is needed under IFRS for future potential reversal.
- **Income taxes** – Under Canadian GAAP, if additional deferred tax assets that were not recognized at the date of acquisition are realized subsequently, then the adjustment is recognized first against goodwill, then against intangible assets, before any adjustment is recognized as a tax recovery in profit or loss. Under IFRS, such adjustment is recognized directly in profit or loss. The recognition of deferred income taxes for temporary differences arising from intercompany transfer of property is prohibited under Canadian GAAP while there are no similar exceptions under IFRS. Other significant differences may impact the company such as accounting for uncertain tax positions, backwards tracing, and differences relating to presentation and disclosure.

As IFRS evolves during the transition period, the impact of IFRS on the Company will also evolve. It may result in additional accounting changes, some of which may be significant. The Company will continue to monitor any changes to IFRS prior to January 1, 2011, assess the impact of adopting IFRS, and update its MD&A disclosures quarterly in order to report on the progress of its IFRS transition plan.

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 do not anticipate using any hedging strategies in a material way in the immediate future. Management will continue to assess the situation and may, as a result, change its approach to hedging foreign exchange currency fluctuations.

Credit Risk

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

Human Resources

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

Product Liability

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

Outlook

The Company is focusing on increasing product sales and market acceptance of the TLC-1000 laser technology in 2010, supported by the new independent scientific research that confirms the superiority of the Company's proprietary technology over other competitive technology. The Company has begun to re-focus its sales and marketing strategies to the US and international markets during 1Q2010. The Company will continue to commercialize its patented next generation TLC-2000 biofeedback technology for launch in the first quarter of 2011 in both the Canadian and US markets. The Company is also optimizing its lead patented photodynamic compound and TLC-3000 activation light source aimed at the destruction of a significant cancer for further investigation in a small animal in-vivo model due to commence in 2Q 2010. The Company believes it is now adequately funded to successfully execute on these initiatives in 2010 and will seek further funding if and when required as its commercialization efforts in all these arenas increases. The Company feels that these initiatives will increase shareholder value as the Company achieves its strategic objectives.

Theralase Technologies Inc. is focused on a two-part strategy:

1. Production, marketing and distribution of the Theralase Super-Pulsed Laser for sale to health care practitioners focused on the treatment of chronic pain, sports injuries and wounds.
2. Commercialization of patented cancer treatment through progressive research, clinical trials and advancement of new technology in the direct destruction of cancers.

April 28, 2010



Roger Dumoulin-White
President & CEO