



## Chief Executive Officer Letter

Dear Shareholders,

During the first quarter we experienced an increase in revenue year over year due in part to VELscope® stocking orders received from our recently added non-exclusive North American distribution partners. There was also a sizable increase in VELscope consumables revenue, which is a good sign as this revenue is both recurring and of higher margin. April, which is Oral Cancer awareness month, is historically a strong sales month for our VELscope Vx Enhanced Oral Assessment product line and it was important that our new dental distributors were stocked and trained during this period. Our North American VELscope distribution network is now up and running and our VELscope customer support team is focused on supporting the sales efforts of our dealers.

Also in the first quarter, the Company incorporated Essentia Genetics Corp. (“Essentia”) to create and commercialize a progression-risk assessment test for oral cancer which is anticipated to complement our VELscope product offering. Peter Whitehead, the founder and former CEO of LED, has transitioned to Essentia commencing in fiscal 2014; he is now working on this new initiative in collaboration with the BC Cancer Agency (“BCCA”) and Genome British Columbia (“Genome BC”), with the Company’s investment included in Research and Development expense.

The first quarter of fiscal 2014 was also a period of increased investment in our Atlanta-based infrastructure and in key new hires to the LED Imaging team. I am happy to report that we completed the first stage of our initiative to expand our imaging portfolio by adding a number of new dental imaging products to complement our VELscope product offering during this period. These new products include intra-oral sensors and cameras, imaging software and extra-oral imaging technology including the RAYSCAN α – Expert from Ray Company, a subsidiary of Samsung. We are now selling our imaging portfolio with our direct-to-dentist sales model, installing, training and supporting these products. We will start to see these products contribute to revenue in the second quarter of fiscal 2014 and beyond.

### **Significant Events**

Notable business developments and achievements include the following:

#### **Management Change**

- On April 24, 2014, we announced that Tom Kearney, an industry leader with more than 30 years of experience, has joined the LED Imaging team and will assist with future endeavors in the orthodontic market.
- On March 26, 2014, we announced the appointment of Dr. Jeffrey Brooks as VP of Imaging of our wholly-owned U.S. subsidiary, LED Dental Ltd. Dr. Brooks is a board certified oral and maxillofacial surgeon with 20 years of private practice experience.
- On February 3, 2014, we announced the appointment of Lamar Roberts to President of LED Dental Ltd. Mr. Roberts has been with LED Dental since October 2013 in the role of VP of Sales and Marketing.

#### **Major Corporate Changes**

- On April 3, 2014, we launched a new product division of LED Dental, “LED Imaging” to reflect our movement into the dental imaging category.

- On January 14, 2014, we announced our 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.”

## Product Highlights

- On March 5, 2014, we announced that our 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 in their practices and evaluating its features, including clinical utility, ease of operation, camera system use and marketing materials.

## Business Highlights

- On April 24, 2014, our LED Imaging division announced it is launching software to integrate with our growing portfolio of imaging technologies.
- On April 22, 2014, our LED Imaging division entered a partnership with the UT College of Dentistry. Through this partnership, students, residents and faculty at the University Of Tennessee Health Science Center College Of Dentistry will now have access to new, sophisticated oral and maxillofacial imaging technology. Residents and dental students will receive hands-on training with the RAYSCAN α – Expert dental imaging system, as part of their clinical training.
- On April 15, 2014, we announced our non-exclusive distribution partnerships with Atlanta Dental Supply Company and Nashville Dental, Inc. for distribution of our VELscope® Vx Enhanced Oral Assessment System and product line in the United States.
- On April 2, 2014 we announced that our LED Imaging division partnered with Ray Co. Ltd., a subsidiary of Samsung, to sell, install and provide support for the RAYSCAN α – Expert dental imaging system in the United States.
- On January 21, 2014, we announced our non-exclusive distribution partnership with Patterson Dental for the distribution of our VELscope Vx Enhanced Oral Assessment System and product line in the U.S. and Canadian markets.

## Financial Highlights

- Net revenues increased to \$1,054,886 for the three months ended March 31, 2014. This is an increase of 214% from the three months ended March 31, 2013. The increase in revenues is due to a newly established non-exclusive distribution model for the Company’s VELscope Vx product line from a formerly exclusive Distribution relationship for the three months ended March 31, 2013. The Company experienced its best net revenues quarter since the three month period ended June 30, 2013 as a result of the optimization of sales channels through non-exclusive distribution partnerships throughout North America.
- The operating loss for the three months ended March 31, 2014 was \$1,206,789 compared to the operating loss for the three months ended March 31, 2013 of \$1,286,849. Increased revenues for the three months ended March 31, 2014 were offset by increased investment into both sales and marketing resources and research and development. The Company incurred \$184,620 in research and development costs related to its collaborative genetic research agreement with the BCCA. Exclusive of this spend, the Company’s operating loss for the three months ended March 31, 2014 was \$1,022,169.
- EBITDA<sup>1</sup> was negative \$1,005,363 for the three months ended March 31, 2014 compared to EBITDA of negative \$1,238,255 for the three months ended December 31, 2013 and negative \$638,297 for the three months ended March 31, 2013. The Company incurred negative EBITDA for the three months ended March 31, 2014 primarily due to its investment into sales and marketing and research and development resources as the Company expands its product portfolio and establishes the infrastructure of its salesforce for the Imaging division. The Company incurred \$184,620 in research and development costs related to its collaborative genetic research agreement with the BCCA. Exclusive of this spend, the

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<sup>1</sup> EBITDA or Earnings before Interest, Taxes Depreciation and Amortization is a non-IFRS measure that does not have a standardized meaning and may not be comparable to a similar measure disclosed by other issuers. This measure does not have a comparable GAAP measure. EBITDA referenced here relates to net loss and comprehensive loss and excludes interest, income taxes, depreciation, amortization, finder’s warrants issuance costs, stock-based compensation, deferred share unit compensation, mark to market adjustments on Canadian dollar denominated warrants, foreign exchange gain or loss and other income. This measure does not have a comparable IFRS measure and is used by the Company to manage and evaluate the cash operating loss of the business.

- Company's EBITDA for the three months ended March 31, 2014 was negative \$820,743.
- Included in the Company's net loss of \$2,893,999 for the three months ended March 31, 2014, is \$1,695,119 in mark to market adjustments on Canadian dollar denominated warrants. Exclusive of the mark to market adjustment, the Company's net loss would be \$1,198,880. Included in the Company's net loss of \$1,333,774 for the three months ended March 31, 2013, is a gain of \$38,229 in mark to market adjustments on Canadian dollar denominated warrants. Exclusive of the mark to market adjustment, the Company's net loss would be \$1,372,003.
  - Cash used in operations was \$1,310,748 during the three months ended March 31, 2014 compared to \$362,091 during the three months ended March 31, 2013. The increased usage of cash in operations was primarily due to the increased net loss offset by the mark to market adjustment on the Company's Canadian dollar denominated warrants.

The first quarter of fiscal 2014 will be remembered as a time of transitioning the VELscope Vx line to an expanded and optimized distribution channel and diversifying our product portfolio to include additional digital dental imaging technologies. Our selection of world class manufacturing partners allows us to resell the finest diagnostic dental imaging products available while leveraging our partners' brand identity and significant product investments. We will continue to actively invest in our team and infrastructure throughout 2014 and look forward to launching new imaging products over the course of the year to leverage our newly created sales and marketing asset

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

Sincerely,

Dr. David Gane  
Chief Executive Officer  
May 30, 2014

*Please refer to the risk factors and forward-looking statements included in Management's Discussion & Analysis filed by the Company on Sedar for the above reporting period on May 30, 2014.*