



## Chief Executive Officer Letter

Dear Shareholders,

True to our goal of transitioning LED Medical Diagnostics Inc. (“LED” or the “Company”) into a high-value dental imaging technology company, we continue to invest in our employees and operational infrastructure to optimize our ability to market, sell and support a growing portfolio of advanced dental diagnostic imaging technologies. We’ve created a new look and feel with a customer-facing corporate brand initiative, “LED Imaging - See the difference,” and we’re adding a number of new products to complement our market-leading VELscope® Vx product line. Our recently announced partnership with Ray Co. Ltd., a subsidiary of Samsung, will be to sell, install and provide support for the RAYSCAN α – Expert extra oral imaging system. We’re excited about our commitment to an expanded imaging product portfolio, and we’re looking forward to making additional product announcements in the near future.

LED remains committed to the success and ongoing development of its VELscope® Vx Enhanced Oral Assessment System product line. We have successfully transitioned from an exclusive to a non-exclusive strategy, and I’m pleased to inform you that Patterson Dental, Burkhart Dental, Sinclair Dental, Benco Dental, Atlanta Dental and Nashville Dental are now all VELscope® Vx distributors. This expanded dealer network will broaden the reach that VELscope will have in the marketplace. We are fully committed to the success of our VELscope distribution partners and will support their marketing and sales efforts with a dedicated, specialized inside and outside sales/support team. LED is also working closely with the BC Cancer Agency and Genome Canada to commercialize a progression-risk assessment test for oral cancer. It is our goal to expand the Company’s focus from the use of VELscope as an adjunctive oral screening device to include a test for risk assessment of pre-cancerous lesions, ultimately improving treatment outcomes of oral cancer using LED’s core VELscope technology.

### **Business Highlights**

Notable business developments and achievements include the following:

#### **Management Change**

- On October 4, 2013, the Company announced the appointment of Dr. David Gane as chief executive officer, effective October 10, 2013. Dr. Gane is the former vice president of dental imaging for Carestream Dental LLC (a daughter company of Carestream Health LLC).
- On October 24, 2013, the Company announced the appointment of Mr. Lamar Roberts as vice president of sales and marketing, and on February 25, 2014, announced his appointment as president of LED Dental Ltd., the Company’s wholly owned U.S. subsidiary. Mr. Roberts previously held senior executive positions with 360imaging, Carestream Dental and PracticeWorks.
- On March 26, 2014, the Company announced the appointment of Dr. Jeffrey Brooks as vice president of imaging of its wholly owned U.S. subsidiary, LED Dental Ltd. Dr. Brooks is a board certified oral and maxillofacial surgeon with 20 years of private practice experience.

#### **Product Highlights**

- On August 28, 2013, the Company announced that its VELscope® Vx Enhanced Oral Assessment System received the Pride Institute’s “Best of Class” Technology Award for 2013. This is the third consecutive year the Company has received this award.
- On March 5, 2014, the Company announced that its VELscope® Vx Enhanced Oral Assessment System received a REALITY CHOICE’S rating of 4.5 out of a possible 5 stars. Evaluators were tasked with

implementing the VELscope<sup>®</sup> Vx Enhanced Oral Assessment System in their practices and evaluating its features, including clinical utility, ease of operation, camera system use and marketing materials.

## Major Corporate Changes

- On January 14, 2014, the Company announced that it had signed an agreement with the BC Cancer Agency (“BCCA”) to create and commercialize a progression-risk assessment test for oral cancer. The test is based on a quantifiable genetic phenomenon known as “Loss of Heterozygosity” or “LOH.”
- On April 3, 2014, LED Dental Ltd. launched a new product division – LED Imaging – to reflect the subsidiary’s movement into the dental imaging category. This news comes shortly on the heels of LED Dental Ltd.’s recent expansion of its senior leadership team, including appointing key industry leaders Lamar Roberts and Dr. Jeffrey Brooks to the positions of president and vice president of imaging, respectively. The branding initiative includes a new logo to further unify the business under the LED Imaging name. Backed by an experienced senior leadership team, led by Dr. David Gane, LED Imaging is dedicated to a premium level of service and support before, during and after products are sold.

## Business Highlights

- On December 3, 2013, the Company announced that it entered a non-exclusive distribution partnership with Burkhart Dental Supply for the distribution of the Company’s VELscope<sup>®</sup> Vx Enhanced Oral Assessment System and product line in the United States market.
- On December 10, 2013, the Company announced that it entered a non-exclusive distribution partnership with Benco Dental Supply for the distribution of the Company’s VELscope<sup>®</sup> Vx Enhanced Oral Assessment System and product line in the United States market.
- On January 21, 2014, the Company announced that it entered a non-exclusive distribution partnership with Patterson Dental for the distribution of the Company’s VELscope<sup>®</sup> Vx Enhanced Oral Assessment System and product line in the United States and Canadian markets.
- On April 2, 2014, the Company announced that the LED Imaging division of its wholly owned subsidiary, LED Dental Ltd., is partnering with Ray Co., Ltd., a subsidiary of Samsung, to sell, install and provide support for the RAYSCAN α – Expert dental imaging system.

## Financial Events

- Revenue decrease of 60% from the year ended December 31, 2012, which was primarily due to lower revenues attributable to the Company’s exclusive distribution partner at the time, who did not meet its minimum purchase requirements. The former exclusive distribution partner no longer maintains exclusivity effective September 26, 2013.
- The net loss for the year ended December 31, 2013, was \$6,955,217, as compared to the net loss during the year ended December 31, 2012, of \$866,933. The increase in net loss was primarily due to the non-cash expenses related to the mark to market impact of the issuance of Canadian dollar denominated warrants and other non-cash expenses including stock-based compensation, deferred share unit compensation and other operating expenses with the remainder due to the loss from operations. Stock-based awards were granted to the new executive team, directors and employees, whereas no awards were issued in 2012.
- EBITDA<sup>1</sup> was negative \$2,120,231 for the year ended December 31, 2013, as compared to EBITDA of negative \$728,135 for the year ended December 31, 2012. The Company experienced a decline in EBITDA primarily due to non-cash expenses incurred.
- Cash used in operations was \$3,060,948 during the year ended December 31, 2013, as compared to \$982,679 during the year ended December 31, 2012. The increase was primarily due to the increased net loss and movement of working capital items inclusive of the repayment of advances from a previously exclusive distributor and pay-down of the Company’s trade payables offset by receipts of the Company’s trade receivables.

---

<sup>1</sup> 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 net loss and comprehensive loss and excludes interest; income taxes; depreciation; amortization; finder’s warrants issuance costs; stock-based compensation; deferred share unit compensation; mark to market adjustments on Canadian dollar denominated warrants; foreign exchange gain or loss; and other income. This measure does not have a comparable IFRS measure and is used by the Company to manage and evaluate the cash operating loss of the business.

2014 is expected to be a transformational year for LED as our new management team expands our VELscope distribution network and transitions the Company from a single product strategy to a diverse portfolio of digital imaging products. The execution of our strategy, which will take an investment in time and capital in the current year, is designed to position the Company for long-term, sustainable growth and success as a leading player in the dental imaging market.

Thank you for your interest in our Company, our products and our services.

Sincerely,

Dr. David Gane  
Chief Executive Officer  
April 15, 2014

*Please refer to the risk factors and forward-looking statements included in Management's Discussion & Analysis filed by the Company on Sedar for the above reporting period on April 15, 2014.*