LED MEDICAL DIAGNOSTICS INC.

Management's Discussion and Analysis of
Financial Condition and Results of Operations

For the Three and Six Months ended June 30, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis has been prepared by management as of August 23, 2013 and should be read in conjunction with the unaudited interim condensed consolidated financial statements and related notes of LED Medical Diagnostics Inc. (the "Company" or "LED") as at and for the three and six months ended June 30, 2013 and with the audited consolidated financial statements and related notes thereto of the Company for the year ended December 31, 2012 (both prepared in accordance with International Financial Reporting Standards or "IFRS"). All amounts are presented in United States dollars unless otherwise noted. All referenced materials as well as additional disclosures are available at www.sedar.com.

DISCLAIMER FOR FORWARD-LOOKING STATEMENTS

The following Management's Discussion and Analysis contains statements which, to the extent that they are not recitations of historical fact, may constitute forward-looking information under applicable Canadian securities legislation. Such forward-looking statements or information includes financial and other projections as well as statements regarding the Corporation's future plans, objectives, performance, revenues, growth, profits, operating expenses or the Corporation's underlying assumptions and the Company's intention to expand its technology beyond dental applications. The words "may", "would", "could", "will", "likely", "expect", "anticipate", "intend", "plan", "forecast", "project", "estimate" and "believe" or other similar words and phrases may identify forward-looking statements or information. Persons reading this Management's Discussion and Analysis are cautioned that such statements or information are only predictions, and that the Corporation's actual future results or performance may be materially different. Factors that could cause actual events or results to differ materially from those suggested by these forward-looking statements include, but are not limited to: economic conditions; dilution; limited history of profits and operations; operational risk; distributor risks; working capital; potential conflicts of interest; speculative investment; volatility of stock price; intellectual property risks; disruptions in production; reliance on key personnel; seasonality; management's estimates; development of new customers and products risks; stock price volatility risk; sales and marketing risk; competitors and competition risk; regulatory requirements; reliance on few suppliers; reliance on subcontractors; operating cost and quarterly results fluctuations; fluctuations in exchange rates; product liability and medical malpractice claims; access to credit and additional financing; taxation; market acceptance of the Corporation's products and services; customer and industry analyst perception of the Corporation and its technology vision and future prospects; technological change, new products and standards; risks related to acquisitions and international expansion; reliance on large customers; concentration of sales; international operations and sales; management of growth and expansion; dependence upon key personnel and hiring; the Corporation not adequately protecting its intellectual property; risks related to product defects and product liability; and including,, but not limited to, other factors described in the Corporation's reports filed on SEDAR, including its financial statements and management's discussion and analysis for the year ended December 31, 2012. In drawing a conclusion or making a forecast or projection set out in the forward-looking information, the Corporation takes into account the following material factors and assumptions in addition to the above factors: the Corporation's ability to execute on its business plan; the acceptance of the Corporation's products and services by its customers; the timing of execution of outstanding or potential customer contracts by the Corporation; the sales opportunities available to the Corporation; the Corporation's subjective assessment of the likelihood of success of a sales lead or opportunity; the Corporation's historic ability to generate sales leads or opportunities; and that sales will be completed at or above the Corporation's estimated margins. This list is not exhaustive of the factors that may affect the Corporation's forward-looking information. These and other factors should be considered carefully and readers should not place undue reliance on such forward-looking information. All forward-looking statements made in this Annual Information Form (AIF) are qualified by this cautionary statement and there can be no assurance that actual results or developments anticipated by the Corporation will be realized. The Corporation disclaims any intention or obligation to update or revise forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

OVERVIEW

LED was incorporated under the BCBCA on July 17, 2002 as 651192 B.C. Ltd. and changed its name to LED Medical Diagnostics Inc. on November 6, 2003. LED's head office is located at 235 – 5589 Byrne Road, Burnaby, B.C. V5J 3J1. LED's registered and records office is located at 2500 – 700 West Georgia Street, Vancouver, B.C. V7Y 1B3. LED maintains a warehouse facility at 119 – 5589 Byrne Road, Burnaby, B.C. V5J 3J1. The Company is listed on the TSX Venture Exchange (TSX-V) under the trading symbol LMD.

LED has two wholly-owned operating subsidiaries, LED Dental (US) Ltd., which was incorporated under the laws of Washington State, and LED Dental Inc., which was incorporated under the BCBCA.

General Development of the Business

Headquartered in Burnaby, B.C., LED was founded in 2003 by current CEO and director Peter Whitehead. LED's first product, the VELscope®, is a first step towards LED's goal of becoming a global leader in developing advanced, affordable technology targeted to dental and medical healthcare providers for the detection, diagnosis, and treatment of disease.

Description of the Business

The VELscope tissue fluorescence visualization technology is backed by over $50 million in funding by the National Institutes of Health ("NIH") and other US and Canadian government and private organizations. The NIH, part of the U.S. Department of Health and Human Services, is the primary Federal agency for conducting and supporting medical research in the US. The technology for the VELscope system was developed by LED in partnership with the British Columbia Cancer Agency ("BCCA").

In 2006, VELscope received U.S. FDA and Health Canada clearances. The clearances were pertinent to the VELscope's use of tissue fluorescence visualization technology as a new standard of screening for mucosal abnormalities, potentially malignant tissue and cancerous disease, and for surgical margin delineation. VELscope is the only device on the market indicated for use to discover cancerous and precancerous lesions that might not be apparent to the naked eye, and for use to help determine appropriate surgical areas when excision is required.

The first-generation VELscope device was introduced in 2006. Since then, LED has sold over 12,000 devices, which have been used to conduct over 25 million oral soft tissue exams worldwide. Currently, VELscope fluorescence visualization technology is used to conduct more oral exams than any other adjunctive detection technology in the world.

Since its inception, LED has grown from a research and development, pre-commercial product development company, to its current status as a fast-growing sales and marketing-focused growth-stage company.

Pursuant to an agreement dated November 30, 2010, Henry Schein Dental became the exclusive distributor of the VELscope Vx Enhanced Oral Assessment system in North America. Henry Schein Dental is the U.S. dental business of Henry Schein, Inc. a world leader in the provision of healthcare products and services to office-based practitioners.

LED believes that the success of the VELscope to date has proven that LED is a strong research and development company. Since the VELscope was launched in 2006, LED has commercialized the VELscope Vantage, and, in 2011, the VELscope Vx. The VELscope Vx is portable, rechargeable, and significantly more affordable than previous models. Its increased functionality and lower production costs improve LED's prospects as it moves into other countries and other healthcare markets.

LED markets its products, in conjunction with its distribution partners, directly to dental practitioners. Such direct marketing includes direct mail/e-mail and advertising in industry journals, and personal visits. In most cases, direct marketing activities are oriented towards convincing dental practitioners to attend an education seminar or trade show event in which LED is a participant. LED has found that successful marketing of the VELscope requires marketing efforts geared towards education of dental practitioners, focusing on the advantages of using the device as adjunctive diagnostic tool in the detection of oral diseases. Prior to 2012, LED arranged to host or actively attend over 125 dental industry trade shows and seminars annually. LED's educational seminars are often hosted by both Corporation employees and key opinion leaders in the dental industry who are supportive of LED's products. Due to the Corporation transition to an increased leveraged indirect sales distribution model with DenMat in late 2012, DenMat has been funding and managing the Corporation's marketing activities accordingly.

Products and Intellectual Property

The Company's primary product is the VELscope Vx released in early 2011 and is comprised of fluorescence technology aids in the early visualization of mucosal diseases and enhances effective oral mucosal examinations. The VELscope Vx is a handheld device that provides dentists and hygienists with an easy-to-use adjunctive mucosal examination system for the early detection of abnormal tissue. The patented VELscope technology platform was developed in collaboration with the BCCA and MD Anderson Cancer Center, with funding provided in part by the NIH. It is based on the direct visualization of tissue fluorescence and the changes in fluorescence that occur when abnormalities are present. The VELscope Vx handpiece emits a safe blue light into the oral cavity, which excites the tissue from the surface of the epithelium through to the basement membrane (where premalignant changes typically start) and into the stroma beneath, causing it to fluoresce. The clinician is then able to immediately view the different fluorescence responses to help differentiate between normal and abnormal tissue. In fact, VELscope Vx is the only non-invasive adjunctive device clinically proven to help discover occult oral disease.

VELscope Vx provides a more effective oral cancer screening protocol with immediate benefits for the patient, clinician and practice. When used as an adjunctive aid in combination with traditional oral cancer examination procedures, VELscope Vx facilitates the early discovery and visualization of mucosal abnormalities prior to surface exposure that may be, or may lead to oral cancer. In one or two minutes, with no rinses or stains required, a VELscope examination helps oral healthcare professionals assure their patients that the standard of care for oral mucosal screening has been utilized. Adding to the VELscope's value as an adjunctive device is its ability to aid in the visualization of a wide spectrum of oral trauma and disease. A recent study at the University of Washington demonstrated that the VELscope system is a powerful tool for the discovery of mucosal abnormalities such as viral, fungal and bacterial infections, inflammation from a variety of causes (including lichen planus and other lichenoid reactions), squamous papillomas and salivary gland tumours. VELscope Vx combines minimal per-patient costs with more effective oral mucosal examinations.

The technology used in the VELscope was jointly developed by scientists at the BCCA and LED founder Peter Whitehead. The VELscope technology integrates four concepts: light, sophisticated filtering, natural tissue fluorophores and human optical and neural physiology. Base patents on the technology were awarded in 2000 and fully acquired by LED in 2003. These patents are expected to be valid until at least 2017. Additional patents have been submitted and are pending. The technology platform is based on the direct visualization of tissue fluorescence and the changes in fluorescence that can result when abnormal tissue is present. This technology helps clinicians visualize abnormal oral tissue that is often not apparent under white light.

LED expects that expanding its proprietary visualization technology beyond dental applications will provide gynecologists, gastroenterologists, ear nose and throat specialists, dermatologists and family practitioners with cost-effective tools to aid in the detection of oral cancer and other oral mucosal abnormalities. LED has sought patent protection for its projects by filing one or more patent applications for each aspect of a device, system or method, that LED believes is both patentable and that justifies the costs of patent protection. LED intends to protect future developments in the same manner. LED maintains certain of its intellectual property as trade secrets. LED also has pursued and intends to pursue trademark, copyright and other intellectual property protection as it believes is warranted.

VELscope, VELscope Vantage, and the VELscope Vx technologies are composed of a light source, light guide, and viewing handpiece. The VELscope handpiece emits a safe, visible, blue light into the oral cavity, which excites mucosal tissue and causes it to fluoresce. When viewed through the VELscope handpiece, abnormal tissue typically appears as an irregular, dark area that stands out against the otherwise normal, green fluorescence pattern of surrounding healthy tissue. This difference in appearance allows clinicians to examine the oral cavity in real time and differentiate between healthy mucosa and areas of concern that may require further action. When used in combination with traditional oral mucosal examination procedures, VELscope facilitates the discovery and enhances the visualization of mucosal abnormalities. LED received FDA 510(k) clearance for these claims in April 2007. FDA 510(k) clearance is a premarket notification required for manufacturers of medical devices.

One of LED's most profound commitments is to help reduce the mortality of oral cancer. The services of LED and its partners are directed toward developing a professional outreach program with key university–based oral pathology, oral surgery, and oral medicine leaders worldwide to assist healthcare providers as the need arises. LED is positioned to facilitate the dissemination of new findings that address early detection based on fluorescence and other technologies. Currently over 50% of US dental colleges own at least one VELscope.

SIGNIFICANT EVENTS FOR THE THREE MONTHS ENDED JUNE 30, 2013

Financial Events

- Revenue increased to approximately $1.1 million for the three months ended June 30, 2013, an increase of $250% over the three months ended March 31, 2013 and an increase of 4% compared to approximately $1.0 million over the three months ended June 30, 2012. From November 2010 to September 21, 2012, the Corporation had an exclusive distributorship agreement with Henry Schein for North America and some other key markets. The Company restated its consolidated financial statements for the three months ended June 30, 2012 to correct the revenue recognition for this contract from a sell to distributor model to a sell through to end customer basis as it was unable to reasonably estimate the price adjustments at the time of shipment to Henry Schein (please refer to Restatement of Previously Reported Consolidated Financial Statements section below).
- Core operating expenses (excluding stock-based compensation, deferred share unit compensation, mark to market adjustments on Canadian dollar denominated warrants and other operating expenses)[1] for the three months ended June 30, 2013 decreased by 8% over the three months ended March 31, 2013 and by 30% over the three months ended June 30, 2012. This decrease is primarily due to decreased sales and marketing expenses resulting from the Company transition to DenMat.
- The net loss for the three months ended June 30, 2013 was approximately $2.2 million compared to the net loss of approximately $1.33 million for the three months ended March 31, 2013 and approximately $195,000 for the three months ended June 30, 2012. The Company incurred significant non-cash costs in the period primarily due to the issuance of warrants.
- EBITDA[2] was approximately ($104,000) for the three months ended June 30, 2013 compared to EBITDA[2] of approximately ($638,000) for the three months ended March 31, 2013 and ($495,000) for the three months ended June 30, 2012.
- Cash increased to approximately $1,718,000 as at June 30, 2013 from December 31, 2012 of approximately $970,000.

Financing Highlight

On June 14, 2013, the Corporation announced that it had completed non-brokered private placement of 17 million units at an issue price of $0.15 per unit for gross proceeds of $2.6 million. Each unit is comprised of one common share and one common share purchase warrant with each warrant entitling the holder to acquire one common share at an exercise price of $0.20 for a period of 24 months.

All of the securities issued in connection with the private placement are subject to a restricted period that expires four months after the issuance date.

The proceeds will be used by LED to build out LED's internal sales team, support product development and for working capital purposes.

In connection with the private placement, LED has issued 1.5 million finder's warrants to two arm's length finders. Each finder's warrant will be non-transferable and exercisable into one common share at an exercise price of $0.20 for a period of 24 months.

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[1] Core operating expenses (excluding stock-based compensation, deferred share unit compensation, mark to market adjustments on Canadian dollar denominated warrants and other operation expenses) is a non-IFRS measure that does not have a standard meaning and may not be comparable to a similar measure disclosed by other issuers. This measure does not have a comparable IFRS measure and is used by the Company to manage and evaluate its cash operating expenses.

[2] EBITDA or Earnings before Interest, Taxes, Depreciation and Amortization is a non-IFRS measure that does not have a standardized meaning and may not be comparable to a similar measure disclosed by other issuers. This measure does not have a comparable GAAP measure. EBITDA referenced here relates to operating loss and excludes amortization, depreciation, stock-based compensation, deferred share unit compensation and warrant expense.

Product and Customer Highlights

- On April 24, 2013, the Corporation announced the results of an independent study published in "Oral Surgery, Oral Medicine, Oral Pathology, Oral Radiology" (Vol. 114 No. 3) that confirms the use of quantitative cytology ("QC") testing, as an adjunctive tool, successfully identifying high-risk potentially malignant disorders of the oral mucosa.

- On May 7, 2013, the Corporation cited a recent clinical study documenting the ability of its VELscope® Vx Enhanced Oral Assessment adjunctive technology to detect cancerous and pre-cancerous lesions that are missed by conventional exams.

- On June 10, 2013, the Corporation announced that its patented VELscope® Vx oral examination device is currently involved in a Phase III study sponsored by the University of British Columbia in collaboration with the Terry Fox Research Institute and the British Columbia Cancer Agency.

CHANGE IN FUNCTIONAL REPORTING CURRENCY

The Company has changed the functional currency of the parent company entity from Canadian dollar to United States dollar as of January 1, 2012 to reflect the transition from an entity with some operations to a holding company for the group companies upon the completion of the Reverse Takeover in November 2011. This change was effected prospectively from January 1, 2012 onwards.

The Company also changed their reporting currency on December 31, 2012 from Canadian dollars to United States dollar given LED's listing on the OTC stock exchange in the United States and on the Frankfurt Stock Exchange in early 2013 reflective of LED becoming a global Company. This change also results in increased comparability for LED to other global technology companies.

RESTATEMENT OF PREVIOUSLY REPORTED CONSOLIDATED FINANCIAL STATEMENTS

In the preparation of the Company's consolidated financial statements for the year ended December 31, 2012, management identified historical errors as follows:

- the functional currency of its subsidiary, LED Dental Inc. should have been U.S. dollars rather than Canadian dollars from June 1, 2006;
- the functional currency of LED, should have been U.S. dollars rather than Canadian dollars from January 1, 2012; and,
- revenue recognition for a distributor's agreement which had previously been recognized upon shipment to the distributor has been corrected to be recognized upon sell through to the end customer.

As a result, the Company has restated its consolidated financial statements for the three and six months ended June 30, 2012.

The following table summarizes the impact of the restatement adjustments on the Company's previously reported consolidated financial statements for the three months ended June 30, 2012:

	As reported	Correcting adjustment	As restated
Consolidated statements of loss and comprehensive loss			
Sales	$ 1,773,958	($ 736,170)	$ 1,037,788
Cost of goods sold	668,343	(195,000)	473,343
Depreciation and amortization	13,147	(42)	13,105
Mark to market adjustments on Canadian dollar denominated warrants	-	(296,493)	(296,493)
Foreign exchange gain (loss)	9,645	7,537	17,182
Net and comprehensive income (loss) for the period	42,540	(237,126)	(194,586)
Loss per share – basic and diluted	$0.00	($0.01)	($0.01)

Consolidated statements of shareholders' deficit			
Deficit, beginning of period	($ 23,730,035)	($ 2,255,337)	($25,985,372)
Deficit, end of period	($ 23,687,495)	($ 2,492,463)	($26,179,958)

The following table summarizes the impact of the restatement adjustments on the Company's previously reported consolidated financial statements for the six months ended June 30, 2012:

	As reported	**Correcting adjustment**	**As restated**
Consolidated statements of loss and comprehensive loss			
Sales	$ 3,601,122	($ 1,564,196)	$ 2,036,926
Cost of goods sold	1,449,164	(413,400)	1,035,764
Depreciation and amortization	30,561	(183)	30,378
Mark to market adjustments on Canadian dollar denominated warrants	-	(81,293)	(81,293)
Foreign exchange gain (loss)	(11,111)	(32,015)	(43,126)
Net and comprehensive loss for the period	(344,673)	(1,101,363)	(1,446,036)
Loss per share – basic and diluted	($0.01)	($0.03)	($0.04)
Consolidated statements of shareholders' deficit			
Deficit, beginning of period	($ 23,342,822)	($ 1,391,100)	($24,733,922)
Deficit, end of period	($ 23,687,495)	($ 2,492,463)	($26,179,958)

SELECTED QUARTERLY INFORMATION

The information in the tables below has been derived from the Company's unaudited condensed consolidated interim financial statements. The Company's quarterly operating results have varied substantially in the past and may vary substantially in the future. Accordingly, the information below is not necessarily indicative of results for any future quarter.

Eight Quarter Segmented Information

Consolidated Statements of Financial Position

(in US$ '000's)	**June 30, 2013**	**March 31, 2013**	**December 31, 2012**	**September 30, 2012** *(Restated)*	**June 30, 2012** *(Restated)*	**March 31, 2012** *(Restated)*	**December 31, 2011** *(Restated)*	**September 30, 2011** *(Restated)*
Cash	$1,718	$607	$970	$395	$754	$921	$976	$216
Working capital	$972	($1,109)	($97)	($1,095)	($1,870)	($1,392)	($356)	($1,080)
Total assets	$3,550	$1,996	$3,490	$2,501	$3,436	$2,453	$2,766	$2,356
Long-term financial liabilities	$2,289	$108	$147	$70	$64	$361	$10	$10
Shareholders' deficit	($1,219)	($1,110)	($128)	($1,035)	($1,789)	($1,594)	($206)	($940)

Consolidated Statements of Operations and Deficit

(in US$ '000's, except earnings per share)	**Three months ended June 30 2013**	**Three months ended March 31, 2013**	**Three months ended December 31, 2012**	**Three months ended September 30, 2012** *(Restated)*	**Three months ended June 30, 2012** *(Restated)*	**Three months ended March 31, 2012** *(Restated)*	**Three months ended December 31, 2011** *(Restated)*	**Three months ended September 30, 2011** *(Restated)*
Revenue	$1,083	$309	$1,390	$2,886	$1,038	$999	$1,427	$1,127
Cost of sales	447	146	748	962	473	562	803	373
Gross margin	636	163	642	1,924	565	437	624	754
Expenses	2,807	1,412	818	1,135	776	1,630	1,478	1,413
Operating income (loss)	($2,171)	($1,249)	($176)	$789	($211)	($1,193)	($854)	($659)
Other expenses (earnings)	29	82	(1)	22	(16)	58	2,241	(1,299)
Income tax expense	1	3	-	13	-	-	28	-
Net income (loss)	($2,201)	($1,334)	($175)	$754	($195)	($1,251)	($3,123)	$640
Net Income (loss) per share (basic and fully diluted)	($0.05)	($0.03)	$0.00	$0.02	($0.01)	($0.03)	($0.09)	$0.02

FINANCIAL RESULTS FOR THE THREE MONTHS ENDED JUNE 30, 2013 (UNAUDITED)

The following analysis of the results of operations for the three months ended June 30, 2013 includes comparisons to the three months ended March 31, 2013 and June 30, 2012.

Revenue

Revenues are derived from the sale of the Company's VELscope product and related consumable products which are disposal components for singular use of the VELscope product. LED launched the new version of its primary product, the VELscope Vx, in January of 2011. Revenue is expressed net of distributor volume rebates and price discounts of approximately $6,268, $9,659 and $285,537 in the three months ended June 30, 2013, March 31, 2013 and June 30, 2012, respectively.

	Three months ended June 30, 2013	Three months ended March 31, 2013	Three months ended June 30, 2012 (Restated)
Total revenue	**$1,082,883**	**$309,590**	**$1,037,788**

To date, the Company has had a significant portion of its revenue derived from sales to its distributor in North America. While the Company continues to focus its efforts on expanding to new markets, it is expected that in the near-term, revenue generation will continue to be concentrated from a small number of distributors. In each respective period, revenues from customers which amounted to 10% or more of the Company's revenues accounted for the following percentages of the Company's total revenues and are primarily attributable to its two North American distributors for the three months ended June 30, 2013, March 31, 2013 and June 30, 2012, with the Company transitioning from Henry Schein to DenMat in late fiscal 2012.

	Three months ended June 30, 2013	Three months ended March 31, 2013	Three months ended June 30, 2012 (Restated)
Revenue	$1,019,873	$238,453	$944,219
Percentage of total revenue	**94%**	**77%**	**91%**

For the three months ended June 30, 2013, March 31, 2013 and June 30, 2012, the Company generated the majority of its revenue from the American and Canadian markets which is consistent with the prior periods.

Gross Margin[3]

The Company experienced gross margin for the following periods:

	Three months ended June 30, 2013	%	Three months ended March 31, 2013	%	Three months ended June 30, 2012 (Restated)	%
Revenues	$ 1,082,883	100%	$ 309,590	100%	$ 1,037,788	100%
Cost of sales	446,509	41%	146,366	47%	473,343	46%
Gross margin	**$ 636,374**	**59%**	**$ 163,224**	**53%**	**$ 564,445**	**54%**

LED had a higher percentage margin on sales for the three months ended June 30, 2013 due to a higher percentage of revenue from the sale of consumables at higher margin relative to its VELscope Vx device product than the three months ended March 31, 2013 and June 30, 2012. Gross margin percentage is due to a variety of factors, most importantly increased optimization of the VELscope Vx product and the resulting production costs, and the accompanying sales and pricing strategy.

[3] Gross margin is a non-IFRS measure that does not have a standard meaning and may not be comparable to a similar measure disclosed by other issuers. Gross margin referenced here relates to revenues less cost of sales. This measure does not have a comparable IFRS measure and is used by the Company to manage and evaluate the operating performance of the Company.

Expenses

	Three months ended June 30, 2013	Three months ended March 31, 2013	Three months ended June 30, 2012 (Restated)
Sales and marketing	$ 327,299	$ 332,036	$ 667,526
Research and development	110,794	89,757	141,158
Administration	302,145	379,728	250,588
Stock-based compensation	200,462	351,331	-
Deferred share unit compensation	27,850	287,581	-
Mark to market adjustments on Canadian dollar denominated warrants	1,795,163	(38,229)	(296,493)
Other operating expenses	43,743	9,640	13,105
Total expenses	**$2,807,456**	**$1,411,844**	**$ 775,884**
As a percentage of total revenue	**259%**	**456%**	**75%**

Sales and marketing costs decreased by approximately $4,700, research and development costs increased by approximately $21,000 and administration expenses decreased by approximately $77,600 during the three months ended June 30, 2013 as compared to the three months ended March 31, 2013.

Sales and marketing costs decreased by approximately $340,200, research and development costs decreased by approximately $30,400 and administration expenses increased by approximately $51,600 during the three months ended June 30, 2013 as compared to the three months ended June 30, 2012.

The decreases in sales and marketing, research and development were largely a result of the reduction of operating expenses that were no longer required by the Company due to its transition to the DenMat relationship while increase in administration is due to increased professional fees.

Core Operating Expenses

	Three months ended June 30, 2013	Three months ended March 31, 2013	Three months ended June 30, 2012 (Restated)
Sales and marketing	$ 327,299	$ 332,036	$ 667,526
Research and development	110,794	89,757	141,158
Administration	302,145	379,728	250,588
Total core operating expenses	**$ 740,238**	**$ 801,521**	**$1,059,272**
As a percentage of total revenue	**68%**	**259%**	**102%**

Sales and Marketing

	Three months ended June 30, 2013	Three months ended March 31, 2013	Three months ended June 30, 2012 (Restated)
Sales and marketing	$ 327,299	$ 332,036	$ 667,526
As a percentage of total revenue	**30%**	**107%**	**64%**

Prior to the Company's transition to the DenMat distribution relationship in late 2012, the Company maintained a direct sales force, with staff in the United States and Canada which supported the worldwide sales and marketing activities. Sales and marketing expense consists primarily of salaries and related personnel costs, sales commissions, consulting fees, trade show expenses, marketing collateral, advertising costs and facilities.

The decrease in sales and marketing expense in three months ended June 30 and March 31, 2013 over the three months ended June 30, 2012 was primarily due to a decrease in employee related costs, commissions, travel and entertainment, advertising and promotion and office costs and is attributable to the Company's transition to the DenMat distribution relationship in late 2012.

DenMat's partnership will allow most of the expenses that are attributed to sales and marketing, tradeshow and street sales activity absorbed by DenMat. The Company will concentrate on the less expensive sales and marketing methods such as Call Center and direct mailing. The overhead for DenMat's activity has been lumped into the margin thus giving the Company transparency to recognized revenue.

Research and Development

	Three months ended June 30, 2013	Three months ended March 31, 2013	Three months ended June 30, 2012 (Restated)
Research and development	$ 110,794	$ 89,757	$ 141,158
As a percentage of total revenue	**10%**	**29%**	**14%**

The Company has a small research and development group located in Canada. Research and development expenses relate primarily to salaries and related benefit costs, as well as a portion of the Company's overall facilities costs. The decrease in research and development costs during the three months ended June 30, 2013 over the comparative period in 2012 is attributable to managing product cycle lifetime as well as decrease in employee head count. The increase in research and development costs during the three months ended June 30, 2013 over March 31, 2013 was largely due to payment of annual regulatory fees and licenses as well as using a consultant for the annual product quality audit.

Administration

	Three months ended June 30, 2013	Three months ended March 31, 2013	Three months ended June 30, 2012 (Restated)
Administration	$ 302,145	$ 379,728	$ 250,588
As a percentage of total revenue	**28%**	**123%**	**24%**

Administration expenses include executive and administrative staff, facilities, public company costs, insurance, corporate variable compensation accruals, accounting and legal fees as well as various general administrative costs. The increase in three month ended March 31, 2013 over three months ended June 30, 2013 and 2012 was primarily due to financial consultants costs during the three months ended March 31, 2013.

Other Operating Expenses

	Three months ended June 30, 2013	Three months ended March 31, 2013	Three months ended June 30, 2012 (Restated)
Depreciation of equipment	$ 3,189	$ 3,189	$ 6,654
Amortization of intangible assets	6,451	6,451	6,451
Warrants issuance costs	34,103	-	-
Total other operating expenses	**$ 43,743**	**$ 9,640**	**$ 13,105**

EBITDA[2]

EBITDA[2] was ($103,864) for the three months ended June 30, 2013 compared to ($638,297) for the three months ended March 31, 2013 and ($494,827) for the three months ended June 30, 2012.

	Three months ended June 30, 2013	Three months ended March 31, 2013	Three months ended June 30, 2012 (Restated)
Operating loss	($2,171,082)	($1,248,620)	($211,439)
Add back: Other operating expenses	43,743	9,640	13,105
Add back: Mark to market adjustments on Canadian dollar denominated warrants	1,795,163	(38,229)	(296,493)
Add back: Stock-based compensation	200,462	351,331	-
Add back: Deferred share unit compensation	27,850	287,581	-
EBITDA[2]	**($ 103,864)**	**($ 638,297)**	**($ 494,827)**

The increase in EBITDA[2] was primarily due to increased revenues.

Other Income (Expenses)

	Three months ended June 30, 2013	Three months ended March 31, 2013	Three months ended June 30, 2012 (Restated)
Foreign exchange gain (loss)	($28,615)	($ 82,456)	$17,182
Loss on disposal of assets	-	-	(702)
Miscellaneous income (expenses)	-	-	373
Total other earnings (expenses)	**($ 28,615)**	**($ 82,456)**	**$ 16,853**

Net other expenses for the three months ended June 30, 2013 was attributable to a foreign exchange loss of $28,615. Net other expenses for the three months ended March 31, 2013 was attributable to a foreign exchange loss of $82,456. Net other earnings for the three months ended June 30, 2012 was attributable to a foreign exchange gain of 17,182 and miscellaneous income of $373 offset by loss on disposal of assets of $702.

Net Loss	Three months ended June 30, 2013	Three months ended March 31, 2013	Three months ended June 30, 2012 (Restated)
Net loss	($ 2,201,139)	($ 1,333,774)	($ 194,586)
Loss per share (basic and fully diluted)	($0.05)	($0.03)	($0.01)

Net loss for the three months ended June 30, 2013 was $2,201,139 or $0.05 loss per share compared to a loss of $1,333,774 or $0.03 loss per share for the three months ended March 31, 2013 and a loss of $194,586 or $0.01 loss per share for the three months ended June 30, 2012.

Net loss for the three months ended June 30, 2013 was higher than the three months ended March 31, 2013 and June 30, 2012 due primarily to the issuance of warrants in the three months ended June 30, 2013.

FINANCIAL RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2013 (UNAUDITED)

The following analysis of the results of operations for the six months ended June 30, 2013 includes comparisons to the six months ended June 30, 2012.

Revenue

Revenues are derived from the sale of the Company's VELscope product and related consumable products which are disposal components for singular use of the VELscope product. LED launched the new version of its primary product, the VELscope Vx, in January of 2011. Revenue is expressed net of distributor volume rebates, price discounts and warrant expense on distributor warrants of approximately $16,000 in the six months ended June 30, 2013 and approximately $741,000 in six months ended June 30, 2012.

	Six months ended June 30, 2013	Six months ended June 30, 2012 (Restated)	Change
Total revenue	**$1,392,473**	**$2,036,926**	**(32%)**

Revenues decreased in the six months ended June 30, 2013 from the six months ended June 30, 2012 primarily due to revised pricing strategy resulting from transitioning to DenMat in September 2012.

Prior to its transition to its DenMat distribution relationship in late 2012, the Company maintained a direct sales force, with staff in the United States and Canada which supported the worldwide sales and marketing activities. Sales and marketing expense consists primarily of salaries and related personnel costs, sales commissions, consulting fees, trade show expenses, marketing collateral, advertising costs and facilities.

The decrease in sales and marketing expense in three months ended June 30 and March 31, 2013 over the three months ended June 30, 2012 was primarily due to a decrease in employee related costs, commissions, travel and entertainment, advertising and promotion and office costs and is attributable to the Company's transition to the DenMat distribution relationship in late 2012.

DenMat's partnership will allow most of the expenses that are attributed to sales and marketing, tradeshow and street sales activity absorbed by DenMat. The Company will concentrate on the less expensive sales and marketing methods like call center and direct mailing. The overhead for DenMat's activity has been lumped into the margin thus giving the Company transparency to recognized revenue.

To date, the Company has had a significant portion of its revenue derived from sales to its distributor in North America. While the Company continues to focus its efforts on expanding to new markets, it is expected that in the near-term, revenue generation will continue to be concentrated from a small number of distributors. In each respective period, revenues from customers which amounted to 10% or more of the Company's revenues accounted for the following percentages of the Company's total revenues and is primarily attributable to its North American distributor:

	Six months ended June 30, 2013	Six months ended June 30, 2012 (Restated)	Change
Revenue	$1,258,326	$1,773,509	(29%)
Percentage of total revenue	**90%**	**87%**	

The Company earned revenues attributed to the following geographical regions based on the location of the customer:

	Six months ended June 30, 2013	%	Six months ended June 30, 2012	%	Change
North America	$1,392,473	100%	$2,035,837	100%	(32%)
Rest of World	-	-%	1,089	<1%	(100%)
	$1,392,473	**100%**	**$2,036,926**	**100%**	**(32%)**

The Company generated the majority of its revenue from the North American markets which is consistent with the prior periods.

Gross Margin

The Company experienced gross margin for the following periods:

	Six months ended June 30, 2013	%	Six months ended June 30, 2012	%	Change
Revenues	$ 1,392,473	100%	$ 2,036,926	100%	(32%)
Cost of goods sold	592,875	43%	1,035,764	51%	(43%)
	$ 799,598	**57%**	**$ 1,001,162**	**49%**	**(20%)**

LED had a higher percentage margin on sales for the six months ended June 30, 2013 due to a higher percentage of revenue from the sale of consumables at higher margin relative to its VELscope Vx device product than the six months ended June 30, 2012. Gross margin percentage increase is also due to a variety of factors, particularly being improved resource utilization with the resulting production costs, and the accompanying sales and pricing strategy.

Expenses

The Company reports its operating expenses as follows:

	Six months ended June 30, 2013	Six months ended June 30, 2012 (Restated)	Change
Sales and marketing	$ 659,335	$ 1,550,841	(57%)
Research and development	200,551	315,145	(36%)
Administration	681,873	591,061	15%
Stock-based compensation	551,793	-	N/A
Deferred share unit compensation	315,431	-	N/A
Mark to market adjustments on Canadian dollar denominated warrants	1,756,934	(81,293)	2,261%
Other operating expenses	53,383	30,378	75%
Total expenses	**$4,219,300**	**$2,406,132**	**75%**
As a percentage of total revenue	**303%**	**118%**	

Core Operating Expenses

	Six months ended June 30, 2013	Six months ended June 30, 2012 (Restated)	Change
Sales and marketing	$ 659,335	$ 1,550,841	(57%)
Research and development	200,551	315,145	(36%)
Administration	681,873	591,061	15%
Total expenses (excluding other operating expenses)	**$1,541,759**	**$2,457,047**	**(37%)**
As a percentage of total revenue	**111%**	**121%**	

Total core operating expenses decreased by 37% for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012. In particular, sales and marketing activities decreased by approximately $892,000, research and development costs decreased by approximately $115,000 while administration expenses increased by approximately $91,000.

Sales and Marketing

	Six months ended June 30, 2013	Six months ended June 30, 2012 (Restated)	Change
Sales and marketing	$ 659,335	$ 1,550,841	(57%)
As a percentage of total revenue	**47%**	**76%**	

The decrease in sales and marketing expenses in the six months ended June 30, 2013 over the same period in the prior year was primarily due to a decrease in employee related costs, commissions, travel and entertainment, advertising and promotion and office costs and is attributable to the Company's transition to the DenMat distribution relationship in late 2012.

Research and Development

	Six months ended June 30, 2013	Six months ended June 30, 2012 (Restated)	Change
Research and development	$ 200,551	$ 315,145	(36%)
As a percentage of total revenue	**14%**	**15%**	

The decrease in research and development costs during the six months ended June 30, 2013 over the same period in the prior year was attributable largely to the research and development costs incurred after the VELscope Vx product launch in early 2012 that pertained to the Company's continued evolution of its VELscope product offering and the future expansion into new markets of its technology.

Administration

	Six months ended June 30, 2013	Six months ended June 30, 2012 (Restated)	Change
Administration	$ 681,873	$ 591,061	15%
As a percentage of total revenue	**49%**	**29%**	

The increase over the prior period was primarily due to a one-time reversal of approximately $134,000 of previously recorded liability during three months ended June 30, 2012 resulting from receiving confirmation of debt forgiveness from the vendor offset by an increase in other administrative costs.

Other Operating Expenses

	Six months ended June 30, 2013	Six months ended June 30, 2012 (Restated)	Change
Depreciation of equipment	$ 6,378	$ 17,476	(64%)
Amortization of intangible assets	12,902	12,902	0%
Warrants issuance costs	34,103	-	N/A
Total other operating expenses	**$ 53,383**	**$ 30,378**	**76%**

EBITDA[2]

EBITDA[2] was ($742,161) for the six months ended June 30, 2013 compared to ($1,455,885) for the six months ended June 30, 2012.

	Six months ended June 30, 2013	Six months ended June 30, 2012 (Restated)	Change
Operating loss	($ 3,419,702)	($ 1,404,970)	143%
Add back: Other operating expenses	53,383	30,378	76%
Add back: Mark to market adjustments on Canadian dollar denominated warrants	1,756,934	(81,293)	2,261%
Add: Deferred share unit compensation	315,431	-	N/A
Add: Stock-based compensation	551,793	-	N/A
EBITDA[2]	**($ 742,161)**	**($ 1,455,885)**	**49%**

The increase in EBITDA[2] was primarily due to decreased cost of goods sold, sales and marketing and research and development expenses but lower revenues in the six months ended June 30, 2013 over the same period in the prior year.

Other Income (Expenses)

	Six months ended June 30, 2013	Six months ended June 30, 2012 (Restated)	Change
Foreign exchange gain (loss)	($111,071)	($ 43,126)	158%
Interest income	-	287	(100%)
Loss on disposal of assets	-	(702)	100%
Miscellaneous income (expenses)	-	2,475	(100%)
Total other income (expenses)	**(111,071)**	**($ 41,066)**	**170%**

Total other expenses for the six months ended June 30, 2013 was attributable to a foreign exchange loss of $111,071. Total other expenses for the six months ended June 30, 2012 was attributable to a foreign exchange loss of $43,126 and loss on disposal of assets of $702 offset by miscellaneous income $2,475 and interest income of $287.

Net Loss and Comprehensive Loss

Net loss and comprehensive loss was $3,534,913 for the six months ended June 30, 2013 compared to $1,446,036 for the six months ended June 30, 2012.

	Six months ended June 30, 2013	Six months ended June 30, 2012 (Restated)	Change
Net loss and comprehensive loss	**($ 3,534,913)**	**($ 1,446,036)**	**144%**

Net loss and comprehensive loss for the six months ended June 30, 2013 was higher than the six months ended June 30, 2012 due to primarily the issuance of warrants.

LIQUIDITY AND CAPITAL RESOURCES

The Company finances its operations and capital expenditures through cash generated from operations and equity financings. As at June 30, 2013, the Company had cash of approximately $1,718,000 with working capital[4] of approximately $972,000 as compared to cash of approximately $607,000 and negative working capital[4] of approximately $1,108,600 as at March 31, 2013 and cash of approximately $754,000 and negative working capital[4] of approximately $1,870,000 as at June 30, 2012.

Three months ended June 30, 2013

Cash provided by (used in):	Three months ended June 30, 2013	Three months ended March 31, 2013	Three months ended June 30, 2012 (Restated)
Operating activities	($ 1,131,399)	($ 362,091)	($ 166,134)
Investing activities	(1,024)	105	101
Financing activities	2,243,948	(688)	(584)
Increase (decrease) in cash	**$ 1,111,525**	**($ 362,674)**	**($ 166,617)**

Cash used in operating activities for all comparable periods was attributable to revenues earned offset by operating expenditures primarily consisting of sales and marketing costs and overall corporate administration activities.

The investing activities during the three months ended June 30, 2013 pertain to the purchasing of equipment offset by restricted cash being freed up. There was minimal investing activities during the three months ended March 31, 2013 and June 30, 2012 which consisted of restricted cash being freed up.

The financing activities during the three months ended June 30, 2013 relate primarily to issuance of common shares and share purchase warrants offset by finance lease payments. The financing activities during the three months ended March 31, 2013 and June 30, 2012 relate to finance lease payments.

[4] Working Capital is a non-IFRS measure that does not have a standardized meaning and may not be comparable to a similar measure disclosed by other issuers. This measure does not have a comparable IFRS measure. Working capital is defined as current assets less current liabilities. The Company believes that the inclusion of this no-IFRS measure financial measure provides investors with an alternative presentation useful to investors' understanding of the Company's core operating results and trends.

Six months ended June 30, 2013

Cash provided by (used in):	Six months ended June 30, 2013	Six months ended June 30, 2012
Operating activities	($ 1,493,490)	($ 118,133)
Investing activities	(919)	2,912
Financing activities	2,243,260	(106,522)
Increase (decrease) in cash and cash equivalents	**$ 748,851**	**($ 221,743)**

Cash used in operating activities for comparable periods was attributable to revenues earned offset by operating expenditures primarily consisting of sales and marketing costs to market the Company's new VELscope Vx product, and overall corporate administration activities.

The investing activities during the six months ended June 30, 2013 and 2012 pertain to the Company purchasing equipment offset by restricted cash being freed up.

The financing activities during the six months ended June 30, 2013 is attributable to private placement proceeds offset by repayment of finance lease obligation. The financing activities during the six months ended June 30, 2012 relate to the repayment of capital lease obligations and shareholder loans.

STAFFING LEVELS

The following table summarizes the Company's headcount, by functional group:

	As at June 30, 2013	As at March 31, 2013	As at June 30, 2012
Sales and marketing	8	7	13
Research and development	1	1	2
Administration	5	4	5
Total	**14**	**12**	**20**

COMMITMENTS

The Company continues to have no bank debt, off-balance sheet financing arrangements or significant capital leases. The Company has leased facilities in Canada. Minimum lease payments as at June 30, 2013 are $2,172 for the year ending December 31, 2013. As well, the Company has finance lease payments totaling $8,450 as June 30, 2013.

OFF-BALANCE SHEET ARRANGEMENTS

None.

TRANSACTIONS WITH RELATED PARTIES

Related parties include key management, the Board of Directors, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions.

During the three and six months ended June 30, 2013 and 2012, the Company paid or accrued the following compensation expenses to key personnel of the Company:

	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Short-term compensation*	$ 61,562	$ 108,483	$ 154,668	$ 197,258
Post employment benefits	$ Nil	$ Nil	$ Nil	$ Nil
Other long-term benefits	$ Nil	$ Nil	$ Nil	$ Nil
Termination benefits	$ Nil	$ Nil	$ Nil	$ Nil
Share-based payments	$ Nil	$ Nil	$ 346,670	$ Nil

(*) The Company entered into an employment agreement with the CEO in which the CEO would earn royalties equal to 2% of all VELscope sales. Included in short-term benefits are accrued royalties of ($20,640) during the three months ended June 30, 2013 (three months ended June 30, 2012 - $25,144) and ($20,640) during the six month ended June 30, 2013 (six month ended June 30, 2012 - $50,886) with the 2013 balances attributable to the revenue restatement by the Company for the year ended December 31, 2012.

During six months ended June 30, 2013 a total of 1,705,000 options awarded to directors and key management under the Company's stock option plan (six months ended June 30, 2012 - nil). There were no options awarded to directors and key management under the Company's stock option plan during the three months ended June 30, 2013 and 2012.

PROPOSED TRANSACTIONS

None.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

These interim condensed consolidated financial statements of the Company, approved by the Board of Directors on August 23, 2013, have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34").

These interim condensed consolidated financial statements have been prepared using the historical cost basis and accrual basis and the accounting policies set out below have been applied consistently to all periods presented in these interim condensed consolidated financial statements.

Revenue Recognition

The Company recognizes revenue when it has transferred significant risks and rewards of ownership, legal title has passed, it retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company, and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Company generates revenues from sales made both through distributors and directly to customers. All sales are recorded at the net of sales incentives such as volume rebates and other discounts. Management uses its best estimate of expected sales incentives to estimate the sales price. Estimated future volume rebates are estimated at the time of the sale of the medical devices which has been at the maximum of discounts available.

The Company defers revenue and costs relating to sales if there are sales incentives that cannot be reasonably estimated at the time the goods are shipped. In these cases, revenue is recognized upon the distributor remitting product resale price and customer shipment information, which is upon sale to the end customer. When the cash has been received from the distributor for the goods shipped the Company defers the revenue as advances from the distributor. The future revenues that will ultimately

be recognized in the Company's consolidated statement of operations may be different than the amount shown on the consolidated statement of position as advances from the distributor, due to the actual price adjustments issued to the distributor when the product is sold to their customers. For contracts where distributors are granted only limited price credits such that that level can be reasonably estimated at the time goods are shipped, the Company recognizes revenue at the time of shipment to the distributor.

Stock-based payments

The Company operates an employee stock option plan. Historically, stock-based payments to employees have been measured at the fair value of the instruments issued and amortized over the vesting periods. Currently, there are no stock-based payments to employees. Stock-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the stock-based payment reserve. The fair value of options is determined using the Black–Scholes option pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

The Black-Scholes Model was developed for use in estimating the fair value of stock options and compensatory warrants that have no vesting provisions and are fully transferable. Also, option-pricing models require the use of estimates and assumptions including the expected volatility. Due to the Company's limited history, the Company uses expected volatility rates which are based upon the average volatility rates of other companies in the same industry. Changes in the underlying assumptions can materially affect the fair value estimates.

Warranty provision

The Company provides its customers with warranty protection on its products. The warranties cover a period of one to two years. The Company estimates warranty expense based on past experience and records a liability in respect of estimated future warranty costs. The actual cost that the Company may incur and the timing of the repairs to be carried out may differ significantly from the estimated accrual.

Intangible Assets

Intangible assets acquired either individually or with a group of other assets are initially recognized or measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values.

Intangible assets with finite useful lives are amortized over their estimated useful lives. Amortization is calculated over their useful lives using the straight-line method and the following periods. The amortization methods and estimated useful lives of intangible assets are reviewed annually. Intangible assets are tested for impairment by comparing their carry values to the sum of the undiscounted cash flows expected to result from their use or eventual disposition. If not recoverable, the impairment charge is the difference between the carrying value and fair value.

Intangible assets, which consist of patents, intellectual property and related know-how, have finite lives and are measured at cost less accumulated amortization and accumulated impairment losses.

Intangible assets are being amortized using the straight line method over a 13 year period commencing in 2004.

New Standards and Interpretations Not Yet Adopted

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company is currently assessing the impact of the following standards on the consolidated financial statements and intends to adopt these standards when they become effective.

IFRS 9 – Financial Instruments

IFRS 9 - *Financial Instruments* replaces the current IAS 39 *Financial Instruments Recognition and Measurement*. The standard introduces new requirements for classifying and measuring financial assets and liabilities. The Company will start the application of IFRS 9 in the financial statements effective from January 1, 2015. The Company has not yet evaluated the impact on the financial statements.

IAS 32 - Financial Instruments: Offsetting Financial Assets and Financial Liabilities

IAS 32 - *Financial Instruments: Offsetting Financial Assets and Financial Liabilities* provides further clarification on the application of the offsetting requirements. The Company will start the application of IAS 32 in the financial statements effective from January 1, 2014. The Company has not yet evaluated the impact on the financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Classification of financial instruments

Financial assets included in the statement of financial position are as follows:

	June 30, 2013	December 31, 2012
Cash and cash equivalents		
Cash	$ 1,718,435	$ 969,584
Restricted cash	4,754	5,026
Loans and receivables:		
Receivables	940,698	1,514,577
	$ 2,663,887	$ 2,489,187

Financial liabilities included in the statement of financial position are as follows:

	June 30, 2013	December 31, 2012
Non-derivative financial liabilities:		
Trades payable	$ 993,264	$ 1,387,747
Finance lease obligations	8,450	9,861
	$ 1,001,714	$ 1,397,608

Fair value

The fair value of the Company's financial assets and liabilities approximates their carrying amount.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

Financial instruments classified as Level 1 – quoted prices in active markets include cash.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risks arising from its cash and restricted cash and receivables. The Company manages credit risk by placing cash with major Canadian financial institutions. With respect to receivables, the Company performs ongoing credit evaluations of its customers' financial condition.

The Company monitors collectability of receivables on an on-going basis to determine credit risk. In order to mitigate credit risk, the Company offers credit terms to established customers. Other customers are required to pay in advance or by credit card, prior to shipping of the product. At June 30, 2013, no accounts receivable are due beyond one year.

As at June 30, 2013 and December 31, 2012, the Company's exposure to credit risk for these financial instruments was as follows:

	June 30, 2013	December 31, 2012
Cash	$ 1,718,435	$ 969,584
Restricted cash	4,754	5,026
Receivables	940,698	1,514,577
	$ 2,663,887	**$ 2,489,187**

Trade accounts receivable balances of $748,881 as at June 30, 2013 (December 31, 2012 - $1,011,172) were aged as follows in the below table. It does not include financing proceeds receivable of $172,829 and goods and services tax receivable of $18,988 as at June 30, 2013 (December 31, 2012 – $425,701 and $77,704 respectively).

	June 30, 2013	December 31, 2012
Current	$ 503,705	$ 314,365
31-60 days	145,250	565,152
Over 60 days	99,926	131,655
	$ 748,881	**$ 1,011,172**

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company manages its liquidity risk associated with its financial liabilities through the use of cash flow generated from operations, and the issuance of additional equity primarily through private placements, as required to meet the payment requirements of maturing financial liabilities.

The contractual maturities of the Company's trade payables as at June 30, 2013 are listed below.

Trades payable was aged as follows as at June 30, 2013 and December 31, 2012 and does not include accrued liabilities of $245,057, DSU compensation of $315,431, warranty provision of $14,709 and state sales tax payable of $5,963 as at June 30, 2013 (December 31, 2012 - $279,312, $15,550 and $6,400 respectively) which are all current:

	June 30, 2013	December 31, 2012
Current	$ 274,212	$ 500,309
31-60 days	46,590	236,348
Over 60 days	672,462	651,090
	$ 993,264	**$ 1,387,747**

The following is an analysis of the contractual maturities of the Company's non-derivative accrued liabilities as at June 30, 2013:

	Within one year	Between one and five years
Trades payable	$ 993,264	$ -
Finance lease obligations	3,317	5,133
	$ 996,581	**$ 5,133**

The ability of the Company to make the aforementioned payment requirements related to maturing financial liabilities in the near term is dependent on the ability to obtain a line of credit and other debt instruments and the timing of cash flows from operations. The ability to obtain additional financing is dependent on continued access to debt and/or equity markets which may not be available on acceptable terms. In the event that debt or equity capital is not available on acceptable terms, the Company may need to explore other strategic alternatives.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk is limited to the portion of the Company's cash held in bank accounts that earn interest.

Due to the limited and short term nature of these financial instruments, fluctuations in the interest rates will not have a significant impact on their fair value. As at June 30, 2013, the Company had not entered into any derivative contracts to manage this risk.

Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and the United States. The Company's functional currency is the U.S. dollar. The Company has not hedged its exposure to currency fluctuations.

Assuming that all other variables remain constant, a 10% change in the value of the Canadian dollar against the U.S. dollar would not materially affect the loss from operations.

DISCLOSURE OF OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares, without par value and an unlimited number preference shares without par value. As of August 23, 2013, the Company has 57,985,508 common shares outstanding and no preference shares outstanding.

The Company has instituted a rolling incentive stock option plan whereby shares reserved for issuance under the plan shall reflect 10% of the issued and outstanding common shares of the Company from time to time. As of August 23, 2013, the Company is entitled to grant incentive stock options for 5,798,551 common shares under the Company's stock option plan with a total of 3,148,000 options being issued and outstanding and has issued 950,000 deferred share units under the Company's Deferred Share Unit Plan. The Company also has 20,590,201 warrants outstanding.

RISKS AND UNCERTAINTIES

An investment in the securities of the Company may be regarded as speculative due to the Company's stage of development. Risk factors relating to the Company could materially affect the Company's future results and could cause them to differ materially from those described in forward-looking statements relating to the Company. Prospective investors should carefully consider these risks.

The following are some of the risks that are associated with the Company's business and operations and should be carefully considered by any potential investor in the Company's shares:

History of Losses

The Company has a history of losses, and there can no assurance that the Company's losses will not continue in the future. As at June 30, 2013, the Company had an accumulated deficit of approximately $29.1 million. The Company's prospects must be considered in the context of its stage of development, the risks and uncertainties it faces, and the inability of the Company to accurately predict its operating results in the results of product development and sales and marketing initiatives. There can be no assurances that implementation of the Company's strategies will result in the Company becoming profitable. The Company uses cash raised in equity markets to partially fund working capital. If adequate funds are not available when required or on acceptable terms, the Company may be required to delay, scale back or terminate its product development activities and sales and marketing efforts, and may be unable to continue operations. There can be no assurance that the Company will be able to obtain the additional financial resources required to compete in its markets on favourable commercial terms or at all. Any equity offering may result in dilution to the ownership interests of shareholders and may result in dilution of the value of such interests. The availability, or lack thereof, of bank credit, additional supplier credit, or additional equity investment could adversely affect the Company's ability to meet its business objectives. Recent market events and conditions, including disruptions in the Canadian and international credit markets and other financial systems and the deterioration of the Canadian and global economic conditions, could, among other things, impede access to capital or increase the cost of capital, which would have an adverse effect on the Company's ability to fund its working capital and other capital requirements. The Company's access to additional capital may not be available on terms acceptable to the Company or at all.

Operational Risk

In the normal course of business, LED's operations continue to be influenced by a number of internal and external factors, and are exposed to risks and uncertainties, that can affect its business, financial condition and operating results. LED's activities are subject to ongoing operational risks, including the performance of key suppliers, product performance, government and other industry regulations, all of which may affect its ability to meet its obligations. While management believes its innovation and technology make it a leader in the industry, revenue and results may be affected if products are not accepted in the market place, are not approved by regulatory authorities, or if products are not brought to market in a timely manner. LED is reliant on a small number of key employees, the loss of any one of whom could materially affect operating results and the ability to design and manufacture new products.

Distributor Risks

LED distributes its product in the North American market through an exclusive arrangement with one large distributor. In the event this distributor is unable or unwilling to promote and deliver the product to end customers, the Company's financial condition and operating results could be materially impacted. LED is seeking distribution partners in order to expand its business internationally. There can be no assurance the Company will be successful in finding such partners, nor that any such partners will be successful in managing the nuances of their markets to ensure the success of the Company's products in those markets.

Disruptions in Production

Factors that affect the production and sale of LED's products which could result in decreases in profitability include: (a) Acts of God; (b) the expiration or termination of leases, contracts, permits or licences; (c) sales price redeterminations; (d) future litigation; (e) work stoppages or other labour difficulties; (f) disputes with suppliers, distributors and subcontractors; (g) political risk with offshore suppliers; (h) reliance on suppliers with highly technical and not easily replaceable expertise; and (i) changes in the market and general economic conditions. Weather conditions, equipment replacement or repair and fires can have a significant impact on operating results.

Seasonality

Sales may have seasonal components which may result in significant variances in quarterly operating results and may also significantly increase working capital requirements.

Management's Estimates

Management's estimates may prove to be inaccurate due to unexpected changes in business or market conditions.

Regulatory Requirements

Regulatory requirements in international markets may require clinical or other studies that may restrict the ability or timing of LED to sell in these markets.

Reliance on Few Suppliers

The Company has a limited number of suppliers for the raw materials required for its products. A dispute with one of these suppliers, or adverse changes in the business of the suppliers may have a negative impact on the business, operating results and financial condition of the Company if it is unable to source comparable raw materials from alternate sources at competitive rates.

Reliance on Subcontractors

LED utilizes a primary supplier for the production and supply of its products with the corresponding dependence on subcontractors who are responsible for their respective manufacturing requirements. If the primary supplier experiences business interruption issues or ceases operations or in the event that the Company's respective subcontractors manufacturing a material amount of products cease operations or are unable to come to terms on suitable arrangements with LED, LED's business and profitability may be adversely affected.

The Company May Not Realize the Benefits Currently Anticipated

As part of its strategy, the Company intends to continue its efforts to expand its existing customer base and products. A number of risks and uncertainties are associated with the development of new customers and products, including political, regulatory, design, sourcing, labour, operating, technical, technological risks and limited accessibility to distribution and or non-economic distribution channels. There are also uncertainties relating to capital and other costs, and financing risks in developing new products. The failure to develop one or more of these initiatives successfully could have an adverse effect on the Company's financial position and results of operations.

Operating Cost Fluctuations

Although the Company believes it has prudent adopted conservative assumptions in its business planning and related cost estimations, no assurances can be given that such assumptions will prove to be accurate, and, therefore, the operating costs of the Company may prove to be higher or lower than those estimated. These estimates are influenced by the availability and pricing of third party raw materials and components required in the Company's products.

Fluctuations in Exchange Rates

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and the United States. The Company's functional currency is the Canadian dollar. The Company has not hedged its exposure to currency fluctuations.

Assuming that all other variables remain constant, a 10% change in the value of the Canadian dollar against the US dollar would not materially affect the loss from operations.

Taxation

Canadian taxation authorities may challenge expense or tax credits claimed by LED including research and development expenses and related tax credits. If Canadian tax authorities successfully challenge such expenses or the correctness of tax credit claims, LED's operating results could be adversely affected. If Canadian taxation authorities reduce the tax credit either by reducing the rate of the grant or the eligibility of some research and development expenses in the future, the Company's operating results will be adversely affected.

Worsened General Economic Conditions

The decline in the global economic environment in recent years and the continuing economic instability in certain parts of the world resulted in increasing uncertainty regarding future revenue and customer commitments, both in terms of timing and magnitude for such future sales. If the global economic climate does not recover, the Company may not generate the sales

activity required to support its operations resulting in requirement for additional restructurings and erosion of its existing capital resources which may hinder the future viability of the Company.

Additional Financing

The Company has a history of operating losses and uses cash raised in equity markets to partially fund working capital. If adequate funds are not available when required or on acceptable terms, the Company may be required to delay, scale back or terminate its product development activities and sales and marketing efforts, and may be unable to continue operations. There can be no assurance that the Company will be able to obtain the additional financial resources required to compete in its markets on favourable commercial terms or at all. Any equity offering may result in dilution to the ownership interests of shareholders and may result in dilution of the value of such interests. The availability, or lack thereof, of bank credit, additional supplier credit, or additional equity investment could adversely affect the Company's ability to meet its business objectives. Recent market events and conditions, including disruptions in the Canadian and international credit markets and other financial systems and the deterioration of the Canadian and global economic conditions, could, among other things, impede access to capital or increase the cost of capital, which would have an adverse effect on the Company's ability to fund its working capital and other capital requirements. The Company's access to additional capital may not be available on terms acceptable to the Company or at all.

Research and Development

If the Company fails to develop new products, incurs delays in developing new products, or if the product the Company develops are not successful, the Company's business could be harmed. Even if the Company does develop new products which are accepted by its target markets, the Company cannot assure that the revenue from these products will be sufficient to justify the Company's investment in research and development.

Stock Price Volatility

The market price for the common shares of the Company fluctuates significantly, and these fluctuations tend to be exaggerated if the trading volume is low. The market price of the common shares may rise or fall in response to announcements of technological or competitive developments, acquisitions or strategic alliances by the Company or its competitors, the gain or loss by the Company of significant orders or broad market fluctuations. The Company has expanded to the OTC stock exchange in the United States and Frankfurt Stock Exchange in Germany which may not increase future trading volume of the Company's common shares.

Product Development and Technological Change

The market for the Company's products is characterized by rapidly changing technology, evolving industry standards and frequent new product introductions. To be successful, the Company will need to enhance existing products and to introduce new products and features in response to changing standards, customer requirements, and technological innovations by others. There can be no assurance that the Company will be successful in doing this in a timely manner or at all. There can be no assurance that products or technologies developed by others will not render the Company's products obsolete or non-competitive. There is no assurance that the Company will be able to successfully develop next generation operational products. Failure to do so may have an adverse effect on the business, operating results and financial condition of the Company.

Sales and Marketing and Strategic Alliances

The Company has focused its distribution sales and marketing initiatives with a primary distributor in North America resulting in significant dependency for sales of its products on this primary distributor. If the Company is to become successful, it must continue to expand its sales and distribution channels and its marketing and technology alliances. There is no assurance the Company will be able to reach agreements with additional alliance or distribution partners on a timely basis or at all, or that these partners will devote sufficient resources to advancing the Company's interests. The Company's business, results of operation, financial condition and stock price may be materially adversely affected if any strategic partner discontinues its relationship with the Company for any reason. Additionally, the Company at times relies on the voluntary efforts of its strategic partners rather than compliance with contractual obligations, and there are at times no minimum performance requirements. Therefore, the Company cannot be certain that these relationships will be successful.

Dependence on a Small Number of Customers

The Company markets and sells its products primary through its primary distributor relationships in North America resulting in economic dependence upon such distributors for the sales of its products. The Company's revenue is dependent, in large part, on significant contracts from a limited number of customers. During the three and six months ended June 30, 2013, approximately 94% and 89% of the Company's consolidated revenue was attributable to its largest two customers. Management believes that revenue derived from current and future large customers will continue to represent a significant portion of total revenue. The inability to continue to secure and maintain a sufficient number of large contracts would have a material adverse effect on the business, financial condition, operating results and cash flows of the Company. Moreover, the success of the Company will depend in part upon its ability to obtain orders from new customers, as well as the financial condition and success of its customers and general economic conditions.

Intellectual Property Protection

The Company's ability to compete may be affected by its ability to protect its intellectual property. It relies primarily on a combination of copyright, trademark, patent and trade secret laws, confidentiality procedures and contractual provisions to protect its intellectual property. While the Company believes that its products and technologies are adequately protected against infringement, there can be no assurance of effective protection. Monitoring and identifying unauthorized use of the Company's technology is difficult, and the prohibitive cost of litigation may impair the Company's ability to prosecute any infringement. The commercial success of the Company will also depend upon its products not infringing any intellectual property rights of others and upon no claims for infringement being made against the Company. The Company believes that it is not infringing any intellectual property rights of third parties, but there can be no assurance that such infringement will not occur. An infringement claim against the Company by a third party, even if it is invalid, could have a material adverse effect on the Company because of the costs of defending against such a claim. LED may fail to protect or obtain protection of intellectual property. In addition, LED may be exposed to infringement, misappropriation or other claims by third parties which, if determined adversely, could result in LED paying significant damage awards. LED currently uses patents, trademarks and contractual arrangements with employees to protect its intellectual property rights. LED's existing and future patents could be challenged, invalidated, circumvented or rendered unenforceable. LED's pending patent applications may not result in issued patents, or if patents are issued, such patents may not provide meaningful protection again competitors or against competitive technology. Patents afford only limited protection, and the actions that LED take to protect intellectual property rights may not be adequate. In addition, the process of seeking patent and trademark protection can be time consuming and expensive and there can be no assurance that any future patent or trademark applications will be granted in respect of LED's technology or business.

Competition

Because of intense market competition, the Company may not succeed. Some of the Company's current and potential competitors have longer operating histories, stronger brand names and greater financial, technical, marketing and other resources than the Company. Current and potential competitors may also have existing relationships with many of the Company's prospective customers, and prospective OEM customers may be developing products for their own use that are comparable to the Company's products. In addition, the Company expects competition to persist and intensify in the future, which could adversely affect the Company's ability to increase sales. Competitors have and may in the future align themselves with one or more of several large distributors of dental products which may include exclusive marketing arrangements making a significant portion of the market unavailable to LED.

Potential Fluctuations in Quarterly Results

The Company's quarterly operating results may vary significantly depending on factors such as the timing of new product introductions and changes in pricing policies by the Company and its competitors, market acceptance of new and enhanced versions of the Company's products and the timing of significant orders. Because the Company's operating expenses are based on anticipated revenues and a high percentage of the Company's expenses are relatively fixed in the short term, variations in the timing of recognition of revenues can cause significant fluctuations in operating results from quarter to quarter and may result in unanticipated quarterly earnings shortfalls or losses. The market price of the Company's common shares may be highly volatile in response to such quarterly fluctuations.

Dependence on Key Personnel

The Company's future success depends largely on its ability to attract and retain talented employees. The Company's future results of operations will depend in part on the ability of its officers, management and other key employees to implement and expand operational, customer support and financial control systems and to expand, train and manage its employee base. The Company's future performance will also depend to a significant extent on its ability to identify, attract, train and retain highly skilled sales, technical, marketing and management personnel. If the Company were to lose the services of any key personnel, the Company may encounter difficulties finding qualified replacement personnel. LED's success is largely attributable to the leadership, contacts and efforts of LED's chief executive officer and senior management. If LED's chief executive officer or one or more of the members of the senior management cease working with the Company, and the Company is unable to engage suitable replacements on a timely and commercially viable basis, the business, operating results and financial condition of the Company may be adversely affected.

Acquisitions

The Company in the future may, acquire businesses, products or technologies that it believes complement or expand its existing business. Acquisitions of this type involve a number of risks, including the possibility that the operations of the acquired business will not be profitable or that the attention of the Company's management will be diverted from the day-to-day operation of its business. An unsuccessful acquisition could reduce the Company's margins or otherwise harm its financial condition. Any acquisition could result in a dilutive issuance of equity securities, the incurrence of debt and the loss of key employees. The Company cannot ensure that any acquisitions will be successfully completed or that, if one or more acquisitions are completed, the acquired businesses, products or technologies will generate sufficient revenues to offset the associated costs of the acquisitions or other adverse effects.

Product Liability and Medical Malpractice Claims

LED will be exposed to risks associated with product liability claims if the use of LED's products results in injury or property damage. Users and their patients of the VELscope may be injured as a result of malfunctions, defects or other causes. In addition, medical malpractice claims may be brought against LED. Because of LED's limited operating history, it is difficult to predict if product liability or medical malpractice claims will be brought in the future. LED carries what it believes to be adequate product liability insurance, but LED may not have adequate resources to satisfy a judgment if a successful claim is brought. The assertion of product liability or medical malpractice claims may also significantly damage LED's reputation.

Future Share Sales

If the Company's shareholders sell substantial amounts of the Company's common shares, the market price of the Company's common shares could decrease.

Management of Growth

The Corporation's future results of operations will depend in part on the ability of its officers and other key employees to implement and expand operational, customer support and financial control systems and to expand, train and manage its employee base. The Corporation's future performance will also depend to a significant extent on its ability to identify, attract, train and retain highly skilled sales, technical, marketing and management personnel.