MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION & RESULTS OF OPERATIONS

FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis has been prepared by management as of April 10, 2014 and should be read in conjunction with the audited consolidated financial statements and related notes of LED Medical Diagnostics Inc. ("LED" or the "Company") as at and for the three months and year ended December 31, 2013 (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, including the Company's Annual Information Form ("AIF"), are available on SEDAR 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 Company's future plans, objectives, performance, revenues, growth, profits, operating expenses or the Company's underlying assumptions and the Company's intention to expand its technology beyond dental applications including "costs of production", "capital expenditures", "costs and timing of the development of new products", "hedging practices", "currency exchange rate fluctuations", "requirements for additional capital", "government regulation of medical device operations" and "insurance coverage". Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", "believes" or variations of such words and phrases or statements that certain actions, events or results "may", "would", "could", "might" or "will be taken", "occur" or "be achieved" or the negative connotation thereof. Persons reading this Management's Discussion and Analysis are cautioned that such statements or information are only predictions, and that the Company'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; 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 Company's products and services; customer and industry analyst perception of the Company 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 Company 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 Company's reports filed on SEDAR, including its financial statements and management's discussion and analysis for the year ended December 31, 2013. In drawing a conclusion or making a forecast or projection set out in the forward-looking information, the Company takes into account the following material factors and assumptions in addition to the above factors: the Company's ability to execute on its business plan; the acceptance of the Company's products and services by its customers; the timing of execution of outstanding or potential customer contracts by the Company; the sales opportunities available to the Company; the Company's subjective assessment of the likelihood of success of a sales lead or opportunity; the Company's historic ability to generate sales leads or opportunities; and that sales will be completed at or above the Company's estimated margins. This list is not exhaustive of the factors that may affect the Company'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 Management's Discussion and Analysis are qualified by this cautionary statement and there can be no assurance that actual results or developments anticipated by the Company will be realized. The Company 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. The Company is listed on the TSX Venture Exchange (TSX-V) under the trading symbol LMD.

As of the date of this report, LED has three wholly-owned operating subsidiaries, LED Dental (US) Ltd., which was incorporated under the laws of Washington State, LED Dental Inc., which was incorporated under the BCBCA and Essentia Genetics Corp., which was incorporated under the BCBCA on January 14, 2014.

General Development of the Business

Headquartered in Burnaby, B.C., LED was founded in 2003 by Chief Science Officer 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 13,000 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.

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 expands into more 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, 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 an 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 Company employees and key opinion leaders in the dental industry who are supportive of LED's products.

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 occurs 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 tumors. 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. 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®.

FORWARD LOOKING COMPANY OBJECTIVES

The Company has implemented a new executive management team in the fourth quarter of 2013 detailed below under "Management Change". Peter Whitehead, the Company's former CEO, voluntarily transitioned into the role of Chief Science Officer to concentrate on research, development, special projects and business opportunities.

The Company's objectives are:

- to centralize and build sales, marketing and operations teams in Atlanta, Georgia;
- make significant investments into sales and marketing resources;
- optimize current relationships with VELscope® sales channels via non-exclusive distributors in North America;
- increase investment in research and development; and
- add complementary imaging products to build out a robust portfolio and diversify revenue streams

SIGNIFICANT EVENTS

Management Change

- On March 26, 2014, the Company announced the appointment of Dr. Jeffrey Brooks as Vice President of Imaging of its wholly owned US subsidiary LED Dental Ltd. Dr. Brooks is a board certified Oral and Maxillofacial Surgeon with 20 years of private practice experience.
- 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 US subsidiary. Mr. Roberts held previous Senior Executive positions with 360imaging, Carestream Dental and PracticeWorks; and
- 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, Dental Imaging, for Carestream Dental LLC (a daughter company of Carestream Health LLC).

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 launched a new product division known as "LED Imaging" to reflect the subsidiary's Company's movement into the dental imaging category. This news comes shortly on the heels of LED Dental's recent expansions 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 will include 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.

Product and Customer Highlights

- 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® Vx Enhanced Oral Assessment System into their practices and evaluating its features, including clinical utility, ease-of-operation, camera system use and marketing materials; and
- 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.

Business Highlights

- On April 2, 2014 the Company announced that the LED Imaging Division of its wholly-owned subsidiary, LED Dental Ltd., has partnered with Ray Co. Ltd., a subsidiary of Samsung, to sell, install and provide support for the RAYSCAN α – Expert dental imaging system;
- 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® Vx Enhanced Oral Assessment System and product line in the United States and Canadian markets;
- 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® Vx Enhanced Oral Assessment System and product line in the United States market; and
- 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® Vx Enhanced Oral Assessment System and product line in the United States market.

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 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 marked to market impact of the issuance of Canadian dollar denominated warrants which are recorded as a liability and other non-cash expenses including stock-based compensation, deferred share unit compensation and other operating expenses. Stock-based awards were granted to the new executive team, employees and Directors, whereas no awards were issued in 2012.

- EBITDA[1] was negative $2,120,231 for the year ended December 31, 2013 compared to EBITDA of negative $728,135 for the year ended December 31, 2012 The Company has seen a steady decline in its EBITDA primarily due to its former exclusive distributor missing its minimum order requirements. The Company has updated its calculation to EBITDA for the current period and all prior periods to more accurately evaluate the cash operating loss of the business. Refer to a detailed EBITDA reconciliation below.

- Cash used in operations was $3,060,948 during the year ended December 31, 2013 compared to $982,679 during the year ended December 31, 2012. The increase was primarily due to the increased net loss, 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.

SELECTED QUARTERLY INFORMATION

The information in the tables below has been derived from the Company's unaudited interim condensed consolidated 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.

[1] *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.*

(in US$ '000's)	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
Cash	$ 4,359	$ 973	$ 1,718	$ 607	$ 970	$ 395	$ 754	$ 921
Working capital	4,446	741	972	(1,109)	(97)	(1,095)	(1,870)	(1,392)
Total assets	5,824	2,619	3,550	1,996	3,490	2,501	3,436	2,453
Long-term financial liabilities	3,676	3,967	2,289	108	147	70	64	361
Shareholders' equity (deficit)	855	(3,135)	(1,219)	(1,110)	(128)	(1,035)	(1,789)	(1,594)

Consolidated Statements of Operations and Deficit *(in US$ '000's, except earnings per share)*	Three months ended December 31, 2013	Three months ended September 30, 2013	Three months ended June 30, 2013	Three months ended March 31, 2013	Three months ended December 31, 2012	Three months ended September 30, 2012	Three months ended June 30, 2012	Three months ended March 31, 2012
Revenues	$ 216	$ 911	$ 1,083	$ 309	$ 1,390	$ 2,886	$ 1,038	$ 999
Cost of goods sold	424	331	447	146	748	962	473	562
Gross margin	(208)	580	636	163	642	1,924	565	437
Expenses	1,509	840	1,012	1,450	740	1,128	1,072	1,415
Operating (loss) income	(1,717)	(260)	(376)	(1,287)	(98)	796	(507)	(978)
Other expenses (income)	(264)	1,699	1,826	44	76	29	(312)	273
Income tax (recovery) expense	8		1	3	-	13	-	-
Net (loss) income	$ (1,461)	$ (1,959)	$ (2,201)	$(1,334)	$ (175)	$ 754	$ (195)	$ (1,251)
Net (loss) income per share (basic and diluted)	$ (0.02)	$ (0.03)	$ (0.05)	$ (0.03)	$ (0.01)	$ 0.02	$ (0.01)	$ (0.03)

The Company completed a private placement in October 2013 for gross proceeds of CDN $5.25 million. This placement is the most significant reason for the sharp incline in cash, working capital and total assets during the quarter ended December 31, 2013 as compared to past quarters. Long-term financial liabilities are primarily comprised of warrants, which is consistent for the three month periods ended December 31, September 30 and June 30.

The Company incurred a significant loss for each of the three month periods in 2013, primarily due to non-cash mark to market adjustments on Canadian dollar denominated warrants. For the three month period ended March 31, 2013, the Company's loss was primarily due to decreased revenues. See Financial Results section below for further discussion on the selected quarterly income statement information.

FINANCIAL RESULTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2013

The following analysis of the results of operations for the three months ended December 31, 2013 includes comparisons to the three months ended September 30, 2013 and December 31, 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. Revenue is expressed net of distributor volume rebates, price discounts and warrant expense of $7,335, $6,635 and $530,580 in the three months ended December 31, 2013, September 30, 2013 and December 31, 2012, respectively.

	Three months ended December 31, 2013	Three months ended September 30, 2013	Three months ended December 31, 2012
Total net revenues	**$ 215,714**	$ 911,387	$ 1,389,994

To date, the Company has had a significant portion of its revenues derived from sales to its former exclusive distribution partners. The Company has transitioned to a non-exclusive distribution structure by terminating all previously exclusive distribution rights and entering non-exclusive distribution agreements with multiple distribution partners. During this transition period, the Company's underwent a general shift in resources from sales and marketing to administration as new distribution agreements were entered.

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 two North American distributors:

	Three months ended December 31, 2013	Three months ended September 30, 2013	Three months ended December 31, 2012
Revenue	**$ 210,071**	$ 822,941	$ 1,097,209
Percentage of total revenue	**97%**	90%	79%

Gross Margin[2]

The Company experienced the following gross margin for the periods outlined:

	Three months ended December 31, 2013	**%**	Three months ended September 30, 2013	%	Three months ended December 31, 2012	%
Revenue	**$ 215,714**		$ 911,387		$ 1,389,994	
Cost of sales	**424,018**		331,330		747,510	
Gross margin	**$ (208,304)**	**(97)%**	$ 580,057	64%	$ 642,484	46%

The Company experienced negative gross margin for the three months ended December 31, 2013 as a result of the Company not recognizing revenues on shipments made to one of its distributors, due to their right to return units. Inclusive of this adjustment for approximately $400,000, the Company experienced a decline in gross margin to 32%. The decrease in gross margin is due to the write-off of obsolete inventories totaling approximately $115,000. Inclusive of both accounting related adjustments, the re-calculated gross margin is 51%, which is slightly higher than the three month period ended December 31, 2013 due to the distribution of sales between products, which vary in gross margin.

[2] *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 December 31, 2013	Three months ended September 30, 2013	Three months ended December 31, 2012
Sales and marketing	**$ 434,577**	$ 158,776	$ 349,248
Research and development	**120,623**	121,706	94,980
Administration	**474,750**	439,391	281,761
Stock-based compensation	**309,818**	45,898	-
Deferred share unit compensation	**(149,968)**	65,149	-
Other operating expenses	**319,686**	9,463	14,558
Total expenses	**$ 1,509,486**	$ 840,383	$ 740,547
As a percentage of total net revenue	**700%**	92%	53%

The increase in expenses was primarily due to increased sales and marketing expenses, stock-based compensation expense and finder's warrants issuance costs (included in other operating expenses) offset by a decrease in deferred share unit compensation compared to the previous three months ended September 30, 2013. Expenses during the three months ended December 31, 2013 were greater than the three months ended December 31, 2012, due to increases in all areas of expenditures except for deferred share unit compensation.

Sales and Marketing

	Three months ended December 31, 2013	Three months ended September 30, 2013	Three months ended December 31, 2012
Sales and marketing	**$ 434,577**	$ 158,776	$ 349,248
As a percentage of total net revenue	**201%**	17%	25%

The Company has sixteen sales and marketing employees, of whom eight are located in the United States and eight are located in Canada. Sales personnel are compensated via a base salary plus commissions. The Company's Vice President of Sales and Marketing manages and performs marketing, business development and direct sales functions.

The increase in sales and marketing expense over the previous three months ended September 30, 2013 and December 31, 2012 was due to the increase in employee related costs and the termination of Company's previously exclusive distribution partnership which contained a shared marketing cost agreement.

Research and Development

	Three months ended December 31, 2013	Three months ended September 30, 2013	Three months ended December 31, 2012
Research and development	**$ 120,623**	$ 121,706	$ 94,980
As a percentage of total net revenue	**56%**	13%	7%

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. Research and development costs are consistent for the three month periods ended December 31, 2013 and September 30, 2013. The increase in research and development costs as compared to the three months ended December 31, 2012 is attributable to increased benefit costs and effects of foreign exchange.

Administration

	Three months ended December 31, 2013	Three months ended September 30, 2013	Three months ended December 31, 2012
Administration	**$ 474,750**	$ 439,391	$ 281,761
As a percentage of total net revenue	**220%**	48%	20%

Administration expenses include executive and administrative staff salaries, facilities, public company costs, insurance, accounting and legal fees as well as various general administrative costs. The increase for three months ended December 31, 2013 over the three months ended September 30, 2013 and December 31, 2012 was primarily due to increased management staff, professional fees and insurance.

Other Operating Expenses

	Three months ended December 31, 2013	Three months ended September 30, 2013	Three months ended December 31, 2012
Depreciation of property, plant and equipment	**$ 3,209**	$ 3,010	$ 8,107
Amortization of intellectual property	**6,451**	6,453	6,451
Finder's warrants issuance costs	**310,026**	-	-
Total other operating expenses	**$ 319,686**	$ 9,463	$ 14,558

The increase in other operating expenses is due to the issuance of finder's warrants in connection with the Company's private placement completed in October 2013.

Other Expenses

	Three months ended December 31, 2013	Three months ended September 30, 2013	Three months ended December 31, 2012
Mark to market adjustments on Canadian dollar denominated warrants	**$ 545,259**	$ (2,065,653)	$ (77,730)
Foreign exchange gain (loss)	**(280,322)**	366,435	1,162
Other income	**-**	-	91
Total other expenses	**$ 264,937**	$ (1,699,218)	$ (76,477)

Total other expenses for the three months ended December 31, 2013 and September 30, 2013 was attributable to the mark to market adjustments on Canadian dollar denominated warrants offset by a foreign exchange gain. Total other expenses for the three months ended December 31, 2012 was attributable to the mark to market adjustments on Canadian dollar denominated warrants and a foreign exchange loss, offset by miscellaneous income. The change in mark to market adjustments on Canadian dollar denominated warrants fluctuates from period to period based on volatility, share price, risk-free interest rates and warrant exercises.

EBITDA[1]

	Three months ended December 31, 2013	Three months ended September 30, 2013	Three months ended December 31, 2012
Net and comprehensive loss	**$ (1,460,801)**	$ (1,959,503)	$ (174,538)
Add back:			
Income taxes	**7,947**	(41)	-
Depreciation of equipment	**3,209**	3,010	8,107
Amortization of intellectual property	**6,451**	6,453	6,451
Finders warrants issuance costs	**310,026**	-	-
Stock-based compensation	**309,818**	45,898	-
Deferred share unit compensation	**(149,968)**	65,149	-
Mark to market adjustments on Canadian dollar denominated warrants	**(545,259)**	2,065,653	77,730
Foreign exchange loss (gain)	**280,322**	(366,435)	(1,161)
Other income	**-**	-	(91)
EBITDA	**$ (1,238,255)**	$ (139,816)	$ (83,502)

The Company has updated its calculation to EBITDA for the current period and all prior periods to more accurately evaluate the cash operating loss of the business. The decrease in EBITDA was primarily due to decreased revenues and the incurrence of non-cash expenses related to the mark to market adjustments of Canadian dollar denominated warrants and declining revenues.

Net Loss and Comprehensive Loss

	Three months ended December 31, 2013	Three months ended September 30, 2013	Three months ended December 31, 2012
Net loss and comprehensive loss	**$ (1,452,854)**	$ (1,959,503)	$ (174,538)
Loss per share (basic and fully diluted)	**$ (0.02)**	(0.03)	$ (0.01)

Net loss for the three months ended December 31, 2013 was greater than the three months ended December 31, 2012 due to an increase in non-cash expenses related to the issuance of Canadian dollar denominated warrants. The net loss was also impacted by a significant decrease in revenues as compared to the same period in 2012.

The Company incurred a significant comprehensive loss which was largely comprised of non-cash expenses. The incurred comprehensive loss, excluding non-cash expenses was primarily due to decreased revenues as a result of the Company's formerly exclusive distributor not reaching its minimum order targets.

SELECTED ANNUAL INFORMATION

The following selected annual information of the results of operations for the year ended December 31, 2013 includes comparisons to the year ended December 31, 2012 and December 31, 2011.

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Revenues	**$ 2,519,574**	$ 6,312,754	$ 5,707,670
Operating loss	**3,640,885**	787,911	2,780,397
Net loss and comprehensive loss	**6,955,217**	866,933	4,397,514
Loss per share (basic and diluted)	**0.13**	0.02	0.13

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Total assets	**$ 5,823,537**	$ 3,489,536	$ 2,765,545
Total non-current financial liabilities	**$ 3,676,148**	$ 147,346	$ 9,861

See Financial Results section below for discussion on Revenue and Net Loss for the year. The increase in total assets is due to an increase in cash as a result of the Company's private placement completed in October 2013. This is offset by the pay down of trade payables and advances from distributor.

FINANCIAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2013

The following analysis of the results of operations for the year ended December 31, 2013 includes comparisons to the year ended December 31, 2012.

Revenues

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 $29,342 in the year ended December 31, 2013 and $367,225 in the year ended December 31, 2012.

	Year ended December 31, 2013	Year ended December 31, 2012	Change
Total revenue	**$ 2,519,574**	$ 6,312,754	(60)%

The decrease in revenues is attributable to the Company's exclusive distribution partner, at the time, not meeting its minimum purchase requirements. The former distribution partner no longer maintains exclusivity effective September 26, 2013. Subsequent to this date, the Company has transitioned to a non-exclusive distribution structure by terminating all previously exclusive distribution rights and entering non-exclusive distribution agreements with multiple distribution partners.

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 two North American distributors:

	Year ended December 31, 2013	Year ended December 31, 2012	Change
Revenue	**$ 2,217,225**	$ 5,744,606	(61)%
Percentage of total revenue	**88%**	91%	

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

	Year ended December 31, 2013	**%**	Year ended December 31, 2012	%	Change
U.S.	**$ 2,338,886**	93%	$ 4,891,762	77%	(52)%
Canada	**180,688**	7%	1,042,455	17%	(83)%
Rest of World	-	0%	378,537	6%	(100)%

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

Gross Margin[2]

The Company experienced gross margin for the following periods:

	Year ended December 31, 2013	**%**	Year ended December 31, 2012	%	Change
Revenue	**$ 2,519,574**		$ 6,312,754		(60)%
Cost of goods sold	**1,348,223**		2,745,477		(51)%
Gross margin	**$ 1,171,351**	**46%**	$ 3,567,277	57%	(67)%

LED had a lower percentage margin on sales for the year ended December 31, 2013 due to the Company not recognizing revenues on shipments made to one of its distributors, due to their right to return units. This is offset by an increased margin on the sale of consumables as compared to the prior year.

Expenses

The Company reports its operating expenses as follows:

	Year ended December 31, 2013	Year ended December 31, 2012	Change
Sales and marketing	**$ 1,252,688**	$ 2,564,798	(51)%
Research and development	**442,880**	523,492	(15)%
Administration	**1,596,014**	1,207,122	32%
Stock-based compensation	**907,509**	-	100%
Deferred share unit compensation	**230,613**	-	100%
Other operating expenses	**382,532**	59,776	540%
Total expenses	**$ 4,812,236**	$ 4,355,188	10%
As a percentage of total net revenue	**191%**	69%	

The increase in expenses is primarily due to the incurrence of non-cash expenses related to stock-based compensation, deferred share unit compensation and finder's warrants issuance costs, which comprises $344,131 of the $382,532 other operating expenses. These increases are offset by a decrease in sales and marketing expenses, as detailed below.

Sales and Marketing

	Year ended December 31, 2013	Year ended December 31, 2012	Change
Sales and marketing	**$ 1,252,688**	$ 2,564,798	(51)%
As a percentage of total net revenue	**50%**	41%	

The decrease in sales and marketing expenses is due to a decrease in employee related costs, commissions, travel and entertainment and a decrease in marketing costs due to the Company's formerly exclusive distribution partner assuming marketing expenses.

Research and Development

	Year ended December 31, 2013	Year ended December 31, 2012	Change
Research and development	**$ 442,880**	$ 523,492	(15)%
As a percentage of total net revenue	**18%**	8%	

The decrease in research and development costs is due to a decrease in costs incurred in managing the lifecycle of the VELscope® Vx.

Administration

	Year ended December 31, 2013	Year ended December 31, 2012	Change
Administration	**$ 1,596,014**	$ 1,207,121	32%
As a percentage of total net revenue	**63%**	19%	

The increase in administration costs is primarily due to an increase in professional fees related to the Company's Fiscal 2012 Audit and ongoing legal fees incurred in ongoing business development matters. The increase in legal fees incurred is not an indication of litigation against the Company.

Other Operating Expenses

	Year ended December 31, 2013	Year ended December 31, 2012	Change
Depreciation of property, plant and equipment	**$ 12,596**	$ 33,971	(63)%
Amortization of intellectual property	**25,805**	25,805	0%
Finder's warrants issuance costs	**344,131**	-	100%
Total other operating expenses	**$ 382,532**	$ 59,776	540%

The increase in other operating expenses is due to the non-cash expense due to the issuance of finder's warrants in connection with the private placements the Company completed in June and October 2013.

Other Expenses

	Year ended December 31, 2013	Year ended December 31, 2012	Change
Mark to market adjustments on Canadian dollar denominated warrants	$ (3,277,328)	$ (3,843)	(85,180)%
Foreign exchange gain (loss)	(24,958)	(64,511)	(61)%
Other income	-	2,172	(100)%
Total other expenses	**$ (3,302,286)**	$ (66,182)	-4,890%

Total other expenses was primarily attributable to a non-cash expense related to the mark to market adjustments on Canadian dollar denominated warrants offset by a foreign exchange gain.

EBITDA[1]

	Year ended December 31, 2013	Year ended December 31, 2012	Change
Total net loss and comprehensive loss	$ (6,955,217)	$ (866,933)	(702)%
Add back:			
Income taxes	12,046	12,840	(6)%
Depreciation of equipment	12,596	33,971	(63)%
Amortization of intellectual property	25,805	25,805	0%
Finders warrants issuance costs	344,131	-	100%
Stock-based compensation	907,509	-	100%
Deferred share unit compensation	230,613	-	100%
Mark to market adjustments on Canadian dollar denominated warrants	3,277,328	3,843	85,180%
Foreign exchange loss	24,958	64,511	(61)%
Other income	-	(2,172)	(100)%
EBITDA	**$ (2,120,231)**	$ (728,135)	(171)%

The Company has updated its calculation to EBITDA for the current period and all prior periods to more accurately evaluate the cash operating loss of the business. The decrease in EBITDA was primarily due to the incurrence of a significant amount of non-cash expenditures comprised of stock-based compensation of $907,509, deferred share unit compensation of $230,613, finder's warrants issuance costs of $344,131 and mark to market adjustments on Canadian dollar denominated warrants of $3,532,491. In total, non-cash expenses incurred in 2013 totaled $5,053,145.

Net Loss and Comprehensive Loss

	Year ended December 31, 2013	Year ended December 31, 2012	Change
Total net loss and comprehensive loss	**$ (6,955,217)**	$ (866,933)	(702)%
Loss per share (basic and fully diluted)	**$ (0.13)**	$ (0.02)	

Net loss and comprehensive loss increased due to the incurrence of non-cash expenses related to the issuance of Canadian dollar denominated warrants which are marked to market at each period end, stock-based compensation, deferred share unit compensation and decreased revenues as a result of the Company's formerly exclusive distributor not reaching its minimum order targets.

The Company incurred a significant comprehensive loss which was largely comprised of non-cash expenses. The incurred comprehensive loss, excluding non-cash expenses was primarily due to decreased revenues as a result of the Company's formerly exclusive distributor not reaching its minimum order targets.

LIQUIDITY AND CAPITAL RESOURCES

The Company finances its operations and capital expenditures through cash generated from operations and equity financings. As at December 31, 2013, the Company had cash of $4,358,986 with working capital[3] of $4,445,795 as compared to cash of $969,584 and negative working capital of $96,749 as at December 31, 2012.

Three months ended December 31, 2013

Cash (used in) provided by:	**Three months ended December 31, 2013**	Three months ended September 30, 2013	Three months ended December 31, 2012
Operating activities	**$ (828,053)**	$ (739,404)	$ (502,271)
Investing activities	**189**	(1,975)	(4,039)
Financing activities	**4,213,440**	(3,646)	1,080,831
Increase (decrease) in cash	**$ 3,385,576**	$ (745,025)	$ 574,521

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 December 31, 2013 pertain to the purchasing of equipment offset by restricted cash being freed up. There were minimal investing activities during the three months ended December 31, 2012 which consisted of restricted cash being freed up and equipment disposals.

The financing activities during the three months ended December 31, 2013 relate to the proceeds from a private placement. The financing activities during the three months ended December 31, 2012 relate to finance lease payments and the repayment of a shareholder loan.

Year ended December 31, 2013

Cash (used in) provided by:	**Year ended December 31, 2013**	Year ended December 31, 2012
Operating activities	**$ (3,060,948)**	$ (982,679)
Investing activities	**(2,705)**	2,798
Financing activities	**6,453,055**	973,693
Increase (decrease) in cash	**$ 3,389,402**	$ (6,188)

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 VELscope® Vx product, and overall corporate administration activities. The decrease was comprised of the settlement of a large portion of the advances from distributor and pay-down of trade payables and the Market adjustment on the Company's Canadian dollar outstanding Warrants.

The investing activities pertain to the Company purchasing equipment offset by restricted cash being freed up.

[3] *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.*

The financing activities are attributable to private placement proceeds and proceeds from the exercise of share purchase warrants offset by repayment of finance lease obligation. The financing activities during the year ended December 31, 2012 relate to private placement proceeds offset by the repayment of capital lease obligations and shareholder loans.

STAFFING LEVELS

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

Head Count	**As at December 31, 2013**	As at December 31, 2012
Sales and marketing	**16**	9
Research and development	**1**	1
Administration	**6**	4
Total	**23**	14

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 December 31, 2013 are $71,718 for the year ending December 31, 2013.

INTANGIBLE ASSET IMPAIRMENT

None.

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 year ended December 31, 2013 and 2012, the Company paid or accrued the following compensation expenses to key personnel of the Company:

Cash provided by (used in):	**Year ended December 31, 2013**	Year ended December 31, 2012,
Short-term compensation*	**$ 510,317**	$ 596,633
Stock-based payments	**$ 799,594**	$ 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 $29,288 during the year ended December 31, 2013 (2012 - $92,622).

During the year ended December 31, 2013, a total of 4,805,000 options were awarded to directors and key management under the Company's stock option plan (year ended December 31, 2012 – nil).

PROPOSED TRANSACTIONS

None.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

These consolidated financial statements of the Company, approved by the Board of Directors on April 10, 2014, have been prepared in accordance with International Financial Reporting Standards ("IFRS") and their interpretations adopted by the International Accounting Standards Board ("IASB"). For a complete description of the Company's significant accounting policies in accordance with IFRS, please refer to note 3 of the consolidated financial statements for the year ended December 31, 2013.

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.

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

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.

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 carrying 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 Adopted as of January 1, 2013

The Company has applied the following new and revised IFRSs in these audited consolidated financial statements. Other than increased disclosures, there was no impact to the Company's consolidated financial statements resulting from these IFRS standards.

Effective from January 1, 2013, IFRS 10 – Consolidated Financial Statements ("IFRS 10") supersedes SIC 12 – Consolidation – Special Purpose Entities and the requirements relating to consolidated financial statements in IAS 27 – Consolidated and Separate Financial Statements. Concurrent with the issuance of IFRS 10, the International Accounting Standards Board ("IASB") IASB issued IFRS 11 – Joint Arrangements ("IFRS 11") and IFRS 12 – Disclosure of Interests in Other Entities ("IFRS 12") and reissued IAS 27 – Separate Financial Statements and IAS 28 – Investments in Associates and Joint Ventures.

IFRS 10 – Consolidated Financial Statements

IFRS 10 establishes control as the basis for an investor to consolidate its investees and defines control as an investor's power over an investee with exposure, or rights, to variable returns from the investee and the ability to affect the investor's returns through its power over the investee.

IFRS 11 – Joint Arrangements

IFRS 11 supersedes IAS 31 – Interests in Joint Ventures and SIC 13 – Jointly Controlled Entities – Non-Monetary Contributions by Venturers. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures based on the rights and obligations of the parties to the joint arrangements. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement ("joint operators") have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement ("joint venturers") have rights to the net assets of the arrangement. IFRS 11 requires that a joint operator recognize its portion of assets, liabilities, revenues and expenses of a joint arrangement, while a joint venture recognizes its investment in a joint arrangement using the equity method.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 combines and enhances the disclosure requirements for the Company's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The requirements of IFRS 12 include enhanced reporting of the nature of risks associated with the Company's interests in other entities, and the effects of those interests on the Company's consolidated financial statements.

IFRS 13 – Fair Value Measurement

IFRS 13 defines fair value and sets out a single framework for measuring fair value which is applicable to all IFRSs that require or permit fair value measurements or disclosures about fair value measurements. IFRS 13 requires that when using a valuation technique to measure fair value, the use of relevant observable inputs should be maximized while unobservable inputs should be minimized. The Company has applied IFRS 13 on a prospective basis, commencing January 1, 2013. Additional disclosure on the fair value of certain financial instruments is included in the consolidated financial statements as a result of applying IFRS 13.

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 replaces the current IAS 39 Financial Instruments Recognition and Measurement. The standard introduces new requirements for classifying and measuring financial assets and liabilities. There is no required compliance date as the IASB decided that the previous mandatory effective date of January 1, 2015, would not allow sufficient time for entities to prepare to apply the new standard because the impairment phase of the IFRS project has not yet been completed. Accordingly, the IASB decided that a new day should be decided upon when the entire IFRS 9 project is closer to completion The Company has not yet evaluated the impact on the financial statements.

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

IAS 32 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 does not expect the application of the offsetting requirements to have a material impact on the Company's consolidated 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:

Financial Assets		As at December 31, 2013		As at December 31, 2012
Cash and cash equivalents				
Cash	**$**	**4,358,986**	$	969,584
Restricted cash		**-**		5,026
Loans and receivables				
Receivables		**503,736**		1,514,577
Total	**$**	**4,862,722**	$	2,489,187

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

Financial Liabilities		As at December 31, 2013		As at December 31, 2012
Non-derivative financial liabilities				
Trades payable	**$**	**511,535**	$	1,387,747
Accrued liabilities		**268,451**		279,312
Warranty provision		**7,858**		15,550
State and Provincial sales tax payable		**5,202**		6,400
Advances from distributor		**495,494**		1,778,112
Financial lease obligations		**6,880**		9,861
Derivative financial liabilities				
Warrants		**3,672,958**		140,467
Total	**$**	**4,968,378**	$	3,617,449

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.

Details of the Company's warrants and information about the fair value hierarchy as at December 31, 2013 are as follows:

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value at December 31, 2013
Warrants	-	$ 3,672,958	-	$ 3,672,958
Total	**-**	**$ 3,672,958**	**-**	**$ 3,672,958**

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 December 31, 2013, no accounts receivable are due beyond one year.

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

Credit Risk		**As at December 31, 2013**		As at December 31, 2012
Cash	**$**	**4,358,986**	$	969,584
Restricted cash		**-**		5,026
Receivables		**503,736**		1,514,577
Total	**$**	**4,862,722**	$	2,489,187

Trade accounts receivable balances of $490,800 as at December 31, 2013 (December 31, 2012 - $1,011,172) were aged as follows in the below table. The below total does not include financing proceeds receivable of $Nil and goods and services tax receivable of $12,936 as at December 31, 2013 (December 31, 2012 – $425,701 and $77,704 respectively).

Accounts Receivable Aging		**As at December 31, 2013**		As at December 31, 2012
Current	**$**	**318,333**	$	314,365
31 - 60 days		**75,059**		565,152
Over 60 days		**97,408**		131,655
Total	**$**	**490,800**	$	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 December 31, 2013 are listed below.

Trade payables was aged as follows as at December 31, 2013 and December 31, 2012 and does not include accrued liabilities of $268,451, warranty provision of $7,858 and state sales tax payable of $5,202 as at December 31, 2013 (December 31, 2012 - $279,312, $15,550 and $6,400 respectively) which are all current:

Accounts Payable Aging		As at December 31, 2013		As at December 31, 2012
Current	$	**118,547**	$	500,309
31 - 60 days		**109,598**		236,348
Over 60 days		**283,390**		651,090
Total	$	**511,535**	$	1,387,747

The following is an analysis of the contractual maturities of the Company's non-derivative accrued liabilities as at December 31, 2013:

Contractual Maturities		Within one year		Between one and five years
Trades payable	$	**511,535**	$	-
Finance lease obligations		**3,690**		3,190
Total	$	**515,225**	$	3,190

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 secure additional financing 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 December 31, 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 April 10, 2014, the Company has 73,793,808 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 April 10, 2014, the Company is entitled to grant incentive stock options for 7,379,381 common shares under the Company's stock option plan with a total of 6,314,000 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 33,985,687 warrants outstanding.

SUBSEQUENT EVENTS

On January 14, 2014, 500,000 share purchase warrants with an exercise price of CDN $0.20 were exercised for gross proceeds of CDN $100,000. In addition, 297,800 share purchase warrants with a weighted average exercise price of CDN $0.25 were exercised for gross proceeds of CDN $73,840 were exercised up to the date of the report.

On March 19, 2014, the Company entered a sublease agreement effective May 1, 2014 for a term of 37 months.

On April 2, 2014 the Company announced that the LED Imaging Division of its wholly-owned subsidiary, LED Dental Ltd., has partnered with Ray Co., Ltd., a subsidiary of Samsung, to sell, install and provide support for the RAYSCAN α – Expert dental imaging system.

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 be no assurance that the Company's losses will not continue in the future. As at December 31, 2013, the Company had an accumulated deficit of $32.5 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 favorable 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 marketplace, 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 non-exclusive distribution partnerships with multiple distributors. In the event the distributors are unable or unwilling to promote and deliver the product to end customers, the Company's financial condition and operating results could be materially impacted. There can be no assurance the Company 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 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 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 favorable 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 revenues 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 primarily through its primary distributor relationships in North America resulting in economic dependence upon such distributors for the sales of its products. During the three months and twelve months ended December 31, 2013, 97% and 88%, respectively, 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 takes 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 Company'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 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.