LED MEDICAL DIAGNOSTICS INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013

(EXPRESSED IN U.S. DOLLARS)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

Dr. David Gane
Chief Executive Officer
May 30, 2014

LED MEDICAL DIAGNOSTICS INC.

Condensed Interim Consolidated Statements of Financial Position

(Expressed in U.S. Dollars)

	Notes		March 31, 2014		December 31, 2013
Assets					
Current assets					
Cash		$	**3,178,080**	$	4,358,986
Trade and other receivables	4		**605,498**		503,736
Inventory			**574,409**		412,307
Inventory held by distributor	5		**165,381**		165,832
Prepaid expenses and deposits			**485,968**		297,164
Total current assets			**5,009,336**		5,738,025
Non-current assets					
Property and equipment	6		**46,805**		23,150
Patents and intellectual property	7		**55,911**		62,362
		$	**5,112,052**	$	5,823,537
Liabilities and Shareholders' Equity (Deficiency)					
Current liabilities					
Trade payables and accrued liabilities	8	$	**1,050,108**	$	793,046
Advances from distributor	5		**517,402**		495,494
Current portion of finance lease obligation	9		**3,598**		3,690
Total current liabilities			**1,571,108**		1,292,230
Non-current liabilities					
Long-term portion of finance lease obligation	9		**2,138**		3,190
Warrants	11		**4,969,166**		3,672,958
Total liabilities			**6,542,412**		4,968,378
Shareholders' Equity (Deficiency)					
Share capital	12		**27,659,053**		27,242,071
Stock-based payment reserve	13		**1,161,502**		970,004
Warrants reserve			**4,724,698**		4,724,698
Accumulated other comprehensive income			**474,458**		474,458
Deficit			**(35,450,071)**		(32,556,072)
			(1,430,360)		855,159
		$	**5,112,052**	$	5,823,537

Description of Business and Nature and Continuance of Operations (Note 1)

Lease Obligations and Commitments (Note 9)

Subsequent Events (Note 18)

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

Approved on behalf of the Board:

signed "Dr. David Gane" Chief Executive Officer   signed "Rodger Tourigny" Director

Dr. David Gane   Rodger Tourigny

LED MEDICAL DIAGNOSTICS INC.

LED MEDICAL DIAGNOSTICS INC.

Condensed Interim Consolidated Statements of Operations and Comprehensive Loss

(Expressed in U.S. Dollars)

For the three months ended March 31, 2014 and 2013

	Notes	**March 31, 2014**	March 31, 2013
Revenues		**$ 1,054,886**	$ 309,590
Cost of goods sold		**525,537**	143,366
		529,349	163,224
Expenses			
Sales and marketing		**743,441**	332,036
Research and development		**258,581**	89,757
Administration		**532,690**	379,728
Stock-based compensation	13	**191,498**	351,331
Deferred share unit compensation	14	**-**	287,581
Other operating expenses		**9,928**	9,640
		1,736,138	1,450,073
Operating loss		**(1,206,789)**	(1,286,849)
Other expenses			
Mark to market adjustments on Canadian dollar denominated warrants		**1,695,119**	(38,229)
Foreign exchange (gain) loss		**(7,909)**	82,456
Net loss before income taxes		**(2,893,999)**	(1,331,076)
Income taxes		**-**	2,698
Net loss and comprehensive loss for the period		**$ (2,893,999)**	$ (1,333,774)
Loss per share – basic and diluted		**$ (0.04)**	$ (0.03)
Weighted average number of shares outstanding – basic and diluted		**73,574,248**	40,985,508

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

LED MEDICAL DIAGNOSTICS INC.

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

(Expressed in U.S. Dollars)

For the three months ended March 31, 2014 and 2013

	Number of Shares	Share Capital	Stock-based Payments Reserves	Warrants Reserve	Deficit	Other Comprehensive Income	Total Shareholders' Equity (Deficiency)
Balance, January 1, 2013	**40,985,508**	**$ 24,658,241**	**$ 62,495**	**$ 277,748**	**$ (25,600,855)**	**$ 474,458**	**$ (127,913)**
Stock-based compensation	-	-	351,331	-	-	-	351,331
Net loss and comprehensive loss for the period	-	-	-	-	(1,333,774)	-	(1,333,774)
Balance, March 31, 2013	**40,985,508**	**$ 24,658,241**	**$ 413,826**	**$ 277,748**	**$ (26,934,629)**	**$ 474,458**	**$ (1,110,356)**
Balance, January 1, 2014	**72,996,008**	**$ 27,242,071**	**$ 970,004**	**$ 4,724,698**	**$ (32,556,072)**	**$ 474,458**	**$ 855,159**
Issuance of share 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 and comprehensive loss for the period	-	-	-	-	(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)**

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

LED MEDICAL DIAGNOSTICS INC.

LED MEDICAL DIAGNOSTICS INC.

Condensed Interim Consolidated Statements of Cash Flow

(Expressed in U.S. Dollars)

For the three months ended March 31, 2014 and 2013

	March 31, 2014	March 31, 2013
Cash flows from operating activities		
Net loss for the year	**$ (2,893,999)**	$ (1,333,774)
Adjustments to net loss for items not involving cash:		
Depreciation of equipment	**3,477**	3,189
Amortization of intellectual property	**6,451**	6,451
Mark to market adjustments on Canadian dollar denominated warrants	**1,695,119**	(38,228)
Settlement of warrant liability upon on exercise of warrants	**258,825**	-
Stock-based compensation	**191,498**	351,331
Unrealized foreign exchange gain	**(355,056)**	-
	(1,093,685)	(1,011,031)
Changes in working capital assets and liabilities:		
Trade and other receivables	**(101,762)**	1,241,219
Inventory	**(162,102)**	(119,983)
Inventory held by distributor	**451**	-
Prepaid expenses and deposits	**(188,804)**	(21)
Trade payables and accrued liabilities	**257,062**	(56,453)
Advances from distributor	**(21,908)**	(415,822)
Changes in working capital assets and liabilities	**(217,063)**	648,940
Cash flows used in operating activities	**(1,310,748)**	(362,091)
Cash flows from investing activities		
Purchase of equipment	**(27,171)**	-
Restricted cash	**-**	105
Cash flows (used in) provided by investing activities	**(27,171)**	105
Cash flows from financing activities		
Proceeds from exercise of warrants	**158,157**	-
Repayment of finance lease obligation	**(1,144)**	(688)
Cash flows provided by (used in) financing activities	**157,013**	(688)
Increase (decrease) in cash	**(1,180,906)**	(362,674)
Cash, beginning of year	**4,358,986**	969,584
Cash, end of year	**$ 3,178,080**	$ 606,910

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

LEDMD
LED MEDICAL DIAGNOSTICS INC.

1. DESCRIPTION OF BUSINESS AND NATURE AND CONTINUANCE OF OPERATIONS

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

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

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

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

The Company incurred an operating loss of $1,206,789 and has negative cash flow from operations of $1,310,748 for the three months ended March 31, 2014. As at March 31, 2014 the Company had an accumulated deficit of $35,450,071. 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, 2014 and as at the date of approval of these condensed interim consolidated financial statements, the outcome of these activities is unknown and subject to considerable uncertainty. These condensed interim consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties or if such adjustments would be material.

2. BASIS OF PRESENTATION

These condensed interim consolidated financial statements of the Company, approved by the Board of Directors on May 27, 2014, have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain disclosures included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the IASB have been condensed or omitted. These condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2013.

The Company has not early adopted any other amendment, standard or interpretation that has been issued but is not yet effective.

The Company's interim results are not necessarily indicative of its results for a full year.

(Expressed in U.S. Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's management makes judgments in its process of applying the Company's accounting policies in the preparation of its condensed interim consolidated financial statements. In addition, the preparation of the financial data requires that the Company's management make assumptions and estimates of the impacts from uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates and the resulting impacts on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The critical judgments and estimates applied in the preparation of the Company's condensed interim consolidated financial statements for the three months ended March 31, 2014 are consistent with those applied and disclosed in note 3 to the Company's audited consolidated financial statements for the year ended December 31, 2013.

New Standards and Interpretations Adopted as of January 1, 2014

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

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

IAS 32 provides further clarification on the application of the offsetting requirements. The application of the offsetting requirements did not have a material impact on the Company's condensed interim consolidated financial statements.

New Standards and Interpretations Not Yet Effective

Standards issued but not yet effective up to the date of issuance of the Company's condensed interim 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 condensed interim 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 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 financial statements.

IFRS 14 – Regulatory Deferral Accounts

On January 30, 2014 the IASB issued a new interim standard, IFRS 14 – *Regulatory Deferral Accounts* ("IFRS 14"). IFRS 14 is intended to enhance the comparability of financial reporting by entities engaged in rate-regulated activities and is effective for annual periods beginning on or after January 1, 2016. IFRS 14 is not expected to be applicable to the Company.

4. TRADE AND OTHER RECEIVABLES

		March 31, 2014		December 31, 2013
Trade accounts receivable	**$**	**581,037**	$	490,800
Goods and services tax receivable		**24,461**		12,936
	$	**605,498**	$	503,736

At March 31, 2014 and December 31, 2013, no accounts receivable is due beyond one year. The fair value of amounts receivable approximates their carrying value as at March 31, 2014 and December 31, 2013. During the three month period ended March 31, 2014, the Company has written down accounts receivable of $Nil (three month period ended March 31, 2013 - $Nil).

(Expressed in U.S. Dollars)

5. EXCLUSIVE DISTRIBUTION AGREEMENT

On November 30, 2010, the Company entered into a two year renewable sales and marketing agreement with a distributor (the "Distributor") of medical and dental supplies whereby the Distributor would be granted exclusive rights to market the VELscope Vx in Canada, the United States, and Puerto Rico ("the original agreement"). Under the original agreement, the Distributor was entitled to receive up to 2,541,468 share purchase warrants at CDN $0.65 per share, based on the Distributor achieving certain sales milestones. The original agreement also allowed for the Distributor to return certain units of VELscope Model V2, a legacy product, at a value of $292,600, in the form of credits which shall be applied against the price of parts and accessories purchased by the Distributor for the VELscope Model V2. As at December 31, 2013 the entire credit was settled.

On September 21, 2012, the agreement was amended to become a non-exclusive distribution in limited markets which were defined in the agreement ("the amended agreement"). Further, under the amended agreement, the Company had agreed to repurchase the VELscope Vx inventory that was not sold to end customers from the Distributor over the period from September 21, 2012 to December 15, 2013. The Company will purchase from the Distributor based on the original sale price of the inventory less the manufacturer's warranty cost up to an aggregate maximum amount of $1,678,409. An amount of $45,362 of this commitment was offset against the Distributor's accounts receivable on September 21, 2012. On March 15, June 15, September 9, November 29 and December 6, 2013, the Company purchased, in five tranches, VELscope Vx inventory for a total amount of $1,527,200. An amount of $264,562 of this purchase was offset against the Distributor's accounts payable to the Company.

6. PROPERTY AND EQUIPMENT

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

Cost

	Office Equipment	Computer Equipment	Leasehold Improvements	Total
Balance, January 1, 2013	**$ 76,776**	**$ 34,861**	**$ 2,767**	**$ 114,404**
Additions	1,168	6,563	-	7,731
Disposals	(39,987)	(25,978)	-	(65,965)
Balance, December 31, 2013	**$ 37,957**	**$ 15,446**	**$ 2,767**	**$ 56,170**
Additions	21,993	5,178	-	27,171
Disposals	-	-	-	-
Balance, March 31, 2014	**$ 59,950**	**$ 20,624**	**$ 2,767**	**$ 83,341**

Accumulated Depreciation

	Office Equipment	Computer Equipment	Leasehold Improvements	Total
Balance, January 1, 2013	**$ (55,921)**	**$ (27,874)**	**$ (2,594)**	**$ (86,389)**
Depreciation	(7,390)	(5,033)	(173)	(12,596)
Disposals	39,987	25,978	-	65,965
Balance, December 31, 2013	**$ (23,324)**	**$ (6,929)**	**$ (2,767)**	**$ (33,020)**
Depreciation	(2,049)	(1,467)	-	(3,516)
Disposals	-	-	-	-
Balance, March 31, 2014	**$ (25,373)**	**$ (8,396)**	**$ (2,767)**	**$ (36,536)**

Carrying Value

	Office Equipment	Computer Equipment	Leasehold Improvements	Total
Balance, March 31, 2014	**$ 34,577**	**$ 12,228**	**$ -**	**$ 46,805**
Balance, December 31, 2013	$ 14,633	$ 8,517	$ -	$ 23,150

(Expressed in U.S. Dollars)

7. PATENTS AND INTELLECTUAL PROPERTY

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

Cost

	Patents
Balance, January 1, 2013	**$ 335,467**
Additions	-
Balance, December 31, 2013	**$ 335,467**
Additions	-
Balance, March 31, 2014	**$ 335,467**

Accumulated Amortization

Balance, January 1, 2013	**$ (247,300)**
Amortization	(25,805)
Balance, December 31, 2013	**$ (273,105)**
Amortization	(6,451)
Balance, March 31, 2014	**$ (279,556)**

Carrying Value

Balance, March 31, 2014	**$ 55,911**
Balance, December 31, 2013	$ 62,362

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, 2014, 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, 2014 or December 31, 2013.

8. TRADE PAYABLES AND ACCRUED LIABILITIES

	March 31, 2014	December 31, 2013
Trade payables	**$ 826,371**	$ 511,535
Accrued liabilities	**211,848**	268,451
Warranty provision	**6,509**	7,858
State and Provincial sales tax payable	**5,380**	5,202
	$ 1,050,108	$ 793,046

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.

(Expressed in U.S. Dollars)

9. LEASE OBLIGATIONS AND COMMITMENTS

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

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

	March 31, 2014	December 31, 2013
Payable not later than one year	$ 4,418	$ 4,820
Payable later than one year and not later than five years	2,268	3,472
	6,686	8,292
Less: future finance charges	(950)	(1,412)
Present value of minimum lease payments	5,736	6,880
Current portion	(3,598)	(3,690)
Long-term portion	$ 2,138	$ 3,190

b) The Company has an operating lease with respect to its operating premises in Burnaby, BC. Future minimum lease payments as at March 31, 2014 are as follows:

Payable not later than one year	$ 51,276
Payable later than one year and not later than five years	8,546
Total future minimum lease payments	**$ 59,822**

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 month period ended March 31, 2014, the Company accrued royalties of $2,066 (three months ended March 31, 2013 – $Nil). As at March 31, 2014, total royalties accrued but not paid was $3,376 (December 31, 2013 - $32,904), which are classified as a component of accrued liabilities.

d) On January 1, 2011, the Company entered into an employment agreement with the former CEO of the Company whereby the former CEO would be paid an annual salary of CDN $250,000 and will receive royalties of 2% of all VELscope sales (refer to Note 10) until January 1, 2018. Effective January 1, 2012, annual salary was revised to CDN $295,000. Further, the former CEO will receive bonuses and options as follows:

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

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

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

10. RELATED PARTY TRANSACTIONS

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

During the three month periods ended March 31, 2014 and 2013, the Company paid or accrued the following compensation expenses to key personnel of the Company:

(Expressed in U.S. Dollars)

10. RELATED PARTY TRANSACTIONS (cont'd)

	Three months ended March 31, 2014	Three months ended March 31, 2013
Short-term compensation*	**$ 206,907**	$ 93,106
Share-based payments	**$ 169,226**	$ 346,670

(*) The Company entered into an employment agreement (see Note 9d) with the former CEO in which the former CEO would earn royalties equal to 2% of all VELscope sales. Included in short-term compensation are accrued royalties of $5,508 during the three month period ended March 31, 2014 (three month period ended March 31, 2013 - $Nil).

During the three month period ended March 31, 2014, there were no options awarded to key management under the Company's stock option plan (three month period ended March 31, 2013 – 1,705,000).

11. WARRANTS

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

	March 31, 2014		December 31, 2013	
	Number of Warrants	**Weighted average exercise price**	Number of Warrants	Weighted average exercise price
		(CDN$)		(CDN$)
Warrants outstanding, beginning of period	18,673,600	0.20	8,040,968	0.72
Issued	-	-	18,500,000	0.20
Exercised	(797,800)	0.22	(10,500)	0.30
Expired	-	-	(7,856,868)	0.73
Warrants outstanding, end of period	**17,875,800**	**0.20**	18,673,600	0.20
Warrants exercisable, end of period	**17,875,800**	**0.20**	18,673,600	0.20

The Company completed private placements in October 2013, June 2013 and December 2012. The details of these private placements are described in Note 12.

As a result of the change in functional currency, the Company values its Canadian dollar denominated warrants and records it as a liability (which is revalued at each reporting date). The following table breaks down the warrant liability at March 31, 2014 of each grant of warrants:

Number of Warrants	**Amount**	**Exercise Price**	**Expiry Date**
	(US$)	**(CDN$)**	
30,800	$ 5,694	0.30	June 21, 2014
1,500,000	-	0.20	June 14, 2015
16,345,000	4,963,472	0.20	June 14, 2015
17,875,800	**$ 4,969,166**	**0.20**	

LED MEDICAL DIAGNOSTICS INC.

(Expressed in U.S. Dollars)

11. WARRANTS (cont'd)

The following table breaks down the warrant liability at December 31, 2013 of each grant of warrants:

Number of Warrants	Amount	Exercise Price	Expiry Date
	(US$)	(CDN$)	
173,600	$ 20,960	0.30	June 21, 2014
1,500,000	-	0.20	June 14, 2015
17,000,000	3,651,998	0.20	June 14, 2015
18,673,600	**$ 3,672,958**	**0.20**	

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

	March 31, 2014		December 31, 2013	
	Number of Warrants	**Weighted average exercise price**	Number of Warrants	Weighted average exercise price
		(US$)		(US$)
Warrants outstanding, beginning of period	16,109,887	0.50	-	-
Issued	-	-	16,109,887	0.50
Exercised	-	-	-	-
Expired	-	-	-	-
Warrants outstanding, end of period	**16,109,887**	**0.50**	16,109,887	0.50
Warrants exercisable, end of period	**16,109,887**	**0.50**	-	-

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

	Warrants Outstanding		**Warrants Exercisable**	
Exercise prices	**Number Outstanding**	**Weighted Average Remaining Term (Years)**	**Number Exercisable**	**Weighted Average Remaining Term (Years)**
0.20 (CDN$)	17,845,000	1.21	17,845,000	1.21
0.30 (CDN$)	30,800	0.22	30,800	0.22
0.50 (US$)	16,109,887	1.57	16,109,887	1.57
	33,985,687	**1.38**	**18,673,600**	**1.38**

The following table summarizes information about the Company's warrants outstanding at December 31, 2013:

	Warrants Outstanding		**Warrants Exercisable**	
Exercise prices (CDN$)	**Number Outstanding**	**Weighted Average Remaining Term (Years)**	**Number Exercisable**	**Weighted Average Remaining Term (Years)**
0.20 (CDN$)	18,500,000	1.45	18,500,000	1.45
0.30 (CDN$)	173,600	0.47	173,600	0.47
0.50 (US$)	16,109,887	1.83	-	-
	34,783,487	**1.62**	**18,673,600**	**1.44**

(Expressed in U.S. Dollars)

12. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value

	Number of common shares	Amount
Outstanding, January 1, 2013	**40,985,508**	**$24,658,241**
Issued for cash	32,000,000	7,157,095
Share issuance costs	-	(705,495)
Transfer of value of warrants to warrant reserve	-	(4,102,819)
Issuance of shares on exercise of warrants	10,500	4,436
Issuance of deferred share units	-	230,613
Outstanding, December 31, 2013	**72,996,008**	**$27,242,071**
Issuance of shares on exercise of warrants	797,800	158,157
Settlement of warrant liability upon on exercise of warrants	-	258,825
Outstanding, March 31, 2014	**73,793,808**	**$27,659,053**

2013

On October 24, 2013, the Company completed a non-brokered private placement of 15,000,000 units at an issue price of CDN$0.35 per unit for gross proceeds of $5,035,971 (CDN $5,250,000). 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$0.50 for a period of 24 months. Additionally, in accordance with a finder's fee agreement, the Company issued 1,109,887 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 $0.50 for a period of 24 months. The Company paid share issuance costs of $442,545 (CDN $451,849) in relation to this private placement. The fair value of the 16,109,887 (15,000,000 financing and 1,109,887 finder's) warrants were calculated using the Black-Scholes pricing model and was valued at $303,579 (CDN $304,164), applying the following assumptions: grant price $0.50, expected dividend yield 0.0%, expected volatility 150.324%, risk-free interest rate 0.738% 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.

On June 14, 2013 the Company completed a non-brokered private placement of 17,000,000 units at an issue price of CDN $0.15 per unit for gross proceeds of $2,121,124 (CDN $2,550,000). 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 CDN$0.20 for a period of 24 months. Additionally, in accordance with a finder's fee agreement, the Company issued 1,500,000 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 of CDN$0.20 for a period of 24 months. The Company paid share issuance costs of $262,950 (CDN $267,394) in relation to this private placement. The fair value of the 18,500,000 (17,000,000 financing and 1,500,000 finder's) warrants were calculated using the Black-Scholes pricing model and was valued at $420,600 (CDN $427,708), applying the following assumptions: grant price CDN$0.20, expected dividend yield 0.0%, expected volatility 18.896%, risk-free interest rate 1.02% and expected life of 24 months. 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. At December 31, 2013, the fair value was valued at $3,651,998 (CDN $3,884,266), applying the following assumptions: share price CDN$0.38, expected dividend yield 0.0%, expected volatility 84.358%, risk-free interest rate 1.259% and expected life of 18 months.

Escrow shares

As of March 31, 2014, a total of 2,029,549 (December 31, 2013 – 2,029,549) common shares were held under escrow. These common shares will be released from escrow in two tranches in May 2014 and November 2014.

(Expressed in U.S. Dollars)

13. 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.

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

	Outstanding options	
	Number of common shares	Weighted average exercise price in (CDN$)
Outstanding, January 1, 2013	**-**	**$ -**
Options granted	6,598,000	0.36
Options forfeited	(225,000)	0.40
Options expired	(25,000)	0.40
Outstanding, December 31, 2013	**6,348,000**	**$ 0.36**
Options granted	61,000	0.46
Options expired	(95,000)	0.30
Outstanding, March 31, 2014	**6,314,000**	**$ 0.36**

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	136.43%	1.24%	3 years
January 28, 2013	$0.395	$0.30	Nil	136.02%	1.24%	3 years
September 18, 2013	$0.39	$0.40	Nil	149.63%	1.46%	3 years
October 24, 2013	$0.54	$0.54	Nil	146.76%	1.18%	3 years
November 20, 2013	$0.485	$0.49	Nil	144.75%	1.23%	3 years
December 13, 2013	$0.40	$0.49	Nil	142.92%	1.18%	3 years
December 20, 2013	$0.355	$0.45	Nil	142.48%	1.17%	3 years

For the quarter ended March 31, 2014, the Company recognized $191,498 of stock-based compensation expense (March 31, 2012 - $351,331).

(Expressed in U.S. Dollars)

14. 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, 2013	**950,000**
Granted	-
Outstanding, March 31, 2014	**950,000**

During the three month period ended March 31, 2014, the Company recorded an expense of $Nil (three month period ended March 31, 2013 - $287,581).

15. SEGMENTED INFORMATION

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

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

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, 2014	**% of Accounts Receivable at March 31, 2014**	% of Revenues for the three months ended March 31, 2013	% of Accounts Receivable at March 31, 2013
Distributor A	37%	70%	59%	77%
Distributor B	12%	5%	26%	11%
Distributor C	13%	3%	0%	0%
Total	**62%**	**78%**	85%	88%

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

	Three months ended March 31, 2014	**%**	Three months ended March 31, 2013	%
U.S.	$ 961,804	92%	$ 289,273	93%
Canada	93,082	8%	20,317	7%
Rest of World	-	0%	-	-%
	$ 1,054,886	**100%**	$ 309,590	100%

All of the Company's property and equipment are located in North America.

(Expressed in U.S. Dollars)

16. CAPITAL DISCLOSURES

The Company's objectives for managing capital are:

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

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.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Classification of financial instruments

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

	March 31, 2014	December 31, 2013
Cash and cash equivalents		
Cash	$ 3,178,080	$ 4,358,986
Loans and receivables		
Receivables	605,498	503,736
	$ 3,783,578	$ 4,862,722

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

	March 31, 2014	December 31, 2013
Non-derivative financial liabilities		
Trades payable	$ 826,371	$ 511,535
Accrued liabilities	211,848	268,451
Warranty provision	6,509	7,858
State and Provincial sales tax payable	5,380	5,202
Advances from distributor	517,402	495,494
Finance lease obligations	5,736	6,880
Derivative financial liabilities		
Warrants	4,969,166	3,672,958
	$ 6,542,413	$ 4,968,378

(Expressed in U.S. Dollars)

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

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 March 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 March 31, 2014
Warrants	-	$ 4,969,166	-	$ 4,969,166
Total	**-**	**$ 4,969,166**	**-**	**$ 4,969,166**

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, 2014, no accounts receivable are due beyond one year.

As at March 31, 2014 and December 31, 2013, the Company's exposure to credit risk for these financial instruments was as follows:

	March 31, 2014	December 31, 2013
Cash	$ 3,178,080	$ 4,358,986
Receivables	605,498	503,736
	$ 3,783,578	$ 4,862,722

Trade accounts receivable balances of $581,037 as at March 31, 2014 (December 31, 2013 - $490,800) were aged as follows in the below table. It does not include goods and services tax receivable of $24,461 as at March 31, 2014 (December 31, 2013 – $12,936).

	March 31, 2014	December 31, 2013
Current	$ 225,482	$ 318,333
31-60 days	156,949	75,059
Over 60 days	198,606	97,408
	$ 581,037	$ 490,800

(Expressed in U.S. Dollars)

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

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, 2014 are listed below. Refer to the note 8 and 9 for other contractual maturities, lease obligations and commitments that are not included in the table below.

Trade payables were aged as follows as at March 31, 2014 and do not include accrued liabilities of $211,848, warranty provision of $6,509 and state sales tax payable of $5,380 (as at December 31, 2013 - $268,451, $7,858, and $5,202, respectively) which are all current:

	March 31, 2014	December 31, 2013
Current	$ 421,121	$ 118,547
31-60 days	152,035	109,598
Over 60 days	253,215	283,390
	$ 826,371	$ 511,535

The following is an analysis of the contractual maturities of the Company's non-derivative accrued liabilities as at March 31, 2014:

	Within one year	**Between one and five years**
Trade payables	$ 826,371	$ -
Finance lease obligations	3,598	2,138
	$ 829,969	**$ 2,138**

The ability of the Company to make the aforementioned payment requirements related to maturing financial liabilities in the near term is dependent on the ability to obtain a line of credit and other debt instruments and the timing of cash flows from operations. The ability to obtain additional financing is dependent on continued access to debt and/or equity markets which may not be available on acceptable terms. In the event that debt or equity capital is not available on acceptable terms, the Company may need to explore other strategic alternatives.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk is limited to the portion of the Company's cash held in bank accounts that earn interest.

Due to the limited and short-term nature of these financial instruments, fluctuations in the interest rates will not have a significant impact on their fair value. As at March 31, 2014, the Company had not entered into any derivative contracts to manage this risk.

Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and the United States. The Company's functional currency is the U.S. dollar. The Company has not hedged its exposure to currency fluctuations.

Assuming that all other variables remain constant, a 10% change in the value of the Canadian dollar against the U.S. dollar would not materially affect the loss from operations.

18. SUBSEQUENT EVENTS

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 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.

On April 24, 2014, LED Imaging announced it is launching its LED Imaging Software to integrate with the company's growing portfolio of imaging technologies;

On May 22, 2014, 338,011 US dollar share purchase warrants with an exercise price of $0.50 were exercised for gross proceeds of $169,006.