LED MEDICAL DIAGNOSTICS INC.

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

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") has been prepared by management, in accordance with the requirements of National Instrument 51-102 *Continuous Disclosure Obligations* as of August 26, 2014 and should be read in conjunction with the condensed interim consolidated financial statements and related notes of LED Medical Diagnostics Inc. ("LED" or the "Company") as at and for the three and six months ended June 30, 2014 (prepared in accordance with International Financial Reporting Standards or "IFRS"). All amounts are presented in United States dollars unless otherwise noted. All referenced materials as well as additional disclosures, including the Company's Annual Information Form ("AIF"), are available on SEDAR at www.sedar.com.

DISCLAIMER FOR FORWARD-LOOKING STATEMENTS

The following Management's Discussion and Analysis contains statements which, to the extent that they are not recitations of historical fact, may constitute forward-looking information under applicable Canadian securities legislation. Such forward-looking statements or information includes financial and other projections as well as statements regarding the Company's future plans, objectives, performance, revenues, growth, profits, operating expenses or the Company's underlying assumptions and the Company's intention to expand its technology beyond dental applications including "costs of production", "capital expenditures", "costs and timing of the development of new products", "hedging practices", "currency exchange rate fluctuations", "requirements for additional capital", "government regulation of medical device operations" and "insurance coverage". Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", "believes" or variations of such words and phrases or statements that certain actions, events or results "may", "would", "could", "might" or "will be taken", "occur" or "be achieved" or the negative connotation thereof. Persons reading this Management's Discussion and Analysis are cautioned that such statements or information are only predictions, and that the Company's actual future results or performance may be materially different. Factors that could cause actual events or results to differ materially from those suggested by these forward-looking statements include, but are not limited to: economic conditions; dilution; limited history of profits and operations; operational risk; distributor risks; working capital; potential conflicts of interest; speculative investment; intellectual property risks; disruptions in production; reliance on key personnel; seasonality; management's estimates; development of new customers and products risks; stock price volatility risk; sales and marketing risk; competitors and competition risk; regulatory requirements; reliance on few suppliers; reliance on subcontractors; operating cost and quarterly results fluctuations; fluctuations in exchange rates; product liability and medical malpractice claims; access to credit and additional financing; taxation; market acceptance of the Company's products and services; customer and industry analyst perception of the Company and its technology vision and future prospects; technological change, new products and standards; risks related to acquisitions and international expansion; reliance on large customers; concentration of sales; international operations and sales; management of growth and expansion; dependence upon key personnel and hiring; the Company not adequately protecting its intellectual property; risks related to product defects and product liability; reliance on third party suppliers; future working capital investments in accounts receivable and inventory; credit terms from suppliers; and including, but not limited to, other factors described in the Company's reports filed on SEDAR, including its financial statements and management's discussion and analysis for the three and six months ended June 30, 2014. In drawing a conclusion or making a forecast or projection set out in the forward-looking information, the Company takes into account the following material factors and assumptions in addition to the above factors: the Company's ability to execute on its business plan; the acceptance of the Company's products and services by its customers; the timing of execution of outstanding or potential customer contracts by the Company; the sales opportunities available to the Company; the Company's subjective assessment of the likelihood of success of a sales lead or opportunity; the Company's historic ability to generate sales leads or opportunities; and that sales will be completed at or above the Company's estimated margins. This list is not exhaustive of the factors that may affect the Company's forward-looking information. These and other factors should be considered carefully and readers should not place undue reliance on such forward-looking information. All forward-looking statements made in this Management's Discussion and Analysis are qualified by this cautionary statement and there can be no assurance that actual results or developments anticipated by the Company will be realized. The Company disclaims any intention or obligation to update or revise forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

OVERVIEW

LED was incorporated under the BCBCA on July 17, 2002 as 651192 B.C. Ltd. and changed its name to LED Medical Diagnostics Inc. on November 6, 2003. LED's head office is located at 235 – 5589 Byrne Road, Burnaby, B.C. V5J 3J1. LED's registered and records office is located at 2500 – 700 West Georgia Street, Vancouver, B.C. V7Y 1B3. The Company is listed on the TSX Venture Exchange (TSX-V) under the trading symbol LMD.

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

General Development of the Business

Headquartered in Burnaby, B.C., LED was founded in 2003 by former Chief Science Officer and Director Peter Whitehead. LED's first product, the VELscope®, is a first step towards LED's goal of becoming a global leader in developing advanced, affordable technology targeted to dental and medical healthcare providers for the detection, diagnosis, and treatment of disease.

Description of the Business

The VELscope® tissue fluorescence visualization technology is backed by over $50 million in funding by the National Institutes of Health ("NIH") and other US and Canadian government and private organizations. The NIH, part of the U.S. Department of Health and Human Services, is the primary Federal agency for conducting and supporting medical research in the US. The technology for the VELscope® system was developed by LED in partnership with the British Columbia Cancer Agency ("BCCA").

In 2006, VELscope® received U.S. FDA and Health Canada clearances. The clearances were pertinent to the VELscope®'s use of tissue fluorescence visualization technology as a new standard of screening for mucosal abnormalities, potentially malignant tissue and cancerous disease, and for surgical margin delineation. VELscope® is the first device on the market indicated for use in helping discover abnormalities such as cancerous and precancerous lesions that might not be apparent or visible to the naked eye, and for use to help determine appropriate surgical areas when excision is required.

The first-generation VELscope® device was introduced in 2006. Since then, LED has sold over 13,000 devices, which have been used to conduct over 25 million oral soft tissue exams worldwide. Currently, VELscope® fluorescence visualization technology is used to conduct more oral exams than any other adjunctive detection technology in the world.

Since its inception, LED has grown from a research and development, pre-commercial product development company, to its current status as a fast-growing sales and marketing-focused growth-stage company.

LED believes that the success of the VELscope® to date has proven that LED is a strong research and development company. Since the VELscope® was launched in 2006, LED has commercialized the VELscope® Vantage, and, in 2011, the VELscope® Vx. The VELscope® Vx is portable, rechargeable, and significantly more affordable than previous models. Its increased functionality and lower production costs improve LED's prospects as it expands into more countries and other healthcare markets.

The Company also features its Digital division that provides dentists and oral health specialists with advanced diagnostic imaging products and software. This division of the business commenced operations in April 2014.

LED sells its VELscope and related products through well-known dental dealers and distributors. LED markets its digital imaging products directly to dental practitioners. Such direct marketing includes direct mail/e-mail, advertising in industry journals and personal visits. In most cases, direct marketing activities are oriented towards convincing dental practitioners to attend an education seminar or trade show event in which LED is a participant.

Products and Intellectual Property

The Company's primary product is the VELscope® Vx released in early 2011 and is comprised of fluorescence technology which aids in the early visualization of mucosal diseases and enhances effective oral mucosal examinations. The VELscope® Vx is a handheld device that provides dentists and hygienists with an easy-to-use adjunctive mucosal examination system for the early detection of abnormal tissue. The patented VELscope® technology platform was developed in collaboration with the BCCA and MD Anderson Cancer Center, with funding provided in part by the NIH. It is based on the direct visualization of tissue fluorescence and the changes in fluorescence that occurs when abnormalities are present. The VELscope® Vx handpiece emits a safe blue light into the oral cavity, which excites the tissue from the surface of the epithelium through to the basement membrane (where premalignant changes typically start) and into the stroma beneath, causing it to fluoresce. The clinician is then able to immediately view the fluorescence response to help detect abnormal tissue. The VELscope has peer-reviewed clinical studies that support its use in helping discover occult oral disease.

VELscope® Vx provides a more effective oral cancer screening protocol with immediate benefits for the patient, clinician and practice. When used as an adjunctive aid in combination with traditional oral cancer examination procedures, VELscope® Vx facilitates the early discovery and visualization of mucosal abnormalities prior to surface exposure that may be, or may lead to oral cancer. In one or two minutes, with no rinses or stains required, a VELscope® examination helps oral healthcare professionals assure their patients that the standard of care for oral mucosal screening has been utilized. Adding to the VELscope®'s value as an adjunctive device is its ability to aid in the visualization of a wide spectrum of oral trauma and disease. A recent study at the University of Washington demonstrated that the VELscope® system is a powerful tool for the discovery of mucosal abnormalities such as viral, fungal and bacterial infections, inflammation from a variety of causes (including lichen planus and other lichenoid reactions), squamous papillomas and salivary gland tumors. VELscope® Vx combines minimal per-patient costs with more effective oral mucosal examinations.

The technology used in the VELscope® was jointly developed by scientists at the BCCA and LED founder Peter Whitehead. The VELscope® technology integrates four concepts: light, sophisticated filtering, natural tissue fluorophores and human optical and neural physiology. Base patents on the technology were awarded in 2000 and fully acquired by LED in 2003. These patents are expected to be valid until at least 2017. The technology platform is based on the direct visualization of tissue fluorescence and the changes in fluorescence that can result when abnormal tissue is present. This technology helps clinicians visualize abnormal oral tissue that is often not apparent under white light.

LED expects that expanding its proprietary visualization technology beyond dental applications will provide gynecologists, gastroenterologists, ear nose and throat specialists, dermatologists and family practitioners with cost-effective tools to aid in the detection of oral cancer and other oral mucosal abnormalities. LED has sought patent protection for its projects by filing one or more patent applications for each aspect of a device, system or method, that LED believes is both patentable and that justifies the costs of patent protection. LED intends to protect future developments in the same manner. LED maintains certain of its intellectual property as trade secrets. LED also has pursued and intends to pursue trademark, copyright and other intellectual property protection as it believes is warranted.

VELscope®, VELscope® Vantage, and the VELscope® Vx technologies are composed of a light source, light guide, and viewing handpiece. The VELscope® handpiece emits a safe, visible, blue light into the oral cavity, which excites mucosal tissue and causes it to fluoresce. When viewed through the VELscope® handpiece, abnormal tissue typically appears as an irregular, dark area that stands out against the otherwise normal, green fluorescence pattern of surrounding healthy tissue. This difference in appearance allows clinicians to examine the oral cavity in real time and differentiate between healthy mucosa and areas of concern that may require further action. When used in combination with traditional oral mucosal examination procedures, VELscope® facilitates the discovery and enhances the visualization of mucosal abnormalities. LED received FDA 510(k) clearance for these claims in April 2007. FDA 510(k) clearance is a premarket notification required for manufacturers of medical devices.

One of LED's most profound commitments is to help reduce the mortality of oral cancer. The services of LED and its partners are directed toward developing a professional outreach program with key university–based oral pathology, oral surgery, and oral medicine leaders worldwide to assist healthcare providers as the need arises. LED is positioned to facilitate the dissemination of new findings that address early detection based on fluorescence and other technologies. Currently over 50% of US dental colleges own at least one VELscope®.

The Company has recently expanded and diversified it's dental imaging product portfolio and branded a new division as LED Dental The agreement with Ray Co.,Ltd, a subsidiary of Samsung has enabled the Company to sell, install and provide support for their line of extra oral digital imaging technology including the RAYSCAN a-Expert panoramic, cephalometric and Cone Beam Computed Tomography (CBCT) system and related imaging software. The Company also sells state of the art intra-oral cameras, digital imaging sensors and imaging software through relationships it has with it's manufacturers and suppliers.

FORWARD LOOKING COMPANY OBJECTIVES

The Company's objectives are:

- To centralize and build sales, marketing, customer support and operations teams in Atlanta, Georgia.
- Make significant investments into sales and marketing resources.
- Optimize current dealer / distributor relationships with VELscope® sales channels via non-exclusive distributors in North America.
- Increase investment in research and development.
- Add additional innovative and clinically relevant imaging products to build out a robust portfolio of imaging products and services to grow and diversify revenue streams.

SIGNIFICANT EVENTS

Management Change

- On June 4, 2014, we announced that Wes Newsom and Joan Fiore have joined LED. Wes Newsom will join LED as Director of Digital Imaging, bringing to LED more than a decade of experience. Joan Fiore will focus on developing the company's infrastructure for Customer Service as her position of VP of Client services.
- 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.

Major Corporate Changes

- On April 3, 2014, we launched a new product division known as "LED Dental" to reflect the subsidiary's movement into the dental imaging category.

Product Highlights

- On May 14, 2014, we announced the introduction of our new digital radiography intraoral sensor, LED IS 100 which is a replacement for traditional dental film.

Business Highlights

- On April 24, 2014, we announced the launching of our LED Imaging Software to integrate with the company's growing portfolio of imaging technologies.
- On April 22, 2014, we 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 that we entered non-exclusive distribution partnerships with Atlanta Dental Supply Company and Nashville Dental Inc. for distribution of the Company's VELscope® Vx Enhanced Oral Assessment System and product line in the United States.
- On April 2, 2014 we announced that the LED Imaging Division of our 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.

Financial Highlights

- Net revenues increased to $1,590,289 for the three months ended June 30, 2014. This is an increase of 47% from the three months ended June 30, 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 along with the new Digital Imaging product line.
- The operating loss for the three months ended June 30, 2014 was $1,632,659 compared to the operating loss for the three months ended June 30, 2013 of $375,919. Increased revenues for the three months ended June 30, 2014 were offset by increased investment into both sales and marketing resources with the Company establishing the infrastructure of its salesforce for the Digital Imaging division.
- EBITDA[1] was negative $1,432,363 for the three months ended June 30, 2014 compared to EBITDA of negative $103,864 for the three months ended June 30, 2013. The Company incurred an increased negative EBITDA for the three months ended June 30, 2014 primarily due to the sales and marketing efforts for the Digital Imaging products. Inclusive of the mark to market adjustment on the Canadian dollar denominated warrants, the Company's EBITDA would be positive $346,281.
- Cash used in operations was $1,971,575 during the three months ended June 30, 2014 compared to $1,131,399 during the three months ended June 30, 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 and purchasing digital equipment inventory.

SELECTED QUARTERLY INFORMATION

The information in the tables below has been derived from the Company's unaudited interim condensed consolidated financial statements. The Company's quarterly operating results have varied substantially in the past and may vary substantially in the future. Accordingly, the information below is not necessarily indicative of results for any future quarter.

(in US$ '000's)	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012
Cash	$ 1,838	$ 3,178	$ 4,359	$ 973	$ 1,718	$ 607	$ 970	$ 395
Working capital	69	3,438	4,446	741	972	(1,109)	(97)	(1,095)
Total assets	4,967	5,112	5,824	2,619	3,550	1,996	3,490	2,501
Long-term financial liabilities	1	4,971	3,676	3,967	2,289	108	147	70
Shareholders' (deficiency) equity	310	(1,430)	855	(3,135)	(1,219)	(1,110)	(128)	(1,035)

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

Consolidated Statements of Operations and Deficit

(in US$ '000's, except earnings per share)	Three months ended June 30, 2014	Three months ended March 31, 2014	Three months ended December 31, 2013	Three months ended September 30, 2013	Three months ended June 30, 2013	Three months ended March 31, 2013	Three months ended December 31, 2012	Three months ended September 30, 2012
Revenues	$ 1,590	$ 1,055	$ 216	$ 911	$ 1,083	$ 309	$ 1,390	$ 2,886
Cost of goods sold	724	526	424	331	447	146	748	962
Gross margin	866	529	(208)	580	636	163	642	1,924
Expenses:								
Sales and marketing	1,546	743	435	159	327	332	349	665
Research and development	247	258	121	122	111	90	95	113
Administration	506	533	475	439	302	379	282	334
EBITDA	(1,433)	(1,005)	(1,239)	(140)	(104)	(638)	(84)	812
Other expenses (income)	1,516	1,889	214	1,819	2,096	693	91	45
Income tax expense	-	-	8	-	1	3	-	13
Net income (loss)	83	(2,894)	$ (1,461)	$ (1,959)	$ (2,201)	$(1,334)	$ (175)	$ 754
Net income (loss) per share (basic and diluted)	$ 0.00	$ (0.04)	$ (0.02)	$ (0.03)	$ (0.05)	$ (0.03)	$ (0.01)	$ 0.02

During the three months ended June 30, 2014, the Company used its working capital to finance its investment into sales and marketing infrastructure for the Digital Imaging products.

The Company's net losses during the past five three month periods is primarily due to non-cash mark to market adjustments on Canadian dollar denominated warrants. See Financial Results section below for further discussion on the selected quarterly income statement information.

FINANCIAL RESULTS FOR THE THREE MONTHS ENDED JUNE 30, 2014

The following analysis of the results of operations for the three months ended June 30, 2014 includes comparisons to the three months ended March 31, 2014 and June 30, 2013

Revenue

Revenues are derived from the sale of the Company's VELscope® product, related consumable products which are disposable components for singular use of the VELscope® product and Digital Imaging equipment. Revenue is expressed net of distributor volume rebates, price discounts and warranty expense of $8,863, $8,614 and $6,268 during the three months ended June 30, 2014, March 31, 2014 and June 30, 2013, respectively.

	Three months ended June 30, 2014	Three months ended March 31, 2014	Three months ended June 30, 2013
Total net revenues	**$ 1,590,289**	$ 1,054,886	1,082,883

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

(Expressed in U.S. dollars, unless otherwise noted)

June 30, 2014, the Company experienced its best net revenues quarter since the three month period ended September 30, 2012 as a result of the optimization of sales channels through non-exclusive distribution partnerships throughout North America and the introduction of the Digital Imaging product line.

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:

	Three months ended June 30, 2014	Three months ended March 31, 2014	Three months ended June 30, 2013
Revenue	**$ 1,066,628**	$ 654,029	1,019,873
Percentage of total revenue	**67%**	62%	94%

Gross Margin[2]

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

	Three months ended June 30, 2014	**%**	Three months ended March 31, 2014	%	Three months ended June 30, 2013	%
Revenue	**$ 1,590,289**		$ 1,054,886		$ 1,082,883	
Cost of sales	**724,230**		525,527		446,509	
Gross margin	**$ 866,059**	**54%**	$ 529,359	50%	$ 636,374	59%

The Company earned gross margin for the three months ended June 30, 2014 of 54% which is an increase from the Company's gross margin for the three months ended March 31, 2014.

Expenses

	Three months ended June 30, 2014	Three months ended March 31, 2014	Three months ended June 30, 2013
Sales and marketing	**$ 1,545,537**	$ 743,441	$ 327,299
Research and development	**247,342**	258,581	110,794
Administration	**505,543**	532,690	302,145
Stock-based compensation	**186,352**	191,498	200,462
Deferred share unit compensation	**-**	-	27,850
Mark to market adjustments on Canadian dollar warrants	**(1,778,644)**		1,795,163
Other operating expenses	**13,944**	9,928	43,743
Total expenses	**$ 720,074**	$ 1,736,138	$ 2,807,456
As a percentage of total net revenue	**45%**	165%	259%

[2] *Gross margin is a non-IFRS measure that does not have a standard meaning and may not be comparable to a similar measure disclosed by other issuers. Gross margin referenced here relates to revenues less cost of sales. This measure does not have a comparable IFRS measure and is used by the Company to manage and evaluate the operating performance of the Company.*

(Expressed in U.S. dollars, unless otherwise noted)

The increase in expenses for the three months ended June 30, 2014 as compared to the three months ended March 31, 2014 and June 30, 2013 was primarily due to increased investment into both sales and marketing and research and development resources. The Company also incurred a slight increase in administration costs.

Sales and Marketing

	Three months ended June 30 2014	Three months ended March 31, 2014	Three months ended June 30, 2013
Sales and marketing	**$ 1,545,537**	$ 743,441	$ 327,299
As a percentage of total net revenue	**97%**	71%	307%

The increase in sales and marketing expenses over the previous three month periods ended March 31, 2014 and June 30, 2013 was due to the Company's investment in expanding its VELscope sales staff and establishing the infrastructure of its LED Imaging sales staff, which was launched in April 2014.

The Company has twenty seven sales and marketing employees, of which twenty three are located in the United States and four are located in Canada.

Research and Development

	Three months ended June 30, 2014	Three months ended March 31, 2014	Three months ended June 30, 2013
Research and development	**$ 247,342**	$ 258,581	$ 110,794
As a percentage of total net revenue	**16%**	25%	10%

The Company has a small research and development group located in Canada. Research and development expenses relate primarily to salaries and related benefit costs, as well as a portion of the Company's overall facilities costs.

Administration

	Three months ended June 30, 2014	Three months ended March 31, 2014	Three months ended June 30, 2013
Administration	**$ 505,543**	$ 532,690	$ 302,145
As a percentage of total net revenue	**32%**	51%	28%

Administration expenses include executive and administrative staff salaries, facilities, public company costs, insurance, accounting and legal fees as well as various general administrative costs. The increase in administration expenses for the three months ended June 30, 2014 compared to the three months ended March 31, 2014 and June 30, 2013 was primarily due to increased management staff, professional fees and insurance costs.

(Expressed in U.S. dollars, unless otherwise noted)

Other Operating Expenses

	Three months ended June 30, 2014	Three months ended March 31, 2014	Three months ended June 30, 2013
Depreciation of property, plant and equipment	**$ 7,493**	$ 3,477	$ 3,189
Amortization of intellectual property	**6,451**	6,451	6,451
Finder's warrants issuance costs	**-**	-	34,103
Total other operating expenses	**$ 13,944**	$ 9,928	$ 43,743

During the three months ended June 30, 2014, other operating expenses increased slightly from the three month period ended March 31,2014 as the Company had purchased additional office and Digital Imaging demo equipment. For the three months ended June 30, 2013 there was in increase in other operating expenses for finder's warrants issuance costs which were incurred in connection with the Company's private placement completed in June 2013.

Operating (Loss)/Gain

	Three months ended June 30, 2014	Three months ended March 31, 2014	Three months ended June 30, 2013
Operating loss for the period	**$ (1,632,659)**	$ (1,206,789)	$ (375,919)

During the three months ended June 30, 2014, the Company experienced an Operating loss which is attributable to the increased expenditures for the Sales and Marketing efforts with the Digital Imaging products infrastructure.

Other Income (Expenses)

	Three months ended June 30, 2014	Three months ended March 31, 2014	Three months ended June 30, 2013
Mark to market adjustments on Canadian dollar denominated warrants	**$ 1,778,644**	$ (1,695,119)	$ (1,795,163)
Foreign exchange (loss) gain	**(63,419)**	7,909	(28,615)
Total other income (expenses)	**$ 1,715,225**	**$ (1,687,210)**	$ (1,823,778)

During the three months ended June 30, 2014, the Company experienced other income due to the mark to market adjustment on Canadian dollar denominate warrants. For the three months ended March 31, 2014 and June 30, 2013, the Company experienced expenses due to the mark to market adjustments on the Canadian dollar denominated warrants. The change in mark to market adjustments on Canadian dollar denominated warrants fluctuates from period to period based on volatility, share price, risk-free interest rates and warrant exercises. The Company applies the Black Scholes valuation model to value the mark to market adjustments on Canadian dollar denominated warrants.

(Expressed in U.S. dollars, unless otherwise noted)

EBITDA[1]

	Three months ended June 30, 2014	Three months ended March 31, 2014	Three months ended June 30, 2013
Net income (loss) and comprehensive income (loss) for the period	**$ 82,566**	**$ (2,893,999)**	$ (2,201,139)
Add back:			
Depreciation of equipment	**7,493**	**3,477**	3,189
Amortization of intellectual property	**6,451**	**6,451**	6,451
Income taxes	**-**	**-**	1,442
Finders warrants issuance costs	**-**	-	34,103
Stock-based compensation	**186,352**	**191,498**	200,462
Deferred share unit compensation	**-**	-	27,850
Mark to market adjustments on Canadian dollar denominated warrants	**(1,778,644)**	**1,695,119**	1,795,163
Foreign exchange loss (gain)	**63,419**	**(7,909)**	28,615
EBITDA	**$ (1,432,363)**	**$ (1,005,363)**	$ (103,864)

The Company recently updated its calculation of EBITDA to more accurately evaluate the cash operating loss of the business. The Company incurred negative EBITDA for the three months ended June 30, 2014 primarily due to its investment into sales and marketing as the Company expands its product portfolio and establishes the infrastructure of its sales force for the Imaging division. The Company incurred an increase in Administration costs related to the legal costs of developing new Distributor Contracts.

Net Income (Loss) and Comprehensive Income (Loss)

	Three months ended June 30, 2014	Three months ended March 31, 2014	Three months ended June 30, 2013
Net income (loss) and comprehensive income (loss) for the period	**$ 82,566**	**$ (2,893,999)**	$ (2,201,139)
Income (Loss) per share - basic and diluted	**$ 0.00**	**$ (0.04)**	$ (0.05)

Net income for the three months ended June 30, 2014 increased over the three months ended March 31, 2014 and June 30, 2013 due to the mark to market adjustment on Canadian dollar denominated warrants. The Company will continue to experience a non-cash expense related to this for the life of the unexercised Canadian dollar denominated warrants.

FINANCIAL RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2014

The following analysis of the results of operations for the six months ended June 30, 2014 includes comparisons to the six months ended June 30, 2013.

Revenue

Revenues are derived from the sale of the Company's VELscope® product, related consumable products which are disposable components for singular use of the VELscope® product and Digital Imaging equipment. Revenue is expressed net of distributor volume rebates, price discounts and warranty expense of $17,477 and $15,947 during the six months ended June 30, 2014 and June 30, 2013, respectively.

(Expressed in U.S. dollars, unless otherwise noted)

	Six months ended June 30, 2014	Six months ended June 30, 2013
Total net revenues	$ 2,645,175	1,392,473

In 2013, the Company had a significant portion of its revenues derived from sales to its former exclusive distribution partner. The Company has transitioned to a non-exclusive distribution structure for the VELscope and implemented a direct sales and marketing team for the Company's Digital Imaging product line. During the six month period ended June 30, 2014, the Company almost doubled its revenues compared to the same period in the prior year due to the optimization of sales channels through non-exclusive distribution partnerships throughout North America and the introduction of the Digital Imaging product line.

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:

	Six months ended June 30, 2014	Six months ended June 30, 2013
Revenue	$ 1,720,657	1,292,312
Percentage of total revenue	65%	93%

Gross Margin

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

	Six months ended June 30, 2014	%	Six months ended June 30, 2013	%
Revenue	$ 2,645,175		$ 1,392,473	
Cost of sales	1,249,767		592,875	
Gross margin	$ 1,395,408	53%	$ 799,598	57%

The Company earned gross margin for the six months ended June 30, 2014 of 53% which is a slight decrease from the Company's gross margin for the six months ended June 30, 2013, due largely to the product mix.

Expenses

	Six months ended June 30, 2014	Six months ended June 30, 2013
Sales and marketing	$ 2,288,978	$ 659,335
Research and development	505,923	200,551
Administration	1,038,233	681,873
Stock-based compensation	377,850	551,793
Deferred share unit compensation	-	315,431
Mark to market adjustments on Canadian dollar warrants	(83,525)	1,756,934
Other operating expenses	23,872	53,383
Total expenses	$ 4,151,331	$ 4,219,300
As a percentage of total net revenue	157%	303%

(Expressed in U.S. dollars, unless otherwise noted)

The decrease in expenses for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013 was primarily due to the change in the Company's mark to mark adjustment on Canadian dollar denominated warrants, offset by increased spending in sales and marketing, research and development and administration expenses.

Sales and Marketing

	Six months ended June 30 2014	Six months ended June 30, 2013
Sales and marketing	**$ 2,288,978**	$ 659,335
As a percentage of total net revenue	**87%**	47%

The increase in sales and marketing expenses over the previous six month period ended June 30, 2013 was due to the Company's investment in expanding its VELscope sales staff and establishing the infrastructure of its Digital Imaging sales and marketing infrastructure, which was launched in April 2014.

The Company has twenty seven sales and marketing employees, of which twenty three are located in the United States and four are located in Canada.

Research and Development

	Six months ended June 30, 2014	Six months ended June 30, 2013
Research and development	**$ 505,923**	$ 200,551
As a percentage of total net revenue	**19%**	14%

The Company has a small research and development group located in Canada. Research and development expenses relate primarily to salaries and related benefit costs, as well as a portion of the Company's overall facilities costs.

Administration

	Six months ended June 30, 2014	Six months ended June 30, 2013
Administration	**$ 1,038,233**	$ 681,873
As a percentage of total net revenue	**39%**	49%

Administration expenses include executive and administrative staff salaries, facilities, public company costs, insurance, accounting and legal fees as well as various general administrative costs. The increase in administration expenses was primarily due to increased composition of management staff, professional fees, insurance costs and the expansion of the Company into an Atlanta based office.

(Expressed in U.S. dollars, unless otherwise noted)

Other Operating Expenses

	Six months ended June 30, 2014	Six months ended June 30, 2013
Depreciation of property, plant and equipment	**$ 10,969**	$ 6,378
Amortization of intellectual property	**12,903**	12,902
Finder's warrants issuance costs	**-**	34,103
Total other operating expenses	**$ 23,872**	$ 53,383

During the six months ended June 30, 2014, other operating expenses decreased as there was no private placement in 2014, year to date, resulting in no finder's warrants issuance costs being incurred.

Operating Loss

	Six months ended June 30, 2014	Six months ended June 30, 2013
Operating loss for the period	**$ (2,839,448)**	$ (1,662,768)

During the six months ended June 30, 2014, the Company experienced an operating loss which was attributable to the increased costs of realizing its current revenues due to the expansion of its sales and marketing team and expansion into a new line of business.

Other Income (Expenses)

	Six months ended June 30, 2014	Six months ended June 30, 2013
Mark to market adjustments on Canadian dollar denominated warrants	**$ 83,525**	$ (1,756,934)
Foreign exchange loss	**(55,510)**	(111,071)
Total other income (expenses)	**$ 28,015**	$ (1,868,005)

During the six months ended June 30, 2014, the Company experienced other income due to the mark to market adjustment on Canadian dollar denominated warrants offset by foreign exchange loss. During the six months ended June 30, 2013, the Company's mark to market adjustments on the Canadian dollar denominated warrants greatly contributed to its other expenses.

(Expressed in U.S. dollars, unless otherwise noted)

EBITDA[1]

	Six months ended June 30, 2014	Six months ended June 30, 2013
Net loss and comprehensive loss for the period	**$ (2,811,433)**	$ (3,534,913)
Add back:		
Depreciation of equipment	**10,969**	6,378
Amortization of intellectual property	**12,903**	12,902
Income taxes	**-**	4,140
Finders warrants issuance costs	**-**	34,103
Stock-based compensation	**377,850**	551,793
Deferred share unit compensation	**-**	315,431
Mark to market adjustments on Canadian dollar denominated warrants	**(83,525)**	1,756,934
Foreign exchange loss	**55,510**	111,071
EBITDA	**$ (2,437,726)**	$ (742,161)

The Company recently updated its calculation of EBITDA to more accurately evaluate the cash operating loss of the business. The Company incurred negative EBITDA for the six months ended June 30, 2014 primarily due to its investment into sales and marketing as the Company expands its product portfolio and establishes the infrastructure of its sales force for the Digital Imaging division.

Net Loss and Comprehensive Loss

	Six months ended June 30, 2014	Six months ended June 30, 2013
Net loss and comprehensive loss for the period	**$ (2,811,433)**	$ (3,534,913)
Loss per share - basic and diluted	**$ (0.04)**	$ (0.06)

Net loss for the six months ended June 30, 2014 decreased compared to the six months ended June 30, 2013 due largely to the difference in the mark to market adjustment on Canadian dollar denominated warrants. The Company will continue to experience a non-cash expense related to this for the life of the unexercised Canadian dollar denominated warrants.

(Expressed in U.S. dollars, unless otherwise noted)

LIQUIDITY AND CAPITAL RESOURCES

The Company finances its operations and capital expenditures through cash generated from operations and equity financings. As at June 30, 2014, the Company had cash of $1,838,400 with working capital[3] of $69,216 as compared to cash of $1,718,435 and working capital of $972,183 as at June 30, 2013.

Cash (used in) provided by:	**Three months ended June 30, 2014**	Three months ended March 31, 2014	Three months ended June 30, 2013
Operating activities	**$ (1,971,575)**	**$ (1,310,748)**	$ (1,131,399)
Investing activities	**(153,414)**	**(27,171)**	(1,024)
Financing activities	**785,309**	**157,013**	2,243,948
(Decrease) increase in cash	**$ (1,339,680)**	**$ (1,180,906)**	$ 1,111,525

Cash used in operating activities for all comparable periods was attributable to revenues earned offset by operating expenditures primarily consisting of sales and marketing costs and overall corporate administration activities.

The investing activities during the three months ended June 30, 2014 pertain to the purchasing of equipment.

The financing activities during the three months ended June 30, 2014 relate to the proceeds from the exercise of warrants. The financing activities during the three months ended June 30, 2013 relate to proceeds from the Company's June 2013 private placement.

STAFFING LEVELS

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

	As at June 30, 2014	**As at March 31,2013**	**As at June 30,2013**
Sales and marketing	27	18	8
Research and development	2	2	1
Administration	9	2	5
Total	**38**	**28**	**14**

COMMITMENTS

The Company continues to have no bank debt, off-balance sheet financing arrangements or significant capital leases. The Company has leased facilities in Canada. Minimum lease payments as at June 30, 2014 are $33,087

INTANGIBLE ASSET IMPAIRMENT

None.

[3] *Working Capital is a non-IFRS measure that does not have a standardized meaning and may not be comparable to a similar measure disclosed by other issuers. This measure does not have a comparable IFRS measure. Working capital is defined as current assets less current liabilities. The Company believes that the inclusion of this no-IFRS measure financial measure provides investors with an alternative presentation useful to investors' understanding of the Company's core operating results and trends.*

(Expressed in U.S. dollars, unless otherwise noted)

OFF-BALANCE SHEET ARRANGEMENTS

None.

TRANSACTIONS WITH RELATED PARTIES

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

During the three months ended June 30, 2014 and 2013, the Company paid or accrued the following compensation expenses to key personnel of the Company:

Cash provided by (used in):		Three months ended June 30, 2014		Three months ended June 30, 2013
Short-term compensation*	$	428,767	$	61,652
Share-based payments	$	344,960	$	-

The Company entered into an employment 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 are accrued royalties of $21,040 during the six months ended June 30, 2014 (2013 - $20,640).

During the six months ended June 30, 2014, nil options were awarded to key management under the Company's stock option plan (2013 - nil).

PROPOSED TRANSACTIONS

None.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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 June 30, 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 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.

IFRIC 15 – Revenue from Contracts with Customers ("IFRS 15")

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, 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 financial statements.

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.

Annual Improvements

In December 2013, the IASB issued the Annual Improvements 2010-2012 and 2011-2013 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 financial statements

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

(Expressed in U.S. dollars, unless otherwise noted)

Classification of financial instruments

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

Financial Assets		As at June 30, 2014		As at December 31, 2013
Cash and cash equivalents				
Cash	$	1,838,400	$	4,358,986
Loans and receivables				
Receivables		784,041		503,736
Total	**$**	**2,622,441**	$	4,862,722

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

Financial Liabilities		As at June 30, 2014		As at December 31, 2013
Non-derivative financial liabilities				
Trades payable	$	1,074,851	$	511,535
Accrued liabilities		387,329		268,451
Warranty provision		4,807		7,858
State and Provincial sales tax payable		18,256		5,202
Advances from distributor		561,146		495,494
Deferred revenue		7,947		-
Financial lease obligations		5,437		6,880
Derivative financial liabilities				
Warrants		2,597,044		3,672,958
Total	**$**	**4,656,817**	$	4,968,378

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.

(Expressed in U.S. dollars, unless otherwise noted)

Details of the Company's warrants and information about the fair value hierarchy as at June 30, 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 June 30, 2014
Warrants	-	$ 2,597,044	-	$ 2,597,044
Total	**-**	**$ 2,597,044**	**-**	**$ 2,597,044**

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 June 30, 2014, no accounts receivable are due beyond one year.

As at June 30, 2014 and December 31, 2013, the Company's exposure to credit risk for these financial instruments was as follows:

Credit Risk		**As at June 30, 2014**		As at December 31, 2013
Cash	$	1,838,400	$	4,358,986
Receivables		784,041		503,736
Total	**$**	**2,622,441**	$	4,862,722

Trade accounts receivable balances of $763,118 as at June 30, 2014 (December 31, 2013 - $490,800) were aged as follows in the below table. The below total does not include goods and services tax receivable of $13,838 as at June 30, 2014 (December 31, 2013 –$12,936 respectively) and share subscription receivable of $7,085 at June 30, 2014 (December 31, 2013 - $Nil).

Accounts Receivable Aging		**As at June 30, 2014**		As at December 31, 2013
Current	$	466,497	$	318,333
31 - 60 days		284,585		75,059
Over 60 days		12,036		97,408
Total	**$**	**763,118**	$	490,800

(Expressed in U.S. dollars, unless otherwise noted)

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 June 30, 2014 are listed below.

Trade payables were aged as follows as at June 30, 2014 and December 31,2013 and does not include accrued liabilities of $387,329, warranty provision of $4,807 and state sales tax payable of $18,256 (December 31,2013 - $268,451, $7,858 and $5,202 respectively) which are all current:

Accounts Payable Aging		**As at June 30, 2014**		As at December 31, 2013
Current	$	354,632	$	118,547
31 - 60 days		472,979		109,598
Over 60 days		247,240		283,390
Total	**$**	**1,074,851**	$	511,535

The following is an analysis of the contractual maturities of the Company's non-derivative accrued liabilities as at June 30, 2014:

Contractual Maturities		**Within one year**		Between one and five years
Trades payable	$	1,074,851	$	-
Finance lease obligations		4,032		1,028
Total	**$**	**1,078,883**	$	1,028

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

Interest rate risk

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

Due to the limited and short term nature of these financial instruments, fluctuations in the interest rates will not have a significant impact on their fair value. As at June 30, 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.

DISCLOSURE OF OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares, without par value and an unlimited number preference shares without par value. As of August 26, 2014, the Company has 84,530,019 common shares outstanding and no preference shares outstanding.

The Company has instituted a rolling incentive stock option plan whereby shares reserved for issuance under the plan shall reflect 10% of the issued and outstanding common shares of the Company from time to time. As of August 26, 2014, the Company is entitled to grant incentive stock options for 8,453,002 common shares under the Company's stock option plan with a total of 6,409,000 options being issued and outstanding and has issued 950,000 deferred share units under the Company's Deferred Share Unit Plan. The Company also has 23,243,876 warrants outstanding.

SUBSEQUENT EVENTS

On July 15, 2014, the Company entered into a twelve month lease of new office space in Vancouver, BC, commencing September 1, 2014. The office space is approximately 1,500 square feet. This office will be occupied by the Company's administrative staff.

On July 15, 2014, the Company entered into an 8 year lease in Atlanta, GA for the Company's subsidiary, LED Dental Ltd., headquarters. The office space is approximately 5,800 square feet and will be available to occupy in November 2014, upon the completion of tenant improvements. The financial commitment for this lease is approximately $1.1 million over a seven year term. By request of the Landlord, LED has a $280,000 Letter of Credit with Royal Bank of Canada which declines in conjunction with the lease term.

On August 11, 2014, 2,800,000 share purchase warrants with an exercise price of CDN $0.20 were exercised for gross proceeds of CDN $560,000.

On August 12, 2014, 500,000 share purchase warrants with an exercise price of CDN $0.20 were exercised for gross proceeds of CDN $100,000.

On August 15, 2014, 2,800,000 share purchase warrants with an exercise price of CDN $0.20 were exercised for gross proceeds of CDN $560,000.

On August 22, 2014, 1,000,000 share purchase warrants with an exercise price of CDN $0.20 were exercised for gross proceeds of CDN $200,000.

RISKS AND UNCERTAINTIES

An investment in the securities of the Company may be regarded as speculative due to the Company's stage of development. Risk factors relating to the Company could materially affect the Company's future results and could cause them to differ materially from those described in forward-looking statements relating to the Company. Prospective investors should carefully consider these risks.

The following are some of the risks that are associated with the Company's business and operations and should be carefully considered by any potential investor in the Company's shares:

History of Losses

The Company has a history of losses, and there can be no assurance that the Company's losses will not continue in the future. As at June 30, 2014, the Company had an accumulated deficit of $35.4 million. The Company's prospects must be considered in the context of its stage of development, the risks and uncertainties it faces, and the inability of the Company to accurately predict its operating results in the results of product development and sales and marketing initiatives. There can be no assurances that implementation of the Company's strategies will result in the Company becoming profitable. The Company uses cash raised in equity markets to partially fund working capital. If adequate funds are not available when required or on acceptable terms, the Company may be required to delay, scale back or terminate its product development activities and sales and marketing efforts, and may be unable to continue operations. There can be no assurance that the Company will be able to obtain the additional financial resources required to compete in its markets on favorable commercial terms or at all. Any equity offering may result in dilution to the ownership interests of shareholders and may result in dilution of the value of such interests. The availability, or lack thereof, of bank credit, additional supplier credit, or additional equity investment could adversely affect the Company's ability to meet its business objectives. Recent market events and conditions, including disruptions in the Canadian and international credit markets and other financial systems and the deterioration of the Canadian and global economic conditions, could, among other things, impede access to capital or increase the cost of capital, which would have an adverse effect on the Company's ability to fund its working capital and other capital requirements. The Company's access to additional capital may not be available on terms acceptable to the Company or at all.

Operational Risk

In the normal course of business, LED's operations continue to be influenced by a number of internal and external factors and are exposed to risks and uncertainties that can affect its business, financial condition and operating results. LED's activities are subject to ongoing operational risks, including the performance of key suppliers, product performance, government and other industry regulations, all of which may affect its ability to meet its obligations. While management believes its innovation and technology make it a leader in the industry, revenue and results may be affected if products are not accepted in the marketplace, are not approved by regulatory authorities, or if products are not brought to market in a timely manner. LED is reliant on a small number of key employees, the loss of any one of whom could materially affect operating results and the ability to design and manufacture new products.

Distributor Risks

LED distributes its product in the North American market through non-exclusive distribution partnerships with multiple distributors. In the event the distributors are unable or unwilling to promote and deliver the product to end customers, the Company's financial condition and operating results could be materially impacted. There can be no assurance the Company will be successful in managing the nuances of their markets to ensure the success of the Company's products in those markets.

Disruptions in Production

Factors that affect the production and sale of LED's products which could result in decreases in profitability include: (a) Acts of God; (b) the expiration or termination of leases, contracts, permits or licences; (c) sales price redeterminations; (d) future litigation; (e) work stoppages or other labour difficulties; (f) disputes with suppliers, distributors and subcontractors; (g) political risk with offshore suppliers; (h) reliance on suppliers with highly technical and not easily replaceable expertise; and (i) changes in the market and general economic conditions. Weather conditions, equipment replacement or repair and fires can have a significant impact on operating results.

Seasonality

Sales may have seasonal components which may result in significant variances in quarterly operating results and may also significantly increase working capital requirements on a quarterly basis.

Working Capital Requirements

The Company may not obtain favorable credit terms or debt financing to finance the investment into working capital for the business.

Management's Estimates

Management's estimates may prove to be inaccurate due to unexpected changes in business or market conditions.

Regulatory Requirements

Regulatory requirements in international markets may require clinical or other studies that may restrict the ability or timing of LED to sell in these markets.

Reliance on Suppliers

The Company has a limited number of suppliers for the raw materials required for its products. A dispute with one of these suppliers, or adverse changes in the business of the suppliers may have a negative impact on the business, operating results and financial condition of the Company if it is unable to source comparable raw materials from alternate sources at competitive rates.

Reliance on Subcontractors

LED utilizes a primary supplier for the production and supply of its products with the corresponding dependence on subcontractors who are responsible for their respective manufacturing requirements. If the primary supplier experiences business interruption issues or ceases operations or in the event that the Company's respective subcontractors manufacturing a material amount of products cease operations or are unable to come to terms on suitable arrangements with LED, LED's business and profitability may be adversely affected.

The Company May Not Realize the Benefits Currently Anticipated

As part of its strategy, the Company intends to continue its efforts to expand its existing customer base and products. A number of risks and uncertainties are associated with the development of new customers and products, including political, regulatory, design, sourcing, labour, operating, technical, technological risks and limited accessibility to distribution and or non-economic distribution channels. There are also uncertainties relating to capital and other costs, and financing risks in developing new products. The failure to develop one or more of these initiatives successfully could have an adverse effect on the Company's financial position and results of operations.

Operating Cost Fluctuations

Although the Company believes it has prudent adopted conservative assumptions in its business planning and related cost estimations, no assurances can be given that such assumptions will prove to be accurate, and, therefore, the operating costs of the Company may prove to be higher or lower than those estimated. These estimates are influenced by the availability and pricing of third party raw materials and components required in the Company's products.

Fluctuations in Exchange Rates

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

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

Taxation

Canadian taxation authorities may challenge expense or tax credits claimed by LED including research and development expenses and related tax credits. If Canadian tax authorities successfully challenge such expenses or the correctness of tax credit claims, LED's operating results could be adversely affected. If Canadian taxation authorities reduce the tax credit either by reducing the rate of the grant or the eligibility of some research and development expenses in the future, the Company's operating results will be adversely affected.

Worsened General Economic Conditions

The decline in the global economic environment in recent years and the continuing economic instability in certain parts of the world resulted in increasing uncertainty regarding future revenue and customer commitments, both in terms of timing and magnitude for such future sales. If the global economic climate does not recover, the Company may not generate the sales activity required to support its operations resulting in requirement for additional restructurings and erosion of its existing capital resources which may hinder the future viability of the Company.

Additional Financing

The Company has a history of operating losses and uses cash raised in equity markets to partially fund working capital. If adequate funds are not available when required or on acceptable terms, the Company may be required to delay, scale back or terminate its product development activities and sales and marketing efforts, and may be unable to continue operations. There can be no assurance that the Company will be able to obtain the additional financial resources required to compete in its markets on favorable commercial terms or at all. Any equity offering may result in dilution to the ownership interests of shareholders and may result in dilution of the value of such interests. The availability, or lack thereof, of bank credit, additional supplier credit, or additional equity investment could adversely affect the Company's ability to meet its business objectives. Recent market events and conditions, including disruptions in the Canadian and international credit markets and other financial systems and the deterioration of the Canadian and global economic conditions, could, among other things, impede access to capital or increase the cost of capital, which would have an adverse effect on the Company's ability to fund its working capital and other capital requirements. The Company's access to additional capital may not be available on terms acceptable to the Company or at all.

Research and Development

If the Company fails to develop new products, incurs delays in developing new products, or if the product the Company develops are not successful, the Company's business could be harmed. Even if the Company does develop new products which are accepted by its target markets, the Company cannot assure that the revenues from these products will be sufficient to justify the Company's investment in research and development.

Stock Price Volatility

The market price for the common shares of the Company fluctuates significantly, and these fluctuations tend to be exaggerated if the trading volume is low. The market price of the common shares may rise or fall in response to announcements of technological or competitive developments, acquisitions or strategic alliances by the Company or its competitors, the gain or loss by the Company of significant orders or broad market fluctuations. The Company has expanded to the OTC stock exchange in the United States and Frankfurt Stock Exchange in Germany which may not increase future trading volume of the Company's common shares.

Product Development and Technological Change

The market for the Company's products is characterized by rapidly changing technology, evolving industry standards and frequent new product introductions. To be successful, the Company will need to enhance existing products and to introduce new products and features in response to changing standards, customer requirements, and technological innovations by others. There can be no assurance that the Company will be successful in doing this in a timely manner or at all. There can be no assurance that products or technologies developed by others will not render the Company's products obsolete or non-competitive. There is no assurance that the Company will be able to successfully develop next generation operational products. Failure to do so may have an adverse effect on the business, operating results and financial condition of the Company.

Sales and Marketing and Strategic Alliances

The Company has focused its distribution sales and marketing initiatives with a primary distributor in North America resulting in significant dependency for sales of its products on this primary distributor. If the Company is to become successful, it must continue to expand its sales and distribution channels and its marketing and technology alliances. There is no assurance the Company will be able to reach agreements with additional alliance or distribution partners on a timely basis or at all, or that these partners will devote sufficient resources to advancing the Company's interests. The Company's business, results of operation, financial condition and stock price may be materially adversely affected if any strategic partner discontinues its relationship with the Company for any reason. Additionally, the Company at times relies on the voluntary efforts of its strategic partners rather than compliance with contractual obligations, and there are at times no minimum performance requirements. Therefore, the Company cannot be certain that these relationships will be successful.

Dependence on a Small Number of Customers

The Company markets and sells its products primarily through its primary distributor relationships in North America resulting in economic dependence upon such distributors for the sales of its products. During the three months ended June 30, 2014, 79%, 10% and 1%, respectively, of the Company's consolidated revenue was attributable to its three largest customers. Management believes that revenue derived from current and future large customers will continue to represent a significant portion of total revenue. The inability to continue to secure and maintain a sufficient number of large contracts would have a material adverse effect on the business, financial condition, operating results and cash flows of the Company. Moreover, the success of the Company will depend in part upon its ability to obtain orders from new customers, as well as the financial condition and success of its customers and general economic conditions.

Intellectual Property Protection

The Company's ability to compete may be affected by its ability to protect its intellectual property. It relies primarily on a combination of copyright, trademark, patent and trade secret laws, confidentiality procedures and contractual provisions to protect its intellectual property. While the Company believes that its products and technologies are adequately protected against infringement, there can be no assurance of effective protection. Monitoring and identifying unauthorized use of the Company's technology is difficult, and the prohibitive cost of litigation may impair the Company's ability to prosecute any infringement. The commercial success of the Company will also depend upon its products not infringing any intellectual property rights of others and upon no claims for infringement being made against the Company. The Company believes that it is not infringing any intellectual property rights of third parties, but there can be no assurance that such infringement will not occur. An infringement claim against the Company by a third party, even if it is invalid, could have a material adverse effect on the Company because of the costs of defending against such a claim. LED may fail to protect or obtain protection of intellectual property. In addition, LED may be exposed to infringement, misappropriation or other claims by third parties which, if determined adversely, could result in LED paying significant damage awards. LED currently uses patents, trademarks and contractual arrangements with employees to protect its intellectual property rights. LED's existing and future patents could be challenged, invalidated, circumvented or rendered unenforceable. LED's pending patent applications may not result in issued patents, or if patents are issued, such patents may not provide meaningful protection again competitors or against competitive technology. Patents afford only limited protection, and the actions that LED takes to protect intellectual property rights may not be adequate. In addition, the process of seeking patent and trademark protection can be time consuming and expensive and there can be no assurance that any future patent or trademark applications will be granted in respect of LED's technology or business.

Competition

Because of intense market competition, the Company may not succeed. Some of the Company's current and potential competitors have longer operating histories, stronger brand names and greater financial, technical, marketing and other resources than the Company. Current and potential competitors may also have existing relationships with many of the Company's prospective customers, and prospective OEM customers may be developing products for their own use that are comparable to the Company's products. In addition, the Company expects competition to persist and intensify in the future, which could adversely affect the Company's ability to increase sales. Competitors have and may in the future align themselves with one or more of several large distributors of dental products which may include exclusive marketing arrangements making a significant portion of the market unavailable to LED.

Potential Fluctuations in Quarterly Results

The Company's quarterly operating results may vary significantly depending on factors such as the timing of new product introductions and changes in pricing policies by the Company and its competitors, market acceptance of new and enhanced versions of the Company's products and the timing of significant orders. Because the Company's operating expenses are based on anticipated revenues and a high percentage of the Company's expenses are relatively fixed in the short term, variations in the timing of recognition of revenues can cause significant fluctuations in operating results from quarter to quarter and may result in unanticipated quarterly earnings shortfalls or losses. The market price of the Company's common shares may be highly volatile in response to such quarterly fluctuations.

Dependence on Key Personnel

The Company's future success depends largely on its ability to attract and retain talented employees. The Company's future results of operations will depend in part on the ability of its officers, management and other key employees to implement and expand operational, customer support and financial control systems and to expand, train and manage its employee base. The Company's future performance will also depend to a significant extent on its ability to identify, attract, train and retain highly skilled sales, technical, marketing and management personnel. If the Company were to lose the services of any key personnel, the Company may encounter difficulties finding qualified replacement personnel. LED's success is largely attributable to the leadership, contacts and efforts of LED's chief executive officer and senior management. If LED's Chief Executive Officer or one or more of the members of the senior management cease working with the Company, and the Company is unable to engage suitable replacements on a timely and commercially viable basis, the business, operating results and financial condition of the Company may be adversely affected.

Acquisitions

The Company in the future may, acquire businesses, products or technologies that it believes complement or expand its existing business. Acquisitions of this type involve a number of risks, including the possibility that the operations of the acquired business will not be profitable or that the attention of the Company's management will be diverted from the day-to-day operation of its business. An unsuccessful acquisition could reduce the Company's margins or otherwise harm its financial condition. Any acquisition could result in a dilutive issuance of equity securities, the incurrence of debt and the loss of key employees. The Company cannot ensure that any acquisitions will be successfully completed or that, if one or more acquisitions are completed, the acquired businesses, products or technologies will generate sufficient revenues to offset the associated costs of the acquisitions or other adverse effects.

Product Liability and Medical Malpractice Claims

LED will be exposed to risks associated with product liability claims if the use of LED's products results in injury or property damage. Users and their patients of the VELscope® may be injured as a result of malfunctions, defects or other causes. In addition, medical malpractice claims may be brought against LED. Because of LED's limited operating history, it is difficult to predict if product liability or medical malpractice claims will be brought in the future. LED carries what it believes to be adequate product liability insurance, but LED may not have adequate resources to satisfy a judgment if a successful claim is brought. The assertion of product liability or medical malpractice claims may also significantly damage LED's reputation.

Future Share Sales

If the Company's shareholders sell substantial amounts of the Company's common shares, the market price of the Company's common shares could decrease.

Management of Growth

The Company's future results of operations will depend in part on the ability of its officers and other key employees to implement and expand operational, customer support and financial control systems and to expand, train and manage its employee base. The Company's future performance will also depend to a significant extent on its ability to identify, attract, train and retain highly skilled sales, technical, marketing and management personnel.