CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

(UNAUDITED AND EXPRESSED IN U.S. DOLLARS)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the unaudited condensed consolidated interim financial statements they must be accompanied by a notice of indication that the unaudited condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by management and approved by the Audit Committee of the Board of Directors of the Company and the Board of Directors of the Company.

The Company's independent auditors have not performed a review of these unaudited condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

Dr. David Gane
Chief Executive Officer
November 20, 2013

LED MEDICAL DIAGNOSTICS INC.

Condensed Consolidated Interim Statements of Financial Position

(Unaudited and Expressed in U.S. Dollars)

	Notes		**September 30, 2013**		December 31, 2012[a]
Assets					
Current assets					
Cash		**$**	**973,410**	$	969,584
Restricted cash			**4,853**		5,026
Trade and other receivables	4		**695,485**		1,514,577
Inventory			**573,771**		296,467
Inventory held by distributor	5		**121,200**		518,400
Prepaids and deposits			**159,720**		69,300
Total current assets			**2,528,439**		3,373,354
Non-current assets					
Property and equipment	6		**21,695**		28,015
Intellectual property	7		**68,813**		88,167
Total non-current assets			**90,508**		116,182
		$	**2,618,947**	$	3,489,536
Liabilities and Shareholders' Equity					
Current liabilities					
Trade payables and accrued liabilities	8	**$**	**1,376,031**	$	1,689,009
Advances from distributor	5		**407,417**		1,778,112
Current portion of finance lease obligation	9		**3,498**		2,982
Total current liabilities			**1,786,946**		3,470,103
Non-current liabilities					
Long term portion of finance lease obligation	9		**4,187**		6,879
Warrants	11		**3,963,055**		140,467
Total non-current liabilities			**3,967,242**		147,346
Total liabilities			**5,754,188**		3,617,449
Shareholders' Deficit					
Share capital	12		**26,513,535**		24,658,241
Stock-based payment reserve	13		**660,186**		62,495
Warrants reserve			**311,851**		277,748
Accumulated other comprehensive income			**474,458**		474,458
Deficit			**(31,095,271)**		(25,600,855)
			(3,135,241)		(127,913)
		$	**2,618,947**	$	3,489,536

Nature and Continuance of Operations (Note 1)

The accompanying notes are an integral part of these condensed consolidated interim financial statements

[a] *Restated (Note 18)*

Approved on behalf of the Board:

signed "Dr. David Gane" Chief Executive Officer
Dr. David Gane

signed "Rodger Tourigny" Director
Rodger Tourigny

LED MEDICAL DIAGNOSTICS INC.

Condensed Consolidated Interim Statements of Operations and Comprehensive Loss

(Unaudited and Expressed in U.S. Dollars)

	Three months ended September 30, 2013	Three months ended September 30, 2012 [(a)]	**Nine months ended September 30, 2013**	Nine months ended September 30, 2012 [(a)]
Revenues	**$ 911,387**	$ 2,885,834	**$ 2,303,860**	$ 4,922,760
Cost of goods sold	**331,330**	962,203	**924,205**	1,997,967
	580,057	1,923,631	**1,379,655**	2,924,793
Expenses				
Sales and marketing	**158,776**	664,709	**818,111**	2,215,550
Research and development	**121,706**	113,367	**322,257**	428,512
Administration	**439,391**	334,300	**1,121,264**	925,361
Stock-based compensation	**45,898**	-	**597,691**	-
Deferred share unit compensation	**65,149**	-	**380,580**	-
Other operating expenses	**9,463**	14,839	**62,846**	45,218
	840,383	1,127,215	**3,302,749**	3,614,641
Operating (loss) income	**(260,326)**	796,416	**(1,923,094)**	(689,848)
Other (expenses) income				
Mark to market adjustments on Canadian dollar denominated warrants	**(2,065,653)**	(7,407)	**(3,822,587)**	73,886
Foreign exchange gain (loss)	**366,435**	(22,546)	**255,364**	(65,672)
Interest income	**-**	21	**-**	308
Loss on disposal of assets	**-**	-	**-**	(702)
Miscellaneous income	**-**	-	**-**	2,475
	(1,699,218)	(29,932)	**(3,567,223)**	10,295
Net (loss) income before income taxes	**(1,959,544)**	766,484	**(5,490,317)**	(679,553)
Income taxes	**(41)**	12,841	**4,099**	12,841
Net and comprehensive (loss) income for the period	**$ (1,959,503)**	$ 753,643	**$ (5,494,416)**	$ (692,394)
Loss per share – basic and diluted	**$ (0.03)**	$ 0.02	**$ (0.12)**	$ (0.02)
Weighted average number of shares outstanding – basic and diluted	**57,985,508**	36,335,508	**47,735,508**	36,335,508

The accompanying notes are an integral part of these condensed consolidated interim financial statements

[(a)] *Restated (Note 18)*

(Unaudited and Expressed in U.S. Dollars)

	Number of Shares	Share Capital	Stock-based Payments Reserves	Warrants Reserve	Deficit	Other Comprehensive Income	Total Shareholders' Deficit
Balance, January 1, 2013	**40,985,508**	**$ 24,658,241**	**$ 62,495**	**$ 277,748**	**$ (25,600,855)**	**$ 474,458**	**$ (127,913)**
Stock-based compensation	-	-	351,331	-	-	-	351,331
Net loss for the period	-	-	-	-	(1,333,774)	-	(1,333,774)
Balance, March 31, 2013	**40,985,508**	**$ 24,658,241**	**$ 413,826**	**$277,748**	**$ (26,934,629)**	**$ 474,458**	**$ (1,110,356)**
Shares issued for cash	17,000,000	2,507,621	-	-	-	-	2,507,621
Shares allocated to share purchase warrants	-	(386,497)	-	-	-	-	(386,497)
Share issuance costs	-	(262,950)	-	-	-	-	(262,950)
Finder's warrants issued pursuant to private placement	-	-	-	34,103	-	-	34,103
Stock-based compensation	-	-	200,462	-	-	-	200,462
Net loss for the period	-	-	-	-	(2,201,139)	-	(2,201,139)
Balance, June 30, 2013	**57,985,508**	**$ 26,516,415**	**$ 614,288**	**$ 311,851**	**$ (29,135,768)**	**$ 474,458**	**$ (1,218,756)**
Share issuance costs	-	(2,880)	-	-	-	-	(2,880)
Stock-based compensation	-	-	45,898	-	-	-	45,898
Net loss for the period	-	-	-	-	(1,959,503)	-	(1,959,503)
Balance, September 30, 2013	**57,985,508**	**$ 26,513,535**	**$ 660,186**	**$ 311,851**	**$ (31,095,271)**	**$ 474,458**	**$ (3,135,241)**
Balance, January 1, 2012[(a)]	**36,335,508**	**$ 23,713,352**	**$62,495**	**$ 277,748**	**$ (24,733,922)**	**$ 474,458**	**$ (205,869)**
Net loss for the period	-	-	-	-	(1,251,450)	-	(1,251,450)
Reclassification of warrants	-	(136,624)	-	-	-	-	(136,624)
Balance, March 31, 2012	**36,335,508**	**$ 23,576,728**	**$ 62,495**	**$ 277,748**	**$ (25,985,372)**	**$ 474,458**	**$ (1,593,943)**
Net loss for the period	-	-	-	-	(194,586)	-	(194,586)
Balance, June 30, 2012[(a)]	**36,335,508**	**$ 23,576,728**	**$ 62,495**	**$ 277,748**	**$ (26,179,958)**	**$ 474,458**	**$ (1,788,529)**
Net income for the period	-	-	-	-	753,643	-	753,643
Balance, September 30, 2012[(a)]	**36,335,508**	**$ 23,576,728**	**$ 62,495**	**$ 277,748**	**$ (25,426,315)**	**$ 474,458**	**$ (1,034,886)**

The accompanying notes are an integral part of these condensed consolidated interim financial statements
[(a)] Restated (Note 18)

LED MEDICAL DIAGNOSTICS INC.

LED MEDICAL DIAGNOSTICS INC.

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited and Expressed in U.S. Dollars)

	Three months ended September 30, 2013	Three months ended September 30, 2012 [(a)]	**Nine months ended September 30, 2013**	Nine months ended September 30, 2012 [(a)]
Cash flows from operating activities				
Net (loss) income for the period	**$ (1,959,503)**	$ 753,643	**$ (5,494,416)**	$ (692,394)
Adjustments to net loss for items not involving cash:				
Depreciation of equipment	**3,010**	8,388	**9,387**	25,864
Amortization of intellectual property	**6,453**	6,451	**19,354**	19,354
Warrants issuance costs	**-**	-	**34,105**	-
Loss on disposal of assets	**-**	-	**-**	702
Accrued interest on shareholder loans	**-**	-	**-**	2,583
Mark to market adjustments on Canadian dollar denominated warrants	**1,679,155**	7,407	**3,436,089**	(73,886)
Stock-based compensation	**45,898**	-	**597,691**	-
	(224,987)	775,889	**(1,397,790)**	(717,777)
Changes in working capital assets and liabilities:				
Receivables	**245,213**	155,539	**819,092**	(595,042)
Inventory	**(229,988)**	30,012	**(277,304)**	320,612
Inventory held by distributor	**265,200**	385,200	**397,200**	(51,047)
Prepayments	**(101,919)**	(14,042)	**(90,421)**	(43,659)
Trades payable and accrued liabilities	**(198,392)**	(380,181)	**(312,977)**	285,755
Advances from distributor	**(494,531)**	(1,314,691)	**(1,370,695)**	320,750
Changes in working capital assets and liabilities	**(514,417)**	(1,138,163)	**(835,105)**	237,369
Cash flows used in operating activities	**(739,404)**	(362,274)	**(2,232,895)**	(480,408)
Cash flows from investing activities				
Purchase of equipment	**(1,876)**	4,098	**(3,067)**	(12,660)
Restricted cash	**(99)**	(173)	**173**	19,497
Cash flows (used in) provided by investing activities	**(1,975)**	3,925	**(2,894)**	6,837
Cash flows from financing activities				
Issuance of common shares, net of issuance costs	**(2,880)**	-	**1,855,294**	-
Issuance of share purchase warrants in private placement	**-**	-	**386,497**	-
Repayment of finance lease obligation	**(766)**	(617)	**(2,176)**	(1,759)
Repayment of shareholder loans	**-**	-	**-**	(105,379)
Cash flows (used in) provided by financing activities	**(3,646)**	(617)	**2,239,615**	(107,138)
(Decrease) increase in cash	**(745,025)**	(358,966)	**3,826**	(580,709)
Cash, beginning of period	**1,718,435**	754,029	**969,584**	975,772
Cash, end of period	**$ 973,410**	$ 395,063	**$ 973,410**	$ 395,063

The accompanying notes are an integral part of these condensed consolidated interim financial statements

[(a)] Restated (Note 18)

LEDMD LED MEDICAL DIAGNOSTICS INC.

1. NATURE AND CONTINUANCE OF OPERATIONS

LED Medical Diagnostics Inc. ("LED" or the "Company") was incorporated under the British Columbia Business Corporations Act on July 17, 2002 as 651192 B.C. Ltd. and changed its name to LED Medical Diagnostics Inc. on August 20, 2003. The Company's head office, principal address and records office are located at 235 – 5589 Byrne Road, Burnaby, British Columbia, Canada, V5J 3J1. The registered and records office is located at 2500 – 700 West Georgia Street, Vancouver, B.C. V7Y 1B3.

The Company has developed, and markets, a medical device under the trade name VELscope®. The device is used in the dental industry to help identify oral soft tissue abnormalities including those which may be cancerous or precancerous and also to help define appropriate margins for surgical excision.

On February 24, 2011, and as accepted on November 21, 2011 by the TSX Venture Exchange (the "Exchange"), LED entered into a letter agreement (the "Agreement") with Searchlight Capital Corp. ("Searchlight"), a Capital Pool Company listed on the Exchange. The transaction resulted in the amalgamation of LED, its wholly-owned subsidiaries LED Dental Inc., LED Dental (US) Ltd., EMD Systems Ltd., Visiotech Diagnostics Inc. with Searchlight. On November 24, 2011, the Company began trading on the TSX Venture Exchange (trading symbol: LMD). The transaction was accounted for as an acquisition of Searchlight by LED. For purposes of these consolidated financial statements, the "Company" is defined as the amalgamated entity.

These condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The continuing operations of the Company are dependent upon its ability to generate profitable operations in the future, and to continue to secure additional financing from lenders and shareholders. There can be no assurance that the Company will be successful in its efforts to raise additional financing or if financing is available, that it will be on terms that are acceptable to the Company.

The Company incurred an operating loss of $260,326 and has negative cash flow from operations of $739,404 for the period. As at September 30, 2013 the Company had an accumulated deficit of $31,095,271. The Company's ability to continue as a going concern is dependent on its available cash, its ability to find new sources of cash and its ability to continue to raise funds to support corporate operations. Consequently, material uncertainties exist which cast significant doubt upon the Company's ability to continue as a going concern. As at September 30, 2013 and as at the date of these condensed consolidated interim financial statements, the outcome of these activities is unknown and subject to considerable uncertainty. These interim condensed consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties or if such adjustments would be material.

2. STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

These condensed consolidated interim financial statements of the Company, approved by the Board of Directors on November 20, 2013, have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34").

These condensed consolidated interim 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 condensed consolidated interim financial statements. Accordingly, these condensed consolidated interim financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the Company's annual financial statements as at and for the year ended December 31, 2012 (which were prepared in accordance with International Financial Reporting Standards, or "IFRS").

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

Subsidiaries are entities controlled by LED. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

These interim condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries listed in the following table:

Name of Subsidiary	Country of Incorporation	Ownership Interest September 30, 2013	Ownership Interest September 30, 2012
LED Dental Inc.	Canada	100%	100%
LED Dental (U.S.) Ltd.	USA	100%	100%

Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

The estimates used in determining the recorded amounts in these financial statements include the following:

Revenue recognition

The Company recognizes revenue from sales made both through distributors and directly to customers when all revenue recognition criteria are met which includes the ability to determine a fixed fee. Management uses its best estimate of expected sales incentives to estimate the final sales price. If a reasonable estimate cannot be made, the Company defers revenue and costs relating to the sales 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.

Impairment of long-lived assets and patents and intellectual property

The determination of intellectual property impairment requires significant estimates and assumptions to determine the recoverable amount of an asset and/or CGU, wherein the recoverable amount is the higher of fair value less costs to sell and value in use. The value in use method involves estimating the net present value of future cash flows derived from the use of the asset and/or CGU, discounted at an appropriate rate.

The estimates of future cash flows require a number of key assumptions about future business performance. These assumptions and estimates are primarily based on the relevant business' historical experience, economic trends, and consider past communications with relevant stakeholders of the Company. These key assumptions include the future revenue levels and operating expenses. The assumptions are subject to a number of factors and it is possible that actual results could vary materially from management's estimates. Significant changes in the key assumptions utilized in the estimate of future cash flows could result in an impairment loss or reversal of an impairment loss.

Estimated useful lives of long-lived assets

Judgment is used to estimate each component of an asset's useful life and is based on an analysis of all pertinent factors including, but not limited to, the expected use of the asset and in the case of an intangible asset, contractual provisions that enable renewal or extension of the asset's legal or contractual life without substantial cost, and renewal history. If the estimated useful lives were incorrect, this could result in an increase or decrease in the annual amortization expense, and future impairment charges or recoveries.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Equity-settled stock-based compensation

The Company estimates the cost of equity-settled stock-based compensation using the Black-Scholes option pricing model. The model takes into account an estimate of the expected life of the option, the current price of the underlying common share, the expected volatility, an estimate of future dividends on the underlying common share, the risk-free rate of return expected for an instrument with a term equal to the expected life of the option, and the expected forfeiture rate.

Warranty

The Company estimates warranty expense based on historical records, taking into account the likelihood of a warranty issue, estimated costs of warranty repair and total units in the market. The Company 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 than the estimated accrual.

Income taxes

Deferred tax assets and liabilities are due to temporary differences between the carrying amount for accounting purposes and the tax basis of certain assets and liabilities, as well as undeducted tax losses. Estimation is required for the timing of the reversal of these temporary differences and the tax rate applied. The carrying amounts of assets and liabilities are based on amounts recorded in the financial statements and are subject to the accounting estimates inherent in those balances. The tax basis of assets and liabilities and the amount of undeducted tax losses are based on the applicable income tax legislation, regulations and interpretations. The timing of the reversal of the temporary differences and the timing of deduction of tax losses are based on estimations of the Company's future financial results.

Changes in the expected operating results, enacted tax rates, legislation or regulations, and the Company's interpretations of income tax legislation will result in adjustments to the expectations of future timing difference reversals and may require material deferred tax adjustments.

Contingencies

Provisions are accrued for liabilities with uncertain timing or amounts, if, in the opinion of management, it is both likely that a future event will confirm that a liability had been incurred at the date of the financial statements and the amount can be reasonably estimated. In cases where it is not possible to determine whether such a liability has occurred, or to reasonably estimate the amount of loss until the performance of some future event, no accrual is made until that time. In the ordinary course of business, the Company may be party to legal proceedings which include claims for monetary damages asserted against the Company and its subsidiaries. The adequacy of provisions is regularly assessed as new information becomes available.

The Company does not record contingent assets.

The judgments used in applying the Company's significant accounting policies include the following:

Determination of CGUs

The Company's assets are grouped into CGUs based on their ability to generate separate identifiable cash flows. The determination of CGUs involves an assessment regarding the interdependency of cash inflows, and the Company's organizational structure.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Foreign currency translation

The condensed consolidated interim financial statements are presented in U.S. dollars. 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 RTO in November 2011. This change was effected prospectively from January 1, 2012 onwards.

The Company also changed its 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.

The functional currency of each of the Company's entities is determined using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in U.S. dollars which is the functional and presentation currency of the parent. The functional currencies of the subsidiaries are as follows:

Name of Subsidiary	Functional currency ($)
LED Dental Inc. (Restated, Note 18)	U.S.
LED Dental (U.S.) Ltd.	U.S.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of comprehensive income in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

The financial results and position of subsidiaries whose functional currency is different from the Company's presentation currency are translated as follows:

- Assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- Income and expenses are translated at average exchange rates for the year.

Exchange differences arising on translation of foreign operations are transferred directly to the Company's foreign currency translation reserve in the statement of comprehensive income. These differences will be recognized in profit or loss in the year in which the operation is disposed.

Financial instruments

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than twelve (12) months after the end of the reporting period. These are classified as non-current assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost.

Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within twelve (12) months after the end of the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether impairment has arisen.

The Company does not have any derivative financial assets and liabilities.

Cash and cash equivalents

Cash and cash equivalents include highly liquid Canadian dollar denominated guaranteed investment certificates which are readily convertible to contracted amounts of cash without penalty. Cash equivalents are classified as held-for-trading and are recorded at fair value with realized and unrealized gains and losses reported in the statement of comprehensive loss.

The Company has no cash equivalents as of September 30, 2013 or December 31, 2012.

Inventory and inventory held by the distributor

Inventory consists of finished goods and is valued at the lower of cost and net realizable value with the cost being determined on a first in, first out basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to complete the sale. The amount of any write-down of inventories to net realizable value and all loss of inventories is recognized as an expense in the period the write-down or loss occurs. The Company defers recognition of revenue and costs relating to shipments to distributors if there are sales incentives that cannot be reasonably estimated at the time the goods are shipped. The inventory is recorded as held by distributor until the products are sold to the end customers.

Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of profit or loss and comprehensive profit or loss during the financial period in which they are incurred. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

Depreciation is calculated on a straight-line method to write off the cost of the assets over their estimated useful lives. The depreciation rates applicable to each category of equipment are as follows:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property and equipment (cont'd)

Office equipment	5 years	straight-line method
Computer equipment	3 years	straight-line method
Manufacturing tooling	2 years	straight-line method
Leasehold improvements	term of lease	straight-line method

Intangible assets

Intangible assets, which consist of acquired 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.

Research and development costs

Research costs are expensed as incurred. Development costs are expensed as incurred unless the specific criteria for deferral and amortization have been met. To date, the Company has not capitalized any development costs.

Impairment of non-financial assets

The carrying amount of the Company's non-financial assets (which include property and equipment and patents and intellectual property) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive income.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversal of impairment loss

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years. Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Leases

Leases of equipment where substantially all the risks and benefits incidental to the ownership of the asset are transferred to entities in the Company are classified as finance leases.

Finance leases are capitalized by recording an asset and a liability at the lower of the fair value of the leased equipment or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Warranty provision

The Company provides its customers with warranty protection on its products. The warranties cover a period of one year from date in use. 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.

Income taxes

Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax:

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

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. 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.

The Company has a Deferred Share Unit Plan ("DSU Plan") for the Company's Directors, Executive Officers and Service Providers. The Company recognizes compensation expense for Deferred Share Units ("DSUs") based on the market price of the Company's stock. A DSU is convertible to shares only, and the obligations for future settlement of DSUs are accrued as compensation expense and are included in accrued liabilities. Each reporting period, obligations are revalued for changes in the market value of LED's common shares (See Note 14).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Warrants

All warrants granted are valued using the fair value method which is determined by the Black-Scholes pricing model with assumptions for risk free interest rates, dividend yields, volatility factors and an expected life of the warrants. As a result of the change in functional currency to U.S. dollars on January 1, 2012, the Canadian dollar denominated warrants outstanding were reclassified from equity to liabilities and are revalued every period with change in valuation being expensed. 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.

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 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 assuming all of the other criteria are met.

Research and development tax credits

Research and development tax credits are accounted for using the cost reduction method. Accordingly, tax credits are recorded as a reduction of the related expenses or the capitalized costs when recoverability is reasonably assured.

Segmented reporting

The Company operates in a single geographical segment, being Canada, and a single reporting segment, being the development and commercialization of medical devices based on its proprietary imaging platform to aid in the detection and treatment of disease in human tissues.

The Company's operating segment is reported in a manner consistent with the internal reporting provided to the Chief Executive Officer ("CEO"). The CEO is considered the chief operating decision-maker ("CODM") and has the authority for resource allocation and is responsible for assessing the Company's performance.

Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for its own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for its own shares held, for the effects of all dilutive potential common shares. Dilutive share capital quantification has not been performed as the Company is in a net loss position for the periods resulting in an anti-dilutive quantification.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

(Unaudited and expressed in U.S. Dollars)

4. TRADE AND OTHER RECEIVABLES

		September 30, 2013		December 31, 2012
Trade accounts receivable	**$**	**683,338**	$	1,011,172
Financing proceeds receivable *(Note 12)*		**-**		425,701
Goods and services tax receivable		**12,147**		77,704
	$	**695,485**	$	1,514,577

At September 30, 2013 and December 31, 2012, no accounts receivable is due beyond one year. The fair value of amounts receivable approximates their carrying value as at September 30, 2013 and December 31, 2012. There was no allowance for doubtful accounts as at September 30, 2013 and December 31, 2012.

5. EXCLUSIVE DISTRIBUTION AGREEMENT

On November 30, 2010, the Company entered into a two year renewable sales and marketing agreement with a distributor (the "Distributor") of medical and dental supplies whereby the Distributor would be granted exclusive rights to market the VELscope Vx in Canada, the United States, and Puerto Rico ("the original agreement"). Under the original agreement, the Distributor was entitled to receive up to 2,541,468 share purchase warrants at CDN $0.65 per share, based on the Distributor achieving certain sales milestones. See Note 11 for more information on the warrants. The original agreement also allowed for the Distributor to return certain units of VELscope Model V2, a legacy product, at a value of $292,600, in the form of credits which shall be applied against the price of parts and accessories purchased by the Distributor for the VELscope Model V2. As at December 31, 2012 the entire credit was settled.

On September 21, 2012, the agreement was amended to become a non-exclusive distribution in limited markets which were defined in the agreement ("the amended agreement"). Further, under the amended agreement, the Company had agreed to repurchase the VELscope Vx inventory that was not sold to end customers from the Distributor over the period from September 21, 2012 to December 15, 2013. The Company will purchase from the Distributor based on the original sale price of the inventory less the manufacturer's warranty cost up to an aggregate maximum amount of $1,678,409. An amount of $45,362 of this commitment was off-set against the Distributors accounts receivable on September 21, 2012. On March 15, June 15, and September 9, 2013, the Company purchased the first three tranches of Velscope inventory for a total amount of $1,258,807. An amount of $264,562 of this purchase was off-set against the Distributor accounts payable to the Company. The remaining maximum amount of $381,800 to be made on December 15, 2013 as the related equivalent of VELscopes are returned by Distributor.

Additional sales incentives were provided to the Distributor outside of the terms of the original agreement. The sales incentives could not be reasonably estimated at the time the goods are shipped and therefore revenue could not be recognized (see Note 18 for restatement on previously reported financial statements). As at September 30, 2013, there were 202 units (December 31, 2012 – 864 units) that the Distributor had paid for but had not sold to end customers. The Company recorded the cash received of $407,417 as advances from the distributor as at September 30, 2013 (December 31, 2012 - $1,778,112) and $121,200 of inventory held by distributor in relation to these shipments as at September 30, 2013 (December 31, 2012 - $518,400). The Company had re-purchased 662 units held by Distributor in the nine month period ended September 30, 2013.

(Unaudited and expressed in U.S. Dollars)

6. PROPERTY AND EQUIPMENT

The following table presents details of movement in the carrying value of property and equipment by asset type:

Cost

	Office Equipment	Computer Equipment	Manufacturing Tooling	Leasehold Improvements	Total
Balance, January 1, 2012	**$ 61,325**	**$ 34,956**	**$ 39,634**	**$ 2,767**	**$ 138,682**
Additions	15,451	1,307	-	-	16,758
Disposals	-	(1,402)	-		(1,402)
Balance, December 31, 2012	**$ 76,776**	**$ 34,861**	**$ 39,634**	**$ 2,767**	**$ 154,038**
Additions	-	3,067	-	-	3,067
Disposals	(39,987)	(25,978)	-	-	(65,965)
Balance, September 30, 2013	**$ 36,789**	**$ 11,950**	**$ 39,634**	**$ 2,767**	**$ 91,140**

Accumulated Depreciation

	Office Equipment	Computer Equipment	Manufacturing Tooling	Leasehold Improvements	Total
Balance, January 1, 2012	**$ (49,060)**	**$ (23,356)**	**$ (19,817)**	**$ (519)**	**$ (92,752)**
Depreciation[(a)]	(6,861)	(5,218)	(19,817)	(2,075)	(33,971)
Disposals	-	700	-	-	700
Balance, December 31, 2012	**$ (55,921)**	**$ (27,874)**	**$ (39,634)**	**$ (2,594)**	**$ (126,023)**
Depreciation	(5,518)	(3,696)	-	(173)	(9,387)
Disposals	39,987	25,978	-	-	65,965
Balance, September 30, 2013	**$ (21,452)**	**$ (5,592)**	**$ (39,634)**	**$ (2,767)**	**$ (69,445)**

Carrying Value

	Office Equipment	Computer Equipment	Manufacturing Tooling	Leasehold Improvements	Total
Balance, September 30, 2013	**$ 15,337**	**$ 6,358**	**$ -**	**$ -**	**$ 21,695**
Balance, December 31, 2012	$ 20,855	$ 6,987	$ -	$ 173	$ 28,015

[(a)] *Restated (Note 18)*

LEDMD
LED MEDICAL DIAGNOSTICS INC.

(Unaudited and expressed in U.S. Dollars)

7. PATENTS AND INTELLECTUAL PROPERTY

The following table presents details of movement in the carrying value of the patents:

Cost

	Patents
Balance, January 1, 2012	**$ 335,467**
Additions	-
Balance, December 31, 2012	**$ 335,467**
Additions	-
Balance, September 30, 2013	**$ 335,467**

Accumulated Amortization

Balance, January 1, 2012	**$ (221,495)**
Amortization (Restated, Note 18)	(25,805)
Balance, December 31, 2012	**$ (247,300)**
Amortization	(19,354)
Balance, September 30, 2013	**$ (266,654)**

Carrying Value

Balance, September 30, 2013	**$ 68,813**
Balance, December 31, 2012	$ 88,167

On August 31, 2003, the Company signed a technology agreement amended on February 10, 2004, for the purchase of certain patents, and the related intellectual property and know-how, in respect of a fluorescence scope system for dermatologic diagnosis. The patents will expire in 2017.

At December 31, 2012, management had assessed the intellectual property and intangibles for recoverability and no events or changes in circumstances indicated that the carrying values may not be recoverable. Therefore, there was no impairment of these assets at December 31, 2012. No impairment test had been performed during the three and nine months ended September 30, 2013.

8. TRADE PAYABLES AND ACCRUED LIABILITIES

	September 30, 2013	December 31, 2012
Trade payables	**$ 667,922**	$ 1,387,747
Accrued liabilities	**270,330**	279,312
DSU compensation	**388,722**	-
Warranty provision	**43,215**	15,550
State sales tax payable	**5,842**	6,400
	$ 1,376,031	$ 1,689,009

The Company warrants that its products will operate substantially in conformity with product documentation. The Company accrues for known warranty issues if a loss is probable and can be reasonably estimated and accrues for estimated incurred but unidentified warranty issues based on historical activity. To date, the Company has had no material warranty claims. Included in trades payable and accrued liabilities as of September 30, 2013 is $43,215 (December 31, 2012 - $15,550) representing a warranty provision.

(Unaudited and expressed in U.S. Dollars)

9. LEASE OBLIGATIONS AND COMMITMENTS

a) The Company has a finance lease with respect to the purchase of office equipment. The Company has the option to purchase the equipment for a nominal purchase price at the end of the lease.

Future minimum lease payments together with the balance of the finance lease obligation are as follows:

	September 30, 2013	December 31, 2012
Payable not later than one year	**$ 4,820**	$ 4,820
Payable later than one year and not later than five years	**4,676**	8,291
	9,496	13,111
Less: future finance charges	**(1,811)**	(3,250)
Present value of minimum lease payments	**7,685**	9,861
Current portion	**(3,498)**	(2,982)
Long term portion	**$ 4,187**	$ 6,879

b) The Company has an operating lease with respect to its operating premises in Burnaby, BC. Future minimum lease payments as at September 30, 2013 are as follows:

Payable not later than one year	$ 63,537
Payable later than one year and not later than five years	37,789
Total future minimum lease payments	**$ 101,326**

c) The Company was paying royalties at a rate of 1.5% of VELscope sales to the British Columbia Cancer Agency prior to December 31, 2010. The rate was subsequently revised to 0.75% and retroactively applied to prior periods resulting in a reversal of previously accrued royalties. During the three months ended September 30, 2013, the Company accrued royalties of $3,167 (three months ended September 30, 2012 – $1,879 of royalties were reversed). During the nine months ended September 30, 2013, the Company reversed royalties of $4,521 (nine months ended September 30, 2012 – $13,336 royalties were reversed). As at September 30, 2013, total royalties accrued but not paid was approximately $53,706 (December 31, 2012 – $70,627). Two equal portions of $11,317 are scheduled to be paid on November 30, 2013 and 2014. The remaining amount will be paid in 2015 and 2016.

d) On January 1, 2011, the Company entered into an employment agreement with the former CEO of the Company whereby the former CEO would be paid an annual salary of CDN $250,000 and will receive royalties of 2% of all VELscope sales until January 1, 2018. Effective January 1, 2012, annual salary was revised to CDN $295,000. Further, the former CEO will receive bonuses and options as follows:

- CDN $25,000 and 250,000 options once the annual earnings before interest, tax and amortization ("EBITDA") reaches $1,000,000; and
- CDN $100,000 and 250,000 options once the annual EBITDA reaches $2,000,000.

The former-CEO maintains a position with the Company maintaining the aforementioned compensation structure.

e) The Company may be subject to a variety of claims and suits that arise from time to time in the ordinary course of business. These matters are subject to inherent uncertainties. To date, the Company is aware of a wrongful dismissal lawsuit initiated by a former employee who is seeking up to CDN $190,000 in salaries and bonuses. Management believes the claim is without merit and will defend it vigorously.

(Unaudited and expressed in U.S. Dollars)

10. RELATED PARTY TRANSACTIONS

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 nine months ended September 30, 2013 and 2012, the Company paid or accrued the following compensation expenses to key personnel of the Company:

	Three months ended September 30, 2013	Three months ended September 30, 2012	**Nine months ended September 30, 2013**	Nine months ended September 30, 2012
Short-term compensation*	**$ 100,178**	$ 224,266	**$ 254,845**	$ 424,524
Post-employment benefits	**$ Nil**	$ Nil	**$ Nil**	$ Nil
Other long-term benefits	**$ Nil**	$ Nil	**$ Nil**	$ Nil
Termination benefits	**$ Nil**	$ Nil	**$ Nil**	$ Nil
Share-based payments	**$ 37,211**	$ Nil	**$ 111,634**	$ Nil

(*) The Company entered into an employment agreement with the former CEO in which the former CEO would earn royalties equal to 2% of all VELscope® sales. Included in short-term benefits are accrued royalties of $8,380 during the three months ended September 30, 2013 (three months ended September 30, 2012 - $25,605.49) and ($12,260) during the nine months ended September 30, 2013 (nine months ended September 30, 2012 - $76,463) with the 2013 balances attributable to the revenue restatement by the Company for the year ended December 31, 2012.

During three months ended September 30, 2013 a total of 100,000 options were awarded to key management under the Company's stock option plan (nine months ended September 30, 2012 - nil). During the nine months ended September 30, 2013, a total of 3,248,000 options were awarded to directors and key management under the Company's stock option plan (nine months ended September 30, 2012 – nil).

11. WARRANTS

The following table summarizes the warrant transactions that occurred during the periods ended:

	September 30, 2013		December 31, 2012	
	Number of Warrants	**Weighted average exercise price**	Number of Warrants	Weighted average exercise price
		(CDN$)		(CDN$)
Warrants outstanding, beginning of period	8,040,968	0.72	8,971,968	0.65
Issued	18,500,000	0.20	184,100	0.30
Exercised	-	-	-	-
Expired	(5,950,767)	(0.75)	(1,115,100)	(0.65)
Warrants outstanding, end of period	**20,590,201**	**0.24**	8,040,968	0.72
Warrants exercisable, end of period	**18,684,100**	**0.20**	6,134,867	0.74

On June 14, 2013, the Company issued 18,500,000 (17,000,000 financing and 1,500,000 Finder's) warrants in conjunction with an issue of common shares from private placement (see Note 12). These warrants are subject to a four month hold period. Total warrants were valued at $420,600 (CDN $427,708), or CDN $0.02 per warrant, using the Black-Scholes pricing model with the following assumptions: grant price CDN$0.20, expected dividend yield 0.0%, expected volatility 18.896%, risk-free interest rate 1.02% and expected life of 24 months.

(Unaudited and expressed in U.S. Dollars)

11. WARRANTS (cont'd)

On December 21, 2012, the Company issued 184,100 Finder's Warrants in conjunction with an issue of common shares from private placement (see Note 12). The Finder's Warrants were valued at $17,852 (CDN $17,734), or CDN $0.10 per Finder's Warrant, using the Black-Scholes Model.

As described in Note 5, the Company entered into a distribution agreement which provides for the issuance of warrants to purchase the Company's shares at a price of CDN $0.65 per common share for a three year period after issuance which is subject to the achievement of sales volume performance milestones by the distributor over a three year term. The total numbers of warrants of 2,541,468 were issued in the year ended December 31, 2010, in four equal tranches subject to achievement of the sales volume milestones.

During the year ended December 31, 2011, the distributor achieved the first milestone and 635,367 warrants were exercisable with a fair value of CDN $162,262. The total fair value of these warrants at the date of grant was estimated using the Black-Scholes option pricing model using the following assumptions: an expected life of 7 months, a risk free interest rate of 0.91%, dividend yield of 0% and expected volatility of 96%. All of these warrants expired unexercised on December 31, 2012.

The following table summarizes information about the Company's warrants outstanding at September 30, 2013:

	Warrants Outstanding		Warrants Exercisable	
Exercise prices (CDN$)	**Number Outstanding**	**Weighted Average Remaining Term (Years)**	**Number Exercisable**	**Weighted Average Remaining Term (Years)**
0.20	18,500,000	1.96	18,500,000	1.96
0.30	184,100	0.98	184,100	0.98
0.65	1,906,101	0.42	-	-
	20,590,201	**1.81**	**18,684,100**	**1.95**

As a result of the change in functional currency, the Company values its warrants and records it as a liability (which is revalued at each reporting date). The following table breaks down the warrant liability of each grant of warrants:

Number of Warrants	Amount ($)	Exercise Price (CDN$)	Expiry Date
1,906,101	-	0.65	November 30, 2013
184,100	31,335	0.30	June 21, 2014
1,500,000	-	0.20	June 14, 2015
17,000,000	2,252,564	0.20	June 14, 2015
20,590,201	**$ 2,283,899**		

(Unaudited and expressed in U.S. Dollars)

12. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value

	Number of common shares	Amount
Outstanding, January 1, 2012	**36,335,508**	**$23,713,352**
Issued for cash	4,650,000	1,170,223
Share issuance costs	-	(88,710)
Transfer value of outstanding warrants to liability	-	(136,624)
Outstanding, December 31, 2012	**40,985,508**	**$24,658,241**
Issued for cash	17,000,000	2,507,621
Allocated to warrants	-	(386,497)
Share issuance costs	-	(265,830)
Outstanding, September 30, 2013	**57,985,508**	**$26,513,535**

2013

On June 14, 2013 the Company completed a unit offering at CDN $0.15 per unit, consisting of one common share and one common share purchase warrant exercisable for 24 months at CDN $0.20. Additionally, in accordance with a finder's fee agreement, the Company issued 1,500,000 finder's warrants (the "Finder's Warrants") to two arm's length finders. Each finder's warrant is non-transferable and exercisable into one common share at an exercise price of $0.20 for a period of 24 months. Pursuant to this offering, the Company issued 17,000,000 common shares for gross proceeds of $2,507,621 (CDN $2,550,000). The Company paid share issuance costs of $262,950 (CDN $267,394) in relation to this private placement. The fair value of the 17,000,000 warrants was calculated using the Black-Scholes Model and was determined to be $386,497 (CDN $393,029 (see Note 10)).

2012

On December 21, 2012 the Company completed a unit offering by issuing 4,650,000 common shares at CDN $0.25 per unit, for gross proceeds of $1,170,223 (CDN $1,162,500). In accordance with a finder's fee agreement, the Company issued 184,100 finder's warrants (the "Finder's Warrants") to the finders. The fair value of the Finder's Warrants was calculated using the Black-Scholes Model and was determined to be $17,852 (CDN $17,734 (see Note 10)). The Company paid share issuance costs of $88,710 (CDN$ $88,125) in relation to this private placement. Outstanding proceeds receivable in relation to this private placement as at December 31, 2012 were $425,701 (see Note 4). These were received subsequent to December 31, 2012.

Escrow shares

As of September 30, 2013, a total of 3,044,325 (December 31, 2012 – 4,109,101) common shares were held under escrow. These common shares will be released from escrow at a rate of 15% every 6 months, over a period of 15 months.

13. STOCK OPTIONS

Commencing in 2005, the Company has granted, by way of directors resolutions, share options to directors, officers, employees and other service providers at the exercise price set out at the grant date. The Company has a rolling incentive stock option plan. Under the terms of the Company's stock option plan, the Board of Directors may grant options to directors, officers, employees, consultants and service providers equal to 10% of issued and outstanding common shares of the Company from time to time on a rolling basis. The plan provides for the granting of options at the closing price of the Company's stock on the day prior to the grant date. The option plan states that the Board of Directors are the administrators of the plan with defined vesting period for options granted. As part of the Searchlight transaction, all stock options were cancelled except for the Agents' Options.

(Unaudited and expressed in U.S. Dollars)

13. STOCK OPTIONS (cont'd)

A summary of the Company's outstanding share options is presented below:

	Outstanding options	
	Number of common shares	**Weighted average exercise price in (CDN$)**
Outstanding, January 1, 2012	**330,000**	**$ 1.54**
Options expired	(330,000)	1.54
Outstanding, December 31, 2012	**-**	**$ -**
Options granted	3,248,000	0.31
Outstanding, September 30, 2013	**3,248,000**	**$ 0.31**

On January 9, 2013, the Company granted 2,600,000 stock options to employees, officers, directors and consultants of the Company, whereby the option holders can purchase up to 2,600,000 shares at a price of CDN $0.30 per share. The options have six months to three years vesting terms and are exercisable until January 9, 2021. The weighted average fair value of the share options awarded on January 9, 2013, estimated using the Black-Scholes Model, was CDN $0.20 - $0.22 per option, with a total fair value of CDN $503,216. The Company used the Black-Scholes Model to estimate the fair value of the options at the grant date using the following weighted average assumptions: risk-free interest rate of 1.44% - 1.71%, dividend yield nil, expected volatility 147%, expected option life 8 years. During the three and nine months ended September 30, 2013, stock-based compensation recognized was $37,211 and $398,733 respectively (three and nine months ended September 30, 2012 – nil).

On January 28, 2013, the Company granted 548,000 stock options to employees, directors and consultants of the Company, whereby the option holders can purchase up to 548,000 shares at an exercise price of CDN $0.40 per share. The options have none to nine months vesting terms and are exercisable until January 28, 2016. The weighted average fair value of the share options awarded on January 28, 2013, estimated using the Black-Scholes Model, was CDN $0.38 per option, with a total fair value of $210,384. The Company used the Black-Scholes Model to estimate the fair value of the options at the grant date using the following weighted average assumptions: risk-free interest rate 1.72%, dividend yield nil, expected volatility 150%, expected option life 3 years. During the three and nine months ended September 30, 2013, stock-based compensation recognized was $10,241 and $208,002 respectively (three and nine months ended September 30, 2012 – nil).

On September 18, 2013, the Company granted 100,000 stock options to employees of the Company, whereby the option holders can purchase up to 100,000 shares at an exercise price of CDN $0.40 per share. The options have four month vesting terms and are exercisable until July 15, 2021. The weighted average fair value of the share options awarded on September 18, 2013, estimated using the Black-Scholes Model, was CDN $0.39 per option, with a total fair value of $38,715. The Company used the Black-Scholes Model to estimate the fair value of the options at the grant date using the following weighted average assumptions: risk-free interest rate 1.26%, dividend yield nil, expected volatility 189%, expected option life 8 years. During the three and nine months ended September 30, 2013, stock-based compensation recognized was $4,964.

14. DEFERRED SHARE UNITS

The Company has a Deferred Share Unit Plan ("DSU Plan") for the Company's Directors, Executive Officers and Service Providers ("Eligible Person"). The DSU Plan provides an alternative form of compensation to satisfy annual and special bonuses. The Company recognizes compensation expense for Deferred Share Units ("DSUs") based on the market price of the Company's stock. A DSU is automatically converted after the Eligible Person has terminated his/her service to the Company. DSUs are convertible to shares only, and the obligations for future settlement of DSUs are accrued as compensation expense and are included in accrued liabilities. Each reporting period, obligations are revalued for changes in the market value of LED's common shares (see Note 8).

(Unaudited and expressed in U.S. Dollars)

14. DEFERRED SHARE UNITS (cont'd)

DSU activity is presented below:

	Number of DSUs
Outstanding, January 1, 2013	**-**
Granted	950,000
Outstanding, September 30, 2013	**950,000**

During the three and nine months ended September 30, 2013, the Company recorded an expense of $65,149 and $380,580 respectively (three and nine months ended September 30, 2012 - $nil).

15. SEGMENTED INFORMATION

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. The majority of the Company's revenues are primarily attributable to its North American distributors:

	% of Revenues for the three months ended September 30, 2013	**% of Revenues for the nine months ended September 30, 2013**	**% of Accounts Receivable at September 30, 2013**	% of Revenues for the three months ended September 30, 2012	% of Revenues for the nine months ended September 30, 2012	% of Accounts Receivable at September 30, 2012
Distributor A	12%	11%	6%	91%	90%	91%
Distributor B	80%	81%	91%	-%	-%	-%
Total	**92%**	**92%**	**97%**	91%	90%	91%

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

	Three months ended September 30, 2013	**%**	Three months ended September 30, 2012	**%**	**Nine months ended September 30, 2013**	**%**	Nine months ended September 30, 2012	**%**
North America	**$ 911,387**	**100**	$ 2,866,510	100	**$ 2,303,860**	**100**	$ 4,902,037	100
Rest of World	**-**	**-**	19,324	<1	**-**	**-**	20,413	<1
	$ 911,387	**100**	$ 2,885,834	100	**$ 2,303,860**	**100**	$ 4,922,760	100

16. CAPITAL DISCLOSURES

The Company's objectives for managing capital are:

- To maintain financial strength and to protect its ability to meet its on-going liabilities;
- To safeguard the Company's ability to continue as a going concern in order to pursue further development of medical devices so that it can provide adequate returns for shareholders and benefits for other stakeholders**;**
- To fund capital projects for facilitation of business expansion provided there is sufficient liquidity of capital to enable the internal financing;
- to maximize returns for shareholders over the long term; and
- To maintain a capital base so as to maintain investor, creditor and market confidence.

(Unaudited and expressed in U.S. Dollars)

16. CAPITAL DISCLOSURES (cont'd)

The Company considers the items included in the consolidated statements of shareholders' equity as capital. The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares or return capital to shareholders. The Company is not subject to externally imposed capital requirements. There were no changes to the approach to capital management during the year.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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:

	September 30, 2013	December 31, 2012
Cash and cash equivalents		
Cash	$ 973,410	$ 969,584
Restricted cash	4,853	5,026
Loans and receivables		
Receivables	695,485	1,514,577
	$ 1,673,748	$ 2,489,187

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

	September 30, 2013	December 31, 2012
Non-derivative financial liabilities		
Trades payable	$ 667,922	$ 1,387,747
Finance lease obligations	7,685	9,861
	$ 675,607	$ 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.

(Unaudited and expressed in U.S. Dollars)

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

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 September 30, 2013, no accounts receivable are due beyond one year.

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

	September 30, 2013	December 31, 2012
Cash	$ 973,410	$ 969,584
Restricted cash	4,853	5,026
Receivables	695,485	1,514,577
	$ 1,673,748	$ 2,489,187

Trade accounts receivable balances of $683,338 as at September 30, 2013 (December 31, 2012 - $1,011,172) were aged as follows in the below table. It does not include financing proceeds receivable of $Nil and goods and services tax receivable of $12,147 as at September 30, 2013 (December 31, 2012 – $425,701 and $77,704 respectively).

	September 30, 2013	December 31, 2012
Current	$ 542,469	$ 314,365
31-60 days	51,730	565,152
Over 60 days	89,139	131,655
	$ 683,338	$ 1,011,172

<u>Liquidity risk</u>

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 September 30, 2013 are listed below. Refer to the Note 8 and 9 for other contractual maturities, lease obligations and commitments that are not included in the table below.

Trades payable was aged as follows as at September 30, 2013 and December 31, 2012 and does not include accrued liabilities of $270,330, DSU compensation of $388,722, warranty provision of $43,215 and state sales tax payable of $5,842 as at September 30, 2013 (December 31, 2012 - $279,312, $Nil, $15,550 and $6,400 respectively) which are all current:

	September 30, 2013	December 31, 2012
Current	$ 136,256	$ 500,309
31-60 days	92,379	236,348
Over 60 days	439,287	651,090
	$ 667,922	$ 1,387,747

(Unaudited and expressed in U.S. Dollars)

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

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

	Within one year	Between one and five years
Trades payable	$ 667,922	$ -
Finance lease obligations	3,498	4,187
	$ 671,420	**$ 4,187**

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 September 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.

18. RESTATEMENT

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 nine months ended September 30, 2012.

(Unaudited and expressed in U.S. Dollars)

18. RESTATEMENT (cont'd)

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

	As reported	Correcting adjustment	As restated
Consolidated statements of loss and comprehensive loss			
Sales	$ 1,564,073	$ 1,321,761	$ 2,885,834
Cost of goods sold	574,406	387,797	962,203
Depreciation and amortization	14,773	66	14,839
Mark to market adjustments on Canadian dollar denominated warrants	-	7,407	7,407
Foreign exchange (loss) gain	(15,852)	(6,694)	(22,546)
Net and comprehensive (loss) income for the period	(161,091)	914,734	753,643
Loss per share – basic and diluted	$ 0.00	$ 0.02	$ 0.02
Consolidated statements of shareholders' deficit			
Deficit, beginning of period	$ (24,084,268)	$ (2,095,692)	$ (26,179,960)
Deficit, end of period	$ (24,245,359)	$ (1,180,958)	$ (25,426,317)

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

	As reported	Correcting adjustment	As restated
Consolidated statements of loss and comprehensive loss			
Sales	$ 185,471	$ 4,737,289	$ 4,922,760
Cost of goods sold	2,031,302	(33,335)	1,997,967
Depreciation and amortization	45,467	(249)	45,218
Mark to market adjustments on Canadian dollar denominated warrants	-	(73,886)	(73,886)
Foreign exchange gain (loss)	(26,884)	(38,788)	(65,672)
Net and comprehensive loss for the period	(505,709)	(186,685)	(692,394)
Loss per share – basic and diluted	$ (0.01)	$ (0.01)	$ (0.02)
Consolidated statements of shareholders' deficit			
Deficit, beginning of period	$ (23,739,650)	$ (994,273)	$ (24,733,923)
Deficit, end of period	$ (24,245,359)	$ (1,180,958)	$ (25,426,317)

19. COMPARATIVE FIGURES

The comparative consolidated financial statements have been reclassified from financial statements previously presented to conform to the presentation of the current year's consolidated financial statements. The Canadian dollar denominated warrants are classified as liabilities (see Note 11) as a result of the change in functional currency (see Note 3).

20. SUBSEQUENT EVENTS

On October 3, 2013, the Company announced that effective October 10, 2013, Dr. David Gane, will be appointed as CEO. Dr. Gane is the former Vice President, Dental Imaging, for Carestream Dental LLC (a daughter company of Carestream Health LLC). LED's current CEO, company founder and President Peter Whitehead, will voluntarily transition out of his management role to concentrate on research, development, special projects and business opportunities.

On October 3, 2013, the Company also announced that it has granted a total of 1,700,000 incentive stock options to employees of the Company. Each stock option is exercisable to acquire one Common Share of the Company at $0.40 per share and the options have terms ranging from 32 months to 10 years.

On October 24, 2013, the Company announced its appointment of Lamar Roberts as Vice President of Sales and Marketing.

On October 28, 2013, the Company announced that it had received final approval of the TSX Venture Exchange and completed a non-brokered private placement of 15,000,000 units at an issue price of CDN$0.35 per unit for gross proceeds of up to $5.25 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 US$0.50 for a period of 24 months. LED may pay finders' fees with respect to certain subscriptions in accordance with TSX Venture Exchange policies. All of the securities issued in connection with the private placement will be subject to a restricted period that expires four months after the issuance date.

In connection with the private placement, the Company paid cash commissions of CDN$388,460 and has issued 1,109,887 finder's warrants to arm's length finders. Each finder's warrant is non-transferable and exercisable into one Common Share at an exercise price of US$0.50 for a period of 24 months.

On October 28, 2013, the Company also announced that it has granted a total of 1,500,000 incentive stock options to employees of the Company. Each stock option is exercisable to acquire one Common Share of the Company at $0.54 per share and the options have a term of approximately 32 months.

On October 29, 2013, the Company announced that it entered into a Canadian National Distribution Agreement with Sinclair Dental, effective September 15, 2013 for a period of one year, subject to the attainment of quarterly sales volume.

On November 5, 2013, the Company announced that its global distribution agreement for the VELscope® Vx product line between DenMat Holdings, LLC ("DenMat") and LED Medical Diagnostics' wholly owned subsidiary, LED Dental. Inc., is no longer an exclusive agreement for North America.