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Theralase™ Technologies Inc. Photo-Dynamic Therapy

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Management's Discussion and Analysis of Financial Condition and Operations For the Interim Period Ending September 30, 2004

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J. J. JOHNSON
TREASURER

General

The following Management's Discussion and Analysis ("MD&A") of Theralase Technologies Inc. (the "Company") should be read in conjunction with the accompanying unaudited Consolidated Financial Statements of the Company, and the Notes thereto, for the nine months ending September 30, 2004, and with the audited Consolidated Financial Statements of the Company, and the Notes thereto, for the year ending December 31, 2003. This MD&A covers the nine months' period to September 30, 2004, and is compared to the comparable period ending September 30, 2003 and with the year ending December 31, 2003. This MD&A has been prepared as at November 15, 2004.

To reflect the Company's current primary business thrust, regulatory approval was obtained for the corporate name change to **Theralase Technologies Inc.** (formerly InterStar Group Inc.) effective as of November 1, 2004. Copies of corporate financial documents and public releases are available on the regulatory filings website -- www.SEDAR.com. The Company share trading symbols are -- **TSXV/NEX : TLT.H ---- OTC BB : TLTF.**

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Forward-Looking Statements

Certain statements contained or incorporated in this MD&A of the Company's financial condition and operating results, including information, analyses and projections as to future corporate developments currently in the planning stage, and on the future operating performance of the Company, constitute forward-looking statements. Such forward-looking statements, with special reference to complex healthcare and medical device research and development efforts, and including clinical trials testing new medical technology and applications, involve known and unknown risks and uncertainties that could cause actual events, or the trial and test results, to differ materially from those estimated or anticipated events or results that may be implied or expressed in such forward-looking statements. No conclusions as to the successful outcome of the ongoing or planned research and development projects in which the Company is involved are intended or implied nor can they be foreseen or predicted.

Company Profile and Significant Events

The Company is engaged in the design, development, manufacture and sale of innovative, higher powered, super-pulsed, therapeutic medical laser equipment for diverse applications in the expanding field of photo-dynamic laser therapy ("PDT"). The Company's technology is focused on market-oriented applications in the diverse healthcare sectors of -- firstly, non-invasive pain management, control and therapy applied to relieve musculo-skeletal arthritic and rheumatoid disorders -- secondly, to bio-stimulate and accelerate wound care and healing, including bone regeneration for fracture healing and osteoporosis conditions -- and thirdly, employing the Company's proprietary PDT equipment to attack specially-targetted cancerous growths. Further

background on the established Theralase operations in the healthcare sector of non-invasive pain management and therapy can be obtained on the corporate website -- www.theralase.com.

The Company's medical lasers direct photon or light energy into the human and animal musculo-skeletal structure to bio-stimulate and accelerate the normal healing process for a wide range of pain control and relief applications -- and in wound healing (as for "bed sores") -- and for bone regeneration activity. The Theralase system is also currently employed in animal veterinary practices to relieve temporary and chronic animal pain conditions -- and for many dental procedures.

In December 2002, the Company completed extended clinical trials in connection with the filing for U.S. Food and Drug Administration ("FDA") approval required to access unrestricted U.S. marketing. The filing process is nearing conclusion following the Company's additional provision of extensive explanatory documentation to the FDA since the date of filing.

In July 2002, The Company was granted U.S. Patent No. 6,413,267 covering the proprietary design of therapeutic laser devices which record, monitor and control higher-powered, deep penetration, healthcare therapy. In May 2004, the European Patent Office (EPO) accepted the concurrent Company application for patent registration in the European Union (EU) and granted the EPO Patent No. 1075854 on November 10, 2004. The Company intends to validate the EPO patent in up to nine of the major EU national economies starting with Germany, France, the U.K., Italy and Spain. The decision will be based on the national registration fees (which include translation costs) and the ongoing annual national annuity charges.

As of July 1, 2004, the Company's U.S. subsidiary -- **Theralase Biotech Inc.** -- entered into a long term License Agreement with Virginia Tech of Blacksburg, Virginia, combining the Company's patented bio-feedback laser capability with proprietary Virginia Tech technology employing photo-sensitive mixed-metal complexes as agents targeting anomalous cancer tumours; the embedded mixed-metal agents are then activated by PDT energy to attack anomalous tumour growths.

The Company has expanded its production capability and quality standards (improving its ISO 9001 rating with its award of an ISO 13485 rating -- the highest quality medical device standard) to meet the recently upgraded regulatory standards for medical device manufacturing. Sales and distribution capabilities, in anticipation of an FDA marketing approval, has been expanded with the engagement of a senior Sales Manager with special experience in the medical laser device sector.

Selected Financial Information and Accounting Policies

The unaudited Consolidated Financial Statements for the period ending September 30, 2004, and all other Financial Statements referred to herein, have been prepared in accordance with Canadian generally accepted accounting principles (CGAAP), consistently applied, and all amounts and currencies reported in the following MD&A are in Canadian dollars, unless otherwise noted. The unaudited Consolidated Financial Statements herewith have not been reviewed by the Company's auditor. The ongoing accounting policies are more particularly described in the audited Consolidated Financial Statements for the year ending December 31, 2003. Please refer to the Company's annual and quarterly filings on the regulatory website -- www.SEDAR.com

Segmented Information

The statements and projections herein are to be understood as being limited to one reportable operating segment which, for the purposes of this MD&A, is limited to the sales of the Company's therapeutic laser equipment, largely in the North American market, without their differentiation as to geographic areas or locations. While exploratory marketing investigations have recently been undertaken targeting the European and Pacific Rim markets, no firm arrangements have been concluded to date. Management is currently engaged in programs to introduce the Company's product line and technology into several international markets, and for special applications, including acupuncture practitioners in the Pacific Rim and North America as an adjunct to or replacement of their current patient practices.

Overview of Performance

During the period under review, changes in the Company's financial position and operating results reflected primarily the improving performance of the ongoing Theralase therapeutic laser production and marketing operations and the completion of a private placement financing. Research and development planning for expansion of the Company's product line remains in progress (see "Outlook" below). The Theralase acquisition closed 30 November 2003, and including a concurrent private placement financing, is reflected in the materially enhanced business and financial condition of the Company which was impacted by the consolidation of the assets, accounts and ongoing Theralase laser business operations with those of the Company.

Results of Operations

For the nine-months period under review gross revenues aggregated \$333,609, compared to nil the prior year when the prior business activities of the Company remained on a care-and-maintenance status. Cost of sales for the period aggregated \$129,468, resulting in net revenue of \$204,141; a margin of 61%. Operating expenses of \$269,344 for the nine-months' period, after the consolidation of Theralase accounts following the transaction closing, compared with \$41,097 for the same period last year, when only routine corporate maintenance and general office expenses were incurred. The net loss reported for the current period was \$62,813, compared with \$40,518 the prior year. The net loss per share for both the current period, and for the comparable period last year, was effectively nil.

Assets (other than Cash and Equivalents)

Following closing of the Theralase acquisition transaction as at November 30 last year, the Company acquired \$381,871 of depreciated book assets comprising valuable intellectual property, which included primarily patents, trademarks and research and development costs, which included the net book value of \$268,741 attributable to the investment in and the ongoing costs of the regulatory filing with the FDA. The undepreciated project costs attributable to the FDA filing, which included substantial corporate and management expenses, aggregated in excess of \$800,000. The Company's assets at the 2003 year-end, which reflected the November 30, 2003 closing of the Theralase transaction, aggregated \$614,955, compared with \$1,107,780 at the end of the period under review. The increase reflected the private placement financing aggregating \$595,000 completed during the nine-months under review. Current liabilities at the end of the period totaled \$176,385. Comparisons with the prior year are not meaningful because the transaction with Theralase did not close until November 30 last year.

Cash Flow Statement

Except for the cash position at the end of the period under review of \$466,455, which reflected the private placement financing during the period, comparisons with the cash position at the end of the prior year's period were not meaningful since the Theralase transaction closed as of 30 November 2003.

Liquidity and Capital Resources

At the end of the period under review, current assets aggregated \$668,820, compared with \$239,721 recorded at the year-end. The difference reflected the private placement financing proceeds of \$595,000 which was received during the period. Current liabilities at the end of the current period aggregated \$176,385, compared with \$215,747 recorded at the year-end.

Share Capital Analysis

As at the date of this MD&A, the share capital of the Company consisted exclusively of 27,922,271 common shares, compared with 25,822,271 at the year-end, reflecting exclusively the share issuance upon completion of a private placement financing. There are currently no dilutive securities outstanding or committed for issue, including, without limitation, senior or convertible securities nor share purchase warrants or options on the Company's share capital except for the Company's undertaking to issue 5,164,454 common shares to the Theralase subsidiary's management and former shareholders based on the financial performance of Theralase for the year following the November 30, 2003 closing date of the Theralase transaction, as more particularly described in the Notes to the audited Consolidated Financial Statements for the year ending December 31, 2003. At the date of this MD&A it is considered unlikely that the required financial performance will be reached and, accordingly, the Company's undertaking to issue the said block of shares will not become effective.

Quarterly Information

Due to the new direction of the Company's ongoing business operations since the November 30, 2003 closing of the Theralase transaction, comparisons between the Company's current period under review, and the 8 prior quarterly periods, are not considered meaningful.

Use of Financial Instruments

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 to this effect.

Transactions with Related Parties

The Company has engaged in nominal related party transactions which deal primarily with payments of routine professional fees for essential corporate services rendered by the Company's Secretary-Treasurer. The President received no remuneration from the Company for the year 2003 and for the period under review. These fees are paid on an annual basis and are more particularly described in the Notes to the audited Consolidated Financial Statements for the year ending December 31, 2003. The Company also pays remuneration to Directors based on payments of \$250 for each Director's Meeting attended in person or by way of telephone conference call, plus out-of-pocket expenses incurred in connection with attendance at such Meetings or otherwise in furtherance of their duties as Directors. No Director or corporate officer is currently indebted to the Company nor have they been indebted to the Company during 2003, and during the year 2004 to date.

Regulatory, Environmental and Other Risk Factors

The Company is not directly engaged in business or other operations which may make it subject to various laws and regulations pertaining to environmental and health and safety matters nor to political risks which are outside the Company's control. When the Company becomes directly engaged in such business operations, it is committed to programs of environmental protection on all of its operating sites in accordance with the governing national and international standards. Its current business operations are managed by personnel that the Company considers professional and competent to fully comply with the relevant regulatory and environment regulations.

Outlook

Management considers that the prospects for future corporate growth will be enhanced by the development of further diverse and innovative healthcare applications employing the proprietary Theralase technology. Photo-dynamic therapy (PDT) is planned as the technology platform that could launch the Company into an extended era of sustained growth in several essential, diverse and expanding healthcare sectors -- firstly, in pain management and control -- secondly, in wound healing and bone regeneration -- and thirdly, for activating with laser energy (PDT) proprietary mixed-metal agents programmed to destruct cancer tumours; clinical trials involving cancer therapy are now in the advanced planning stage.

Specially designed equipment units for newly-established healthcare practitioners -- the projected "Starter Professional" models -- will retain the therapeutic capabilities of the enhanced "Professional" units, but will require additional patient treatment time dedication by the practitioner. The "price point" cost of this unit model is expected to be set at about 50-65% of the "Professional" model price.

Volume unit sales and distribution are planned for the "Consumer" model, designed to be priced for the retail mass market. The working schematic prototype for this product line has been designed. The unit's therapeutic utility will match that of the "Professional" model -- but considerably more patient time-use will be required for home self-treatments. The unit is designed to ensure foolproof safety and efficacy of operation, along with an indicated initial retail price target of about \$750.

Now in the final prototype development stage, the Theralase proprietary patented therapeutic laser device, designated as the "Bio-feedback System," is designed to provide an advanced method of subsurface depth and energy measurement, monitoring and control of the laser energy input. This unit will effectively measure the sub-dermal penetration of the laser beam. The device is also employed as a sensing system to locate and act on the precise location of the body pain centers or other anomalous areas -- including cancer tumours -- and the depth of the trauma or damage to the body tissue, joints or bone structure. Dramatically, these units may also be employed as a diagnostic tool by providing depth measurements within the body mass which may locate anomalous tumours and also facilitate surgical laser applications.

Theralase Technologies Inc.

(formerly - InterStar Group Inc.)

Consolidated Statement of Cash Flows

(Prepared from the Books of Account) **Unaudited**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Net Inflow (Outflow) of Cash related to the following activities:				
Operating				
Loss for the Period	(\$ 14,617)	(\$ 16,434)	(\$ 62,813)	(\$40,518)
Items not affecting cash				
Amortization	4,252	- 0 -	14,503	- 0 -
Write-off of exploration expenditures	<u>400</u>	<u>350</u>	<u>1,200</u>	<u>1,050</u>
	<u>(9,965)</u>	<u>(16,084)</u>	<u>(47,110)</u>	<u>(39,468)</u>
Changes in non-cash operating working capital items				
Accounts receivable	(13,394)	- 0 -	(34,420)	(297)
Inventory	20,000	- 0 -	15,417	- 0 -
Prepaid expenses	340	- 0 -	(4,481)	- 0 -
Accounts payable and accrued liabilities	<u>(12,721)</u>	<u>3,072</u>	<u>2,242</u>	<u>9,877</u>
	<u>(5,775)</u>	<u>3,072</u>	<u>(19,242)</u>	<u>9,580</u>
Investing				
Capital assets	(3,137)	- 0 -	(23,718)	- 0 -
Patents and Trademarks	(2,717)	- 0 -	(5,450)	- 0 -
Research and Development	(26,451)	- 0 -	(36,012)	- 0 -
FDA Clinical Study	- 0 -	- 0 -	(13,049)	- 0 -
Exploration expenditures	<u>(400)</u>	<u>(350)</u>	<u>(1,200)</u>	<u>(1,050)</u>
	<u>(32,705)</u>	<u>(350)</u>	<u>(79,429)</u>	<u>(1,050)</u>
Financing				
Issuance of share capital	- 0 -	- 0 -	595,000	- 0 -
Bank loan	(5,000)	- 0 -	(25,000)	- 0 -
Shareholder advances	<u>- 0 -</u>	<u>- 0 -</u>	<u>(16,604)</u>	<u>- 0 -</u>
	<u>(5,000)</u>	<u>- 0 -</u>	<u>553,396</u>	<u>- 0 -</u>
Increase (Decrease) in cash	(53,445)	(13,362)	407,615	(30,938)
Cash, Beginning of period	<u>519,900</u>	<u>79,493</u>	<u>58,840</u>	<u>97,069</u>
Cash, End of Period	<u>\$466,455</u>	<u>\$ 66,131</u>	<u>\$ 466,455</u>	<u>\$66,131</u>
Supplemental Disclosure of Cash Flow Information				
Cash received from interest	\$ 1,635	\$ 494	\$ 3,590	\$ 1,629
Cash interest paid	\$ 3,227	\$ 6	\$ 10,273	\$ 19

Theralase Technologies Inc.

(formerly - InterStar Group Inc.)

Consolidated Statement of Operations and Deficit

(Prepared from the Books of Account)

Unaudited

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Revenue				
Sales	\$ 144,687	\$ - 0 -	\$ 324,251	\$ - 0 -
Cost of sales	<u>61,536</u>	<u>- 0 -</u>	<u>129,468</u>	<u>- 0 -</u>
	83,151	- 0 -	194,783	- 0 -
Clinic	<u>3,099</u>	<u>- 0 -</u>	<u>9,358</u>	<u>- 0 -</u>
	<u>86,250</u>	<u>- 0 -</u>	<u>204,141</u>	<u>- 0 -</u>
Expenses				
Administrative	80,258	16,572	205,174	41,161
Clinic	14,339	- 0 -	39,368	- 0 -
Interest	3,227	6	10,273	19
Amortization	4,252	- 0 -	14,503	- 0 -
Foreign exchange	<u>26</u>	<u>- 0 -</u>	<u>26</u>	<u>(83)</u>
	<u>102,104</u>	<u>16,578</u>	<u>269,344</u>	<u>41,097</u>
Loss before the undernoted items	<u>(15,852)</u>	<u>(16,578)</u>	<u>(65,203)</u>	<u>(41,097)</u>
Exploration expenditures	(400)	(350)	(1,200)	(1,050)
Interest earned	<u>1,635</u>	<u>494</u>	<u>3,590</u>	<u>1,629</u>
Loss for the Period	<u>(14,617)</u>	<u>(16,434)</u>	<u>(62,813)</u>	<u>(40,518)</u>
Deficit, Beginning of Period	<u>(4,862,061)</u>	<u>(4,788,297)</u>	<u>(4,813,865)</u>	<u>(4,764,213)</u>
Deficit, End of Period	<u>(\$4,876,678)</u>	<u>(\$4,804,731)</u>	<u>(\$4,876,678)</u>	<u>(\$4,804,731)</u>
Loss per Share	<u>(\$0.000523)</u>	<u>(\$ 0.0008)</u>	<u>(\$ 0.002249)</u>	<u>(\$ 0.0020)</u>

THERALASE TECHNOLOGIES INC.

Notes to Consolidated Financial Statements -- September 30, 2004 -- Unaudited

(1) Accounting Policies: The Management of THERALASE TECHNOLOGIES INC. (the "Company") has prepared the unaudited Consolidated Financial Statements for the Nine-months ended September 30, 2004 in accordance with Canadian generally accepted accounting principles, consistently applied. These Financial Statements should be read in conjunction with the audited December 31, 2003 Consolidated Financial Statements.

(2) These unaudited Interim Consolidated Financial Statements follow the same accounting policies as the December 31, 2003 audited Consolidated Financial Statements.

(3) Certain comparative figures for the period may have been reclassified to the current period's presentation.

(4) At September 30, 2004, there were 27,922, 271 common shares issued and outstanding (September 30, 2003 - 20,657,817 common shares outstanding).

(5) The Consolidated Financial Statements for December 31, 2003 and the Nine-months ended September 30, 2004, have been amended to reflect the audited results obtained for the Company's wholly-owned subsidiary, Theralase Inc.

Theralase Technologies Inc.

(formerly - InterStar Group Inc.)

Consolidated Balance Sheets

(Prepared from the Books of Account)

Unaudited

	Unaudited - September 30, 2004	Audited - December 31, 2003
Assets		
Current		
Cash	\$ 466,455	\$ 58,840
Accounts receivable	107,077	74,657
Inventory	80,170	95,587
Prepaid expenses	<u>15,118</u>	<u>10,637</u>
	<u>668,820</u>	<u>239,721</u>
Mineral properties and deferred exploration expenditures	<u>1,000</u>	<u>1,000</u>
Capital Assets, net	<u>56,089</u>	<u>43,830</u>
Other Assets, net		
Patents and Trademarks	74,368	71,962
Research and Development costs	38,762	2,750
FDA Clinical Study	<u>268,741</u>	<u>255,692</u>
	<u>381,871</u>	<u>330,404</u>
	<u>\$1,107,780</u>	<u>\$ 614,955</u>
Liabilities		
Current		
Bank loan	\$ 100,000	\$ 125,000
Accounts payable and accrued liabilities	<u>67,693</u>	<u>65,451</u>
	167,693	190,451
Advances from shareholders	<u>8,692</u>	<u>25,296</u>
	<u>\$ 176,385</u>	<u>\$ 215,747</u>
Shareholders' Equity		
AUTHORIZED CAPITAL		
Unlimited number of common shares without par value		
ISSUED AND FULLY PAID		
27,922,271 shares @ September 30, 2004	4,001,313	
25,822,271 shares @ December 31, 2003		3,406,313
Contributed surplus	1,806,760	1,806,760
Deficit account	<u>(4,876,678)</u>	<u>(4,813,865)</u>
	<u>931,395</u>	<u>399,208</u>
	<u>\$1,107,780</u>	<u>\$ 614,955</u>

Responsibility for Financial Statements

The accompanying unaudited Consolidated Financial Statements for THERALASE TECHNOLOGIES INC. have been prepared by Management in accordance with Canadian generally accepted accounting principles, consistently applied. The most significant of these accounting principles have been set out in the December 31, 2003 audited Consolidated Financial Statements. These statements have been presented on the accrual basis of accounting. Management is satisfied that these Consolidated Financial Statements have been presented fairly.

(Signed) "S. Donald Moore"
Director

(Signed) "John A. Murphy"
Director