LED MEDICAL DIAGNOSTICS INC.

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014

(UNAUDITED AND EXPRESSED IN U.S. DOLLARS)

LED MEDICAL DIAGNOSTICS INC.

Consolidated Interim Statements of Financial Position

(Unaudited and expressed in U.S. Dollars)

	Notes		March 31, 2015		December 31, 2014
Assets					
Current assets					
Cash		**$**	**1,109,109**	$	2,396,994
Trade and other receivables	4		**958,767**		1,373,693
Inventory	5		**1,731,094**		3,103,636
Inventory held by distributor			**111,648**		-
Prepaid expenses and deposits			**412,887**		176,857
Total current assets			**4,323,505**		7,051,180
Non-current assets					
Prepaid expenses and deposits	6		**286,600**		287,500
Property and equipment	7		**410,874**		411,923
Patents and intellectual property	8		**30,105**		36,557
		$	**5,051,084**	$	7,787,160
Liabilities and Shareholders' Equity (Deficiency)					
Current liabilities					
Trade payables and accrued liabilities	9	**$**	**1,675,867**	$	4,301,950
Deferred revenue			**251,599**		1,124,621
Warrants	12		**102,003**		162,872
Current portion of finance lease obligation	10		**2,138**		3,190
Total current liabilities			**2,031,607**		5,592,633
Non-current liabilities					
Lease liability	10		**61,279**		24,512
Total liabilities			**2,092,886**		5,617,145
Shareholders' Equity (Deficiency)					
Share capital	13		**34,780,480**		34,145,786
Stock-based payment reserve	14		**1,767,230**		1,568,645
Warrants reserve			**6,098,157**		4,718,328
Accumulated other comprehensive income			**474,458**		474,458
Deficit			**(40,162,127)**		(38,737,202)
			2,958,198		2,170,015
		$	**5,051,084**	$	7,787,160

Nature and Continuance of Operations (Note 1)

Commitments (Note 10)

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

Approved on behalf of the Board:

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

signed *"Rodger Tourigny"* Director
Rodger Tourigny

LED MEDICAL DIAGNOSTICS INC.

LED MEDICAL DIAGNOSTICS INC.

Consolidated Interim Statements of Operations and Comprehensive Loss
(Unaudited and expressed in U.S. Dollars)
For the three months ended March 31, 2015 and 2014

	Notes	March 31, 2015	March 31, 2014
Revenues		**$ 2,442,671**	$ 1,054,886
Cost of goods sold		**1,720,377**	525,537
		722,294	529,349
Expenses			
Sales and marketing		**1,351,782**	743,441
Research and development		**50,102**	258,581
Administration		**601,780**	532,690
Stock-based compensation	14	**54,407**	191,498
Other operating expenses		**89,147**	9,928
		2,147,218	1,736,138
Operating loss		**(1,424,924)**	(1,206,789)
Other expenses			
Mark to market adjustments on Canadian dollar denominated warrants		**(60,870)**	1,695,119
Foreign exchange loss (gain)		**60,870**	(7,909)
Other income		**-**	-
		0	(1,687,210)
Net loss before income taxes		**(1,424,924)**	(2,893,999)
Income taxes		**-**	-
Net loss and comprehensive loss for the year		**$ (1,424,924)**	$ (2,893,999)
Loss per share – basic and diluted		**$ (0.02)**	$ (0.04)
Weighted average number of shares outstanding – basic and diluted		**92,659,700**	73,574,248

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

LEDMD
LED MEDICAL DIAGNOSTICS INC.

LED MEDICAL DIAGNOSTICS INC.

Consolidated Interim Statements of Changes in Shareholders' Equity (Deficiency)

(Unaudited and expressed in U.S. Dollars)

For the three months ended March 31, 2015 and 2014

	Number of Shares	Share Capital	Stock-based Payments Reserves	Warrants Reserve	Deficit	Other Comprehensive Income	Total Shareholders' Equity (Deficiency)
Balance, January 1, 2014	**72,996,008**	**$ 27,242,071**	**$ 970,004**	**$ 4,724,698**	**$ (32,556,072)**	**$ 474,458**	**$ 855,159**
Issuance of shares on exercise of warrants	797,800	158,157	-	-	-	-	158,157
Settlement of warrant liability upon exercise of warrants	-	258,825	-	-	-	-	258,825
Stock-based compensation	-	-	191,498	-	-	-	191,498
Net loss comprehensive loss for the year	-	-	-	-	(2,893,999)	-	(2,893,999)
Balance, March 31, 2014	**73,793,808**	**$ 27,659,053**	**$ 1,161,502**	**$ 4,724,698**	**$ (35,450,071)**	**$ 474,458**	**$ (1,430,360)**

	Number of Shares	Share Capital	Stock-based Payments Reserves	Warrants Reserve	Deficit	Other Comprehensive Income	Total Shareholders' Equity (Deficiency)
Balance, January 1, 2015	**88,608,352**	**$ 34,145,786**	**$ 1,568,645**	**$ 4,718,328**	**$ (38,737,203)**	**$ 474,458**	**2,170,014**
Shares issued for cash,	10,605,000	2,131,273	-	-	-	-	2,131,273
Share issuance costs	-	(124,992)	-	-	-	-	(124,992)
Subscriber warrants issued pursuant to private placement	-	(1,371,587)	-	1,371,587	-	-	-
Finders warrants issued pursuant to private placement	-	-	-	8,242	-	-	8,242
Stock based compensation	-	-	54,407	-	-	-	54,407
Stock based compensation classified as consulting expense	-	-	60,585	-	-	-	60,585
Stock based compensation classified as prepaid expense	-	-	83,593	-	-	-	83,593
Net loss comprehensive loss for the year	-	-	-	-	(1,424,924)	-	(1,424,924)
Balance, March 31, 2015	**99.213,352**	**$ 34,780,480**	**$ 1,767,230**	**$ 6,098,157**	**$ (40,162,127)**	**$ 474,458**	**$2,958,198**

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

LEDMD
LED MEDICAL DIAGNOSTICS INC.

LED MEDICAL DIAGNOSTICS INC.

Consolidated Statements of Cash Flow

(Unaudited and expressed in U.S. Dollars)

For the three months ended March 31, 2015 and 2014

	March 31, 2015	March 31, 2014
Cash flows from operating activities		
Net loss for the year	**$ (1,424,924)**	$ (2,893,999)
Adjustments to net loss for items not involving cash:		
Depreciation of equipment	**74,453**	3,477
Amortization of intellectual property	**6,452**	6,451
Finder's warrants issuance costs	**8,242**	-
Mark to market adjustments on Canadian dollar denominated warrants	**(60,870)**	1,695,119
Settlement of warrant liability upon exercise of warrants	**-**	258,825
Stock-based compensation	**198,585**	191,498
Unrealized foreign exchange loss (gain)	**-**	(355,056)
	(1,198,062)	(1,093,685)
Changes in working capital assets and liabilities:		
Trade and other receivables	**424,752**	(101,762)
Inventory	**1,384,753**	(162,102)
Inventory held by distributor	**(111,528)**	451
Prepaid expenses and deposits	**(227,132)**	(188,804)
Trade payables and accrued liabilities	**(2,566,076)**	257,062
Advances from distributor	**-**	(21,908)
Deferred revenue	**(873,022)**	-
Lease liability	**36,767**	-
Changes in working capital assets and liabilities	**(1,913,486)**	(217,063)
Cash flows used in operating activities	**(3,129,548)**	(1,310,748)
Cash flows from investing activities		
Purchase of equipment, net of disposals	**(73,404)**	(27,171)
Restricted cash	**-**	-
Cash flows (used) provided by investing activities	**(73,404)**	(27,171)
Cash flows from financing activities		
Issuance of common shares, net of issuance costs	**2,006,281**	-
Proceeds from exercise of warrants	**-**	158,157
Repayment of finance lease obligation	**(1,052)**	(1,144)
Cash flows provided by financing activities	**2,005,229**	157,013
Increase (decrease) in cash	**(1,197,723)**	(1,180,906)
Foreign exchange effect on cash	**(90,162)**	-
Cash, beginning of year	**2,396,994**	4,358,986
Cash, end of year	**$ 1,109,109**	$ 3,178,080

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

LEDMD LED MEDICAL DIAGNOSTICS INC.

1. NATURE AND CONTINUANCE OF OPERATIONS

LED Medical Diagnostics Inc. ("LED" or the "Company") was incorporated under the British Columbia Business Corporations Act on July 17, 2002 as 651192 B.C. Ltd. and changed its name to LED Medical Diagnostics Inc. on August 20, 2003. The Company's head office, principal address and records office are located at 580 Hornby Street, Unit 810, Vancouver, British Columbia, Canada, V6C 3B6. The registered and records office is located at 2500 – 700 West Georgia Street, Vancouver, B.C. V7Y 1B3.

The Company has developed, and markets, a medical device under the trade name VELscope®. The device is used in the dental industry to help identify oral soft tissue abnormalities including those which may be cancerous or precancerous and also to help define appropriate margins for surgical excision. The Company also features its digital imaging division that provides dentists and oral health specialists with advanced diagnostic imaging products and software

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

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

The Company incurred a net and comprehensive loss of $1,424,925 and has negative cash flow from operations of $3,129,548 for the three months ended March 31, 2015. As at March 31, 2015 the Company had an accumulated deficit of $40,162,127. The Company's ability to continue as a going concern is dependent on its available cash, its ability to find new sources of cash and its ability to continue to raise funds to support corporate operations. Consequently, material uncertainties exist which cast significant doubt upon the Company's ability to continue as a going concern. As at March 31, 2015 and as at the date of approval of these consolidated interim financial statements, the outcome of these activities is unknown and subject to considerable uncertainty. These consolidated interim financial statements do not include any adjustments that might result from the outcome of these uncertainties or if such adjustments would be material.

2. BASIS OF PRESENTATION

These consolidated interim financial statements of the Company, approved by the Board of Directors on May 26, 2015, have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated interim financial statements have been prepared on the historical cost basis unless otherwise specified in the accounting policies (Note 3). The accounting policies set out below have been applied consistently to all periods presented in these consolidated interim financial statements

(Unaudited and expressed in U.S. Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

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

Name of Subsidiary	Country of Incorporation	Ownership Interest March 31, 2015	Ownership Interest March 31, 2014
LED Dental Inc.	Canada	100%	100%
LED Dental (U.S.) Ltd.	USA	100%	100%
Essentia Genetics Corp.(inactive)	Canada	100%	100%

Significant accounting judgments, estimates and assumptions

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

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

Revenue recognition

The Company recognizes revenue from sales made both through distributors and directly to customers when all revenue recognition criteria are met. Sales are recognized when goods have been delivered and if required, installed. When goods requiring installation have not been installed but shipped, revenue and costs are deferred until installation has been completed.

Impairment of long-lived assets and patents and intellectual property

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

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

Estimated useful lives of long-lived assets

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

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

Equity-settled stock-based compensation

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

Warranty provision

The Company estimates warranty expense based on historical records, taking into account the likelihood of a warranty issue, estimated costs of warranty repair and total units in the market. The Company records a liability in respect of estimated future warranty costs. The actual cost that the Company may incur and the timing of the repairs to be carried out may differ significantly from the estimated accrual.

Contingencies

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

The Company does not record contingent assets.

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

Determination of CGUs

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

Foreign currency translation

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

Name of Subsidiary	Functional currency ($)
LED Dental Inc.	U.S.
LED Dental (U.S.) Ltd.	U.S.
Essentia Genetics Corp. (inactive)	U.S.

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

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

Foreign currency translation (cont'd)

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

Financial instruments

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

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

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

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

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

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

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

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

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

Cash and cash equivalents

Cash and cash equivalents include highly liquid Canadian dollar denominated guaranteed investment certificates which are readily convertible to contracted amounts of cash without penalty. Cash equivalents are classified as loans and receivables and are recorded at amortized cost.

The Company has no cash equivalents as of March 31, 2015 or March 31, 2014.

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

Inventory and inventory held by the distributor

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

Property and equipment

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

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

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

Office equipment	5 years	straight-line method
Computer equipment	3 years	straight-line method
Manufacturing tooling	2 years	straight-line method
Leasehold improvements	term of lease	straight-line method
Demo equipment	1-3 years	straight-line method

Intangible assets

Intangible assets, whether purchased or self-created, are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Company and the cost of the asset can be measured reliably.

Intangible assets, which consist of acquired patents, intellectual property and related know-how, have finite lives and are measured at cost less accumulated amortization and accumulated impairment losses over their useful lives. Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognized whenever the carrying amount of the intangible assets exceed their recoverable amount.

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

Research and development costs

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

Impairment of non-financial assets

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

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

Impairment of non-financial assets (cont'd)

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

Reversal of impairment loss

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

Deferred revenue

The Company defers revenue and costs relating to sales if there is a right to return and the returns cannot be reasonable estimated. In these cases, revenue is recognized upon the maturation of the right to return and installation has been completed.

Leases

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

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

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

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

Income taxes

Current income tax:

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

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

Deferred income tax:

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

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

Deferred income tax (cont'd):

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and is reduced only to the extent that it is no longer probable that the related tax benefit will be realized.

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

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

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

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 option pricing 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. 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 are valued by reference to the fair value of the equity instruments granted (See Note 15).

Warrants

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

Research and development tax credits

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

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

Earnings per share

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

New Standards and Interpretations Not Yet Effective

Standards issued but not yet effective up to the date of issuance of the Company's consolidated interim 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 interim financial statements and intends to adopt these standards when they become effective.

IFRS 9 – Financial Instruments

IFRS 9 replaces the current IAS39 - Financial Instruments Recognition and Measurement. The standard intends to reduce the complexity in the classification and measurement of financial instruments. In February 2014, the IASB tentatively determined that the revised effective date for IFRS 9 would be January 1, 2018. The Company is currently evaluating the impact the final standard is expected to have on its consolidated interim financial statements.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programs, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions involving Advertising Services. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company is currently evaluating the impact the final standard is expected to have on its consolidated interim financial statements.

IFRS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortization

IFRS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortization clarify the principle in IAS 16 - Property, Plant and Equipment and IAS 38 - Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The Company will start the application of IFRS 15 in the financial statements effective from January 1, 2016. The Company has not yet evaluated the impact on the financial statements.

Annual Improvements

In December 2014, the IASB issued the Annual Improvements 2010-2012 and 2011-2014 cycles to make necessary but non-urgent amendments to existing IFRSs. The amendments are effective for annual periods beginning on or after July 1, 2014; however, these amendments are not expected to have a significant impact on the Company's consolidated interim financial statements

(Unaudited and expressed in U.S. Dollars)

4. TRADE AND OTHER RECEIVABLES

		March 31, 2015		December 31, 2014
Trade accounts receivable	**$**	**919,934**	$	1,332,454
Goods and services tax receivable		**38,833**		41,239
	$	**958,767**	$	1,373,693

At March 31, 2015 and March 31, 2014, no accounts receivable is due beyond one year. The fair value of accounts receivable approximates their carrying value as at March 31, 2015 and March 31, 2014. During the three months ended March 31, 2015, the Company has written down accounts receivable of $Nil (year ended March 31, 2014 - $Nil)

5. INVENTORY

		March 31, 2015		December 31, 2014
VELscope	**$**	**429,860**	$	492,040
Digital Products		**1,301,234**		2,611,596
	$	**1,731,094**	$	3,103,636

Inventory is valued at the lower of cost and net realizable value. Cost includes the costs of purchases net of vendor allowances. The Company estimates net realizable value as the amount that inventories are expected to be sold. Inventories are written down to net realizable when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. Storage and shipping costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred.

6. DEPOSIT

The Company entered into an eight year lease agreement for premises in Atlanta, Georgia. A requirement of the agreement was for a letter of credit to be issued to the lessor in the amount of $280,000. If the Company is in breach of the terms and conditions of the agreement, the lessor is entitled to the funds being held. If conditions are not breached over the course of the agreement, the restricted cash will be reduced by $120,000 and $90,000 on March 1st and September 1st, 2016, respectively. These funds will be issued to the Company with the remaining balance being held until the duration of the agreement is complete.

(Unaudited and expressed in U.S. Dollars)

7. PROPERTY AND EQUIPMENT

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

Cost

	Equipment	Computer Equipment	Leasehold Improvements	Total
Balance, January 1, 2014	**$ 37,957**	**$ 15,446**	**$ 2,767**	**$ 56,170**
Additions	490,762	30,178	10,809	531,749
Disposals	-	(1,569)	-	(1,569)
Balance, December 31, 2014	**$ 528,719**	**$ 44,055**	**$ 13,576**	**$ 586,350**
Additions	42,854	-	36,297	79,151
Disposals	(22,990)	-	-	(22,990)
Balance, March 31, 2015	**$ 548,583**	**$ 44,055**	**$ 49,873**	**$ 642,511**

Accumulated Depreciation

	Equipment	Computer Equipment	Leasehold Improvements	Total
Balance, January 1, 2014	**$ (23,324)**	**$ (6,929)**	**$ (2,767)**	**$ (33,020)**
Depreciation	(132,443)	(9,056)	(256)	(141,755)
Disposals	-	348	-	348
Balance, December 31, 2014	**$ (155,767)**	**$ (15,637)**	**$ (3,023)**	**$ (174,427)**
Depreciation	(69,941)	(2,931)	(1,581)	(74,453)
Disposals	17.243	-	-	17,243
Balance, March 31, 2015	**$ (208,465)**	**$ (18,568)**	**$ (4,604)**	**$ (231,637)**

Carrying Value

	Equipment	Computer Equipment	Leasehold Improvements	Total
Balance, March 31, 2015	**$ 340,118**	**$ 25,487**	**$ 45,269**	**$ 410,874**
Balance, December 31, 2014	$ 372,952	$ 28,418	$ 10,553	$ 411,923

(Unaudited and expressed in U.S. Dollars)

8. PATENTS AND INTELLECTUAL PROPERTY

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

Cost

	Patents
Balance, January 1, 2014	**$ 335,467**
Additions	-
Balance, December 31, 2014	**$ 335,467**
Additions	-
Balance, March 31, 2015	**$ 335,467**

Accumulated Amortization

Balance, January 1, 2014	**$ (273,105)**
Amortization	(25,805)
Balance, December 31, 2014	**$ (298,910)**
Amortization	(6,452)
Balance, March 31, 2015	**$ (305,362)**

Carrying Value

Balance, March 31, 2015	**$ 30,105**
Balance, December 31, 2014	$ 36,557

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

At March 31, 2015, management had assessed the intellectual property and intangible assets for recoverability and no events or changes in circumstances indicated that the carrying values may not be recoverable. Therefore, there was no impairment of these assets at March 31, 2015 or December 31, 2014.

9. TRADE PAYABLES AND ACCRUED LIABILITIES

	March 31, 2015	December 31, 2014
Trade payables	**$ 805,003**	$ 3,320,842
Accrued liabilities	**496,559**	647,493
Warranty provision	**5,541**	6,098
State and Provincial sales tax payable	**368,764**	327,517
	$ 1,675,867	$ 4,301,950

The Company warrants that its products will operate substantially in conformity with product documentation. The Company accrues for known warranty issues if a loss is probable and can be reasonably estimated and accrues for estimated incurred but unidentified warranty issues based on historical activity. To date, the Company has had no material warranty claims.

(Unaudited and expressed in U.S. Dollars)

10. LEASE OBLIGATIONS AND COMMITMENTS

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

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

	March 31, 2015	December 31, 2014
Payable not later than one year	**$ 2,267**	$ 3,473
Payable later than one year and not later than five years	**-**	-
	2,267	3,473
Less: future finance charges	**(129)**	(283)
Present value of minimum lease payments	**2,138**	3,190
Current portion	**(2,138)**	(3,190)
Long-term portion	**$ -**	$ -

b) The Company has operating leases with respect to its operating premises in Burnaby, BC, Vancouver, B.C ., and Atlanta, Georgia. Future minimum lease payments as at March 31, 2015 are as follows:

2015	$ 113,789
2016	148,106
2017	152,515
2018	157,089
2019 and thereafter	573,395
Total future minimum lease payments	**$ 1,144,894**

c) The Company was paying royalties at a rate of 1.5% of VELscope sales to the British Columbia Cancer Agency prior to December 31, 2010. The rate was subsequently revised to 0.75% and retroactively applied to prior periods resulting in a reversal of previously accrued royalties. During the three months ended March 31, 2015, the Company accrued royalties of $(562). (three months ended March 31, 2014- $2,066). As at March 31, 2015, total royalties accrued but not paid was $19,242 (March 31, 2014 – $3,376), which are classified as a component of accrued liabilities.

d) On August 1, 2014, the Company entered into a one year consulting agreement ending July 31, 2015 with the former CEO of the Company whereby the former CEO would be paid CDN $295,000 annually and will receive royalties of 2% of all VELscope sales until January 1, 2018. Furthermore, 333,334 unvested stock options immediately vested upon execution of this agreement and shall be exercisable until six months following the termination of this agreement.

e) The Company entered into a two year OEM agreement on April 30, 2014. If the Company is in material breach of the agreement, the supplier is entitled to 3% of the difference between the minimum required purchasing for the first twelve months and the amount already paid by the Company at the time of the breach. As of March 31, 2015, no material breach exists however if one were to occur, 3% penalty would amount to $158,000.

f) The Company entered into a three year supplier agreement on May 6, 2014 that requires the Company to make minimum annual purchases for the duration of the agreement. Minimum required purchase of 300 units subject to default without penalty.

g) The Company may be subject to a variety of claims and suits that arise from time to time in the ordinary course of business. These matters are subject to inherent uncertainties. To date, the Company is unaware of any claims.

(Unaudited and expressed in U.S. Dollars)

11. RELATED PARTY TRANSACTIONS

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

During the three months ended March 31, 2015 and 2014, the Company paid or accrued the following compensation expenses to key personnel of the Company:

	Three months ended March 31, 2015	Three months ended March 31, 2014
Short-term compensation*	$ 222,434	$ 206,907
Share-based payments	$ 27,182	$ 169,226

(*) The Company entered into a one year consulting agreement (see Note 10d) with the former CEO in which the former CEO would earn royalties equal to 2% of all VELscope sales. Included in short-term compensation is accrued royalties of $1,122 during the three months ended March 31, 2015 (three months ended March 31, 2014 - $5,508). Furthermore, 333,334 unvested stock options immediately vested upon execution of this agreement and shall be exercisable until six months following the termination of this agreement

During the three months ended March 31, 2015, 2,000 options were awarded to related parties under the Company's stock option plan (three months ended March 31, 2014 – Nil)

12. WARRANTS

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

	March 31, 2015		December 31,2014	
	Number of Warrants	**Weighted average exercise price**	Number of Warrants	Weighted average exercise price
		(CDN$)		(CDN$)
Warrants outstanding, beginning of year	3,393,667	0.20	18,673,600	0.20
Issued	-	-	-	-
Exercised	-	-	(15,274,333)	0.20
Expired	-	-	(5,600)	0.30
Warrants outstanding, end of period	**3,393,667**	**0.20**	3,393,667	0.20
Warrants exercisable, end of period	**3,393,667**	**0.20**	3,393,667	0.20

The Company completed private placements in February 2015. The details of these private placements are described in Note 13.

The following table breaks down the warrant liability at March 31, 2015 of each grant of warrants:

Number of Warrants	**Amount**	**Exercise Price**	**Expiry Date**
	(US$)	**(CDN$)**	
3,393,667	102,003	0.20	June 14, 2015
3,393,667	**$ 102,003**	**0.20**	

LED MEDICAL DIAGNOSTICS INC.

(Unaudited and expressed in U.S. Dollars)

12. WARRANTS (cont'd)

The following table breaks down the warrant liability at December 31, 2014 of each grant of warrants:

Number of Warrants	Amount	Exercise Price	Expiry Date
	(US$)	(CDN$)	
3,393,667	162,872	0.20	June 14, 2015
3,393,667	**$ 162,872**	**0.20**	

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

	March 31, 2015		December 31, 2014	
	Number of Warrants	Weighted average exercise price	Number of Warrants	Weighted average exercise price
		(US$)		(US$)
Warrants outstanding, beginning of period	15,771,876	0.50	16,109,887	0.50
Issued	10,669,000	0.25	-	-
Exercised	-	-	(338,011)	0.50
Expired	-	-	-	-
Warrants outstanding, end of period	**26,440,876**	**0.40**	**15,771,876**	**0.50**
Warrants exercisable, end of period	**26,440,876**	**0.40**	**15,771,876**	**0.50**

The following table summarizes information about the Company's warrants outstanding at March 31, 2015:

	Warrants Outstanding		Warrants Exercisable	
Exercise prices	Number Outstanding	Weighted Average Remaining Term (Years)	Number Exercisable	Weighted Average Remaining Term (Years)
0.20 (CDN$)	3,393,667	0.21	3,393,667	0.21
0.50 (US$)	26,440,876	1.10	26,440,876	1.10
	29,834,543	**0.99**	**29,834,543**	**0.99**

The following table summarizes information about the Company's warrants outstanding at December 31, 2014:

	Warrants Outstanding		Warrants Exercisable	
Exercise prices (CDN$)	Number Outstanding	Weighted Average Remaining Term (Years)	Number Exercisable	Weighted Average Remaining Term (Years)
0.20 (CDN$)	3,393,667	0.45	3,393,667	0.45
0.50 (US$)	15,771,876	0.81	15,771,876	0.81
	19,165,543	**0.75**	**19,165,543**	**0.75**

(Unaudited and expressed in U.S. Dollars)

13. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value

	Number of common shares	Amount
Outstanding, January 1, 2014	**72,996,008**	**$27,242,071**
Issuance of shares on exercise of CDN warrants	15,274,333	2,815,698
Issuance of shares on exercise of USD warrants	338,011	169,005
Premium on redemption of USD warrants	-	6,370
Settlement of warrant liability upon exercise of CDN warrants	-	3,912,302
Settlement of warrant liability upon expiry of CDN warrants	-	340
Outstanding, December 31, 2014	**88,608,352**	**$34,145,786**
Issued for cash	10,605,000	2,131,273
Share issuance costs	-	(124,992)
Transfer of value of warrants to warrant reserve	-	(1,371,587)
Outstanding, March 31, 2015	**99,213,352**	**$34,780,480**

2015

On February 25, 2015, the Company completed a non-brokered private placement of 10,605,000 units at an issue price of CDN$0.25 per unit for gross proceeds of $2,131,273 (CDN $2,651,250). Each unit is comprised of one common share and one common share purchase warrant entitling the holder to acquire one common share at an exercise price of US$0.25 for a period of 24 months. Additionally, in accordance with a finder's fee agreement, the Company issued 64,000 finder's warrants (the "Finder's Warrants") to arm's length finders. Each finder's warrant is non-transferable and exercisable into one common share at an exercise price $0.25 for a period of 24 months. The Company paid share issuance costs of $124,992 (CDN $155,265) in relation to this private placement. The fair value of the 10,669,000 (10,605,000 financing and 64,000 finder's warrants were calculated using the Black-Scholes pricing model and was valued at $1,379,829 (CDN $1,714,162), applying the following assumptions: grant price $0.25, expected dividend yield 0.0%, expected volatility 112.22%, risk-free interest rate 0.46% and expected life of 24 months.The Company has accounted for US dollar denominated warrants as a component of equity. All of the securities issued in connection with the private placement will be subject to a hold period that expires four months after the issuance date.

2014

The Company did not issue any additional units other than the units issued through exercise of warrants.

14. STOCK-BASED PAYMENTS

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

(Unaudited and expressed in U.S. Dollars)

14. STOCK-BASED PAYMENTS (cont'd)

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

	Outstanding options	
	Number of common shares	**Weighted average exercise price in (CDN$)**
Outstanding, January 1, 2014	**6,348,000**	**$ 0.36**
Options granted	694,000	0.47
Options forfeited	(380,000)	0.40
Outstanding, December 31, 2014	**6,662,000**	**$ 0.40**
Options granted	230,000	0.28
Options forfeited/cancelled	(223,000)	0.47
Outstanding, March 31, 2015	**6,669,000**	**$ 0.40**

The options outstanding at March 31, 2015 have an exercises price in the range of $0.28 to $0.54 CDN (2014 - $0.30 to $0.54) and a weighted average contractual life of 3.58 years (2014 – 3.87 years).

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

	Outstanding options	
	Number of common shares	**Weighted average exercise price in (USD$)**
Outstanding, January 1, 2014	**-**	**-**
Options granted	-	-
Options forfeited	-	-
Outstanding, December 31, 2014	**-**	**-**
Options granted	1,125,000	0.25
Options forfeited	-	-
Outstanding, March 31, 2015	**1,125,000**	**$ 0.25**

The options outstanding at March 31, 2015 have an exercise price of $0.25 USD (2014 - nil) and a weighted average contractual life of 3.40 years (2014 - nil).

(Unaudited and expressed in U.S. Dollars)

14. STOCK-BASED PAYMENTS (cont'd)

The following table illustrates the assumptions of the option pricing models:

Grant date of Share Options	Share Price	Exercise Price	Annual dividend yield of Share options	Volatility	Risk-Free Interest rate	Expected life of the Share options
January 9, 2013	$0.25	$0.30	Nil	136.51%	1.24%	3 years
January 28, 2013	$0.395	$0.30	Nil	136.44%	1.24%	3 years
September 18, 2013	$0.39	$0.40	Nil	127.12%	1.47%	3 years
October 24, 2013	$0.54	$0.54	Nil	125.13%	1.24%	3 years
November 20, 2013	$0.485	$0.49	Nil	123.63%	1.23%	3 years
December 13, 2013	$0.40	$0.49	Nil	122.46%	1.18%	3 years
December 20, 2013	$0.355	$0.45	Nil	122.14%	1.17%	3 years
February 11, 2014	$0.445	$0.46	Nil	122.57%	1.20%	3 years
May 27, 2014	$0.42	$0.45	Nil	118.07%	1.14%	3 years
August 22, 2014	$0.48	$0.49	Nil	113.96%	1.11%	3 years
September 16, 2014	$0.45	$0.45	Nil	112.87%	1.16%	3 years
September 17, 2014	$0.45	$0.435	Nil	112.80%	1.19%	3 years
September 22, 2014	$0.45	$0.44	Nil	112.61%	1.18%	3 years
January 27, 2015	$0.27	$0.28	Nil	113.22%	0.51%	8 years
February 2, 2015	$0.229 USD	$0.25 USD	Nil	113.12%	0.41%	2 years
February 26, 2015	$0.236 USD	$0.25 USD	Nil	112.22%	0.51%	5 years
February 26, 2015	$0.236 USD	$0.25 USD	Nil	112.22%	0.51%	3 years

For the three months ended March 31, 2015, the Company recognized $198,585 of stock-based compensation expense (three months ended March 31, 2014 – 191,498). Forfeiture rate is estimated based upon prior year forfeitures as a percentage of the total amount of options issued.

15. DEFERRED SHARE UNITS

The Company has a DSU Plan for the Company's Directors, Executive Officers and Service Providers ("Eligible Person").

DSU activity is presented below:

	Number of DSUs
Outstanding, December 31, 2014	**950,000**
Granted	-
Outstanding, March 31, 2015	**950,000**

During the three months ended March 31, 2015, the Company recorded an expense of $Nil (three months ended March 31, 2014 – $Nil)

(Unaudited and expressed in U.S. Dollars)

16. SEGMENTED INFORMATION

The Company operates in a single geographical segment, being North America, and a single reporting segment, being a manufacturer and distributor of oral health and dental imaging products.

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

In each respective period, revenues from customers which amounted to 10% or more of the Company's revenues accounted for the following percentages of the Company's total revenues. The majority of the Company's revenues are primarily attributable to its North American distributors:

	% of Revenues for the three months ended March 31, 2015	**% of Accounts Receivable at March 31, 2015**	% of Revenues for the three months ended March 31, 2014	% of Accounts Receivable at March 31, 2014
Distributor A	12%	24%	37%	70%
Distributor B	6%	6%	12%	5%
Distributor C	2%	2%	13%	3%
Total	**20%**	**32%**	62%	78%

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

	Three months ended March 31, 2015	**%**	Three months ended March 31, 2014	**%**
U.S.	$ 2,038,296	83%	$ 961,804	93%
Canada	404,375	17%	93,082	7%
Rest of World	-	0%	-	0%
	$2,442,671	**100%**	$ 1,054,886	100%

17. CAPITAL DISCLOSURES

The Company's objectives for managing capital are:

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

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

(Unaudited and expressed in U.S. Dollars)

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Classification of financial instruments

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

	March 31, 2015	December 31, 2014
Cash and cash equivalents		
Cash	$ 1,109,109	$ 2,396,994
Loans and receivables		
Receivables	958,767	1,373,693
	$ 2,067,876	$ 3,770,687

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

	March 31, 2015	December 31, 2014
Non-derivative financial liabilities		
Trades payable	$ 805,003	$ 3,320,842
Accrued liabilities	496,559	647,493
State and Provincial sales tax payable	368,764	327,517
Deferred revenue	251,599	1,124,621
Derivative financial liabilities		
Warrants	102,003	162,872
	$ 2,023,928	**$ 5,583,345**

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.

(Unaudited and expressed in U.S. Dollars)

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

Details of the Company's warrants and information about the fair value hierarchy as at March 31, 2015 are as follows:

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value at March 31, 2015
Warrants	-	$ 102,003	-	$ 102,003
Total	**-**	**$ 102,003**	**-**	**$ 102,003**

Details of the Company's warrants and information about the fair value hierarchy as at December 31, 2014 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, 2014
Warrants	-	$ 162,872	-	$ 162,872
Total	**-**	**$ 162,872**	**-**	**$ 162,872**

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 March 31, 2015, no accounts receivable are due beyond one year.

As at March 31, 2015 and December 31, 2014, the Company's exposure to credit risk for these financial instruments was as follows:

	March 31, 2015	December 31, 2014
Cash	$ 1,109,109	$ 2,396,994
Receivables	958,767	1,373,693
	$ 2,067,876	**$ 3,770,687**

(Unaudited and expressed in U.S. Dollars)

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

Trade accounts receivable balances of $919,934 as at March 31, 2015 (December 31, 2014 - $1,332,454) were aged as follows in the below table. It does not include goods and services tax receivable of $38,833 as at March 31, 2015 (December 31, 2014 – $41,239).

	March 31, 2015	December 31, 2014
Current	$ 420,343	$ 864,402
31-60 days	274,590	136,083
Over 60 days	225,001	331,969
	$ 919,934	**$ 1,332,454**

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 March 31, 2015 are listed below. Refer to the Note 9 and 10 for other contractual maturities, lease obligations and commitments that are not included in the table below.

Trade payables were aged as follows as at March 31, 2015 and do not include accrued liabilities of $496,559, warranty provision of $5,541 and state and provincial sales tax payable of $368,764 (as at December 31, 2014 - $647,493, $6,098, and $327,517, respectively) which are all current:

	March 31, 2015	December 31, 2014
Current	$ 422,044	$ 1,909,252
31-60 days	124,399	569,931
Over 60 days	258,560	841,659
	$ 805,003	**$ 3,320,842**

The following is an analysis of the contractual maturities of the Company's non-derivative accrued liabilities and amounts due to shareholders as at March 31, 2015:

	Within one year	**Between one and five years**
Trade payables	$ 805,003	$ -
	$ 805,003	**$ -**

The ability of the Company to make the aforementioned payment requirements related to maturing financial liabilities in the near term is dependent on the ability to obtain a line of credit and other debt instruments and the timing of cash flows from operations. The ability to obtain additional financing is dependent on continued access to debt and/or equity markets which may not be

(Unaudited and expressed in U.S. Dollars)

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

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 March 31, 2015, 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.

The following is a summary of the Company's exposure to currency risk:

	March 31, 2015	December 31, 2014
	CDN	CDN
Cash	574,720	100,866
Account Receivable	121,276	65,237
Trade payable and accrued liabilities	(517,174)	(604,200)
Net statement of financial position exposure	**178,822**	**(438,097)**

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.

19. EARNINGS PER SHARE

Basic net income per equity share is calculated by dividing net income by the total weighted average number of equity shares outstanding during the period. Diluted net income per equity share is calculated to give effect to share option awards and deferred share units.

	March 31, 2015	March 31, 2014
Loss for the three months attributable to shareholders	$ 1,424,925	$ 2,893,999
Weighted average number of shares outstanding – basic and diluted	**$ 92,659,700**	$ 73,574,248

Diluted loss per share did not include the effect of the weighted average number of share option awards and deferred share units outstanding as they are anti-dilutive.

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20. SUBSEQUENT EVENTS

The Company has been made aware of a claim filed but not yet served on the Company. LED Medical Diagnostics Inc. and LED Dental Inc. were apparently sued for an amount of $110,792 for public relations services provided to the Company. The Company has not been served regarding this lawsuit to date. It is the Company's position there is no merit to the claim. This apparent lawsuit has not been disclosed by the Company in its financial statements and related MD&A as at March 31, 2015.