LED MEDICAL DIAGNOSTICS INC.

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

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017

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 November 27, 2017 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 nine months ended September 30, 2017 (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, revenue, 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 this Management's Discussion and Analysis. 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 is qualified by this cautionary statement and there can be no assurance those 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 580 Hornby Street, Unit 810, Vancouver, B.C. V6C 3B6. 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 four wholly-owned subsidiaries, LED Dental (US) Ltd., which was incorporated on August 3, 2006 under the laws of Washington state, LED Dental Inc., which was incorporated on January 18, 2006 under the BCBCA, Essentia Genetics Corp., which was incorporated under the BCBCA on January 14, 2014 and Apteryx Inc. acquired on February 10, 2017 was incorporated under the laws of Ohio state.

General Development of the Business

LED's first product, the VELscope®, a patented hand held medical device has experienced wide spread adoption in the North American dental markets and has a growing international presence. In 2014, the Company established its US based operations in Atlanta, Georgia and began expansion and diversification of its imaging device portfolio through distribution agreements with a number of world class imaging device manufacturers. In February 2017, LED acquired Apteryx Inc., an Ohio based dental imaging software company adding a large user base of customers, a strong IP portfolio and a suite of proprietary imaging software applications and services.

Since establishing a market for the VELscope® LED has taken significant and progressive steps towards its goal of growing the business and establishing itself as a leader in the development, marketing and sales of advanced dental imaging software and hardware devices targeted to dental providers for the detection, diagnosis and treatment of dental diseases and other common conditions affecting oral health.

Description of the Business

LED provides dentists, oral health care specialists and corporately owned dental group practices known as Dental Service Organizations (DSOs) with a growing portfolio of imaging software and diagnostic dental imaging products, software and services. Since its inception, LED has grown from a research and development, pre-commercial product development company to its current status as a premier dental imaging services and technology company. The Company's product portfolio currently includes the Apteryx family of imaging software products, the Tuxedo intraoral sensor, the VELscope® oral assessment device and a number of distributed imaging technologies from best of class manufacturers. The customer base of the Company's initial product, the VELscope® along with the newly acquired customers from the Apteryx acquisition provides a significant platform for the company to launch its hardware and software product portfolio. LED believes that the success of the VELscope® to date has proven that the Company is a strong research and development corporation.

LED markets its products, in conjunction with its distribution and general goodwill partners, directly to dental practitioners as well as through select dental distributors. Marketing activities includes direct mail/e-mail, advertising in industry journals, multiple unrelated offsite locations including the company's web sites, personal onsite office visits and in bound and out bound telephone calls. In limited cases, direct marketing activities are oriented towards convincing dental practitioners to attend an education seminar or trade show event in which LED is a participant. LED believes that because of recent evolutions to its VELscope® device and acquisition of Apteryx software portfolio which is localized to a number of different languages, that LED has the potential for continued expansion of the product into international markets in the near and mid-terms. LED also has had recent success in establishing indirect partnerships with organizations and networks that provide goodwill marketing for the Company and its products at offsite locations. This is a cost-effective strategy that the company will look to continue in the future.

The VELscope® was initially launched in 2006 with 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 VELscope® Vx hand piece 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. 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®. LED has sold over 15,000 VELscope devices since initial launch and supplies its VELscope customers with disposable VELcaps and VELcare customer support programs.

The Company launched its digital imaging product portfolio in April 2014 which provides dental practices with advanced diagnostic imaging products and software. The core of the digital imaging product line is the TUXEDO Intraoral sensor the RAYSCAN α digital extra oral imaging device, which comes in panoramic, cephalometric and Cone Beam Computed Technology (CBCT) varieties, and the 3Shape intraoral impression scanner. Market penetration of CBCT machines continues to expand through the general and dental specialty markets, allowing practitioners to visualize the patient radiographically in all three dimensions to better diagnose, treatment plan and treat their patients for specific dental treatments such as dental implant, orthodontic and orthognathic procedures, 3D intraoral scanners and intraoral cameras round out the imaging device portfolio.

In February 2017, the Company acquired Apteryx Inc. providing the company with a large customer base, quality IP portfolio, strong R&D capability and a suite of patented digital imaging software and related services allowing us to offer our customers and prospects a complete dental digital workflow. The imaging software products and tools which include VX Web, XRAYVISION DCV, XRAYVISION, VX LITE, DCV and DATAGRABBER encompass solutions for Enterprise, Client Server and Software as a Service (SaaS) versions. These products and services provide image capture, analysis, storing, conversion and sharing functionalities. This transformative acquisition is both additive and accretive to the Company and provides a number of unique synergies to our core business which we expect will result in a financially stronger and more diversified Company.

The Company's combined hardware and software solutions offering provides the practitioner with an end to end digital imaging product workflow and the ability to convert their practice from analog technologies like film and impression materials to a complete digital imaging workflow.

Products and Intellectual Property

LED's focus is on obtaining proprietary and patented products and technologies and aggregating a comprehensive imaging product portfolio in which intellectual property and barrier to entry are a center focus. 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. Currently LED has over 40 patents in 28 patent families.

FORWARD-LOOKING COMPANY OBJECTIVES

The Company's objectives are continued growth through traditional research and development, sales/marketing activities and strategic partnering opportunities to:

- Continue to expand market share with goal to become the leading provider of open-architecture software as a service imaging software and proprietary imaging device sales and services to the United States dental market
- Continue to grow customer base by focusing on the expanding market of Dental Service Organizations (large group practices) and dental specialty practices including government agencies
- Add repeatable revenue streams, utilizing our software and hardware offerings and expanded customer base as a key target market by leveraging sales, marketing, synergies from Feb 2017 Apteryx acquisition

SIGNIFICANT EVENTS

- American Dental Partners selected LED Medical Diagnostics subsidiary Apteryx as their provider for cloud dental imaging software technologies. American Dental Partners will transition their entire network--nearly 300 US-based dental and specialty practices--to Apteryx's XVWeb cloud imaging technology within the next 12 months.
- Dental Care Alliance Selected LED Medical Diagnostics as Preferred Imaging Technology Providers for dental imaging devices and software technologies. DCA is one of the United States' largest and oldest dental support organizations, with 265 affiliated practices across all dental specialties in 13 states.
- On July 7, 2017 (the "extension date", the Company agreed with the holders of its previously issued 13% senior secured debenture in the principal amount of CDN $385,000 issued July 2016 (the "2016 Debentures") to amend the 2016 debentures by extending the terms until February 10, 2019 and decreasing the interest rate from 13% to 12%. As consideration for such amendments to the 2016 Debentures, LED has issued 391,666 common shares of the Company to the holders of the 2016 Debentures.

Financial Highlights

- Net revenue for the three months ended September 30, 2017 was $3,191,963, which is an increase of 28% from the three months ended September 30, 2016 and a 14% decrease in revenues from the three months ended June 30, 2017.

- The net loss before tax for the three months ended September 30, 2017 was $1,447,713 compared to the net loss before taxes for the three months ended September 30, 2016 of $855,484. The net loss for the three months ended September 30, 2017 was attributed to seasonality affecting sales revenue along with significant non-operating expenses, including a large loss resulting from the fair market valuation of the Canadian denominated warrants. Gross margin for this period increased on the previous quarter from 57% to 65% reflecting the increasing sales on the higher margin Apteryx product line and the Imaging products. There was a $103,740 or 4% reduction in operating expenses compared to the previous quarter ending June 30, 2017.

- Cash flow used in operations was $2,696,613 during the nine months ended September 30, 2017 compared to cash flow used in operations of $1,801,979 during the nine months ended September 30, 2016. There were inflows from financing for the nine months ended September 30, 2017 of $13,612,145 as compared to $273,350 cash inflows from the financing activities for the nine months ended September 30, 2016. The cash outflows from investing activities of $10,246,564 were attributed to the purchase of Apteryx, Inc.

- The Company had cash of $1,120,345 and Net Working Capital deficit of $1,521,730 as of September 30, 2017. Net Working Capital is defined as total current assets less total current liabilities.

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 USD '000's)	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
Cash	$ 1,120	$1,509	$ 2,905	$ 874	$ 341	$ 364	$ 1,185	$ 1,987
Working Capital	(1,522)	(893)	(59)	(2,109)	(2,857)	(1,999)	(1,045)	745
Total Assets	14,093	14,378	15,094	2,669	2,857	3,307	7,178	9,913
Long-term financial liabilities	4,885	4,191	6,291	2,047	(80)	77	85	87
Shareholders' equity/(deficiency)	3,924	5,268	4,145	(3,887)	(2,598)	(1,744)	(702)	1,147

Being in the dental supply and capital equipment industry and due to the timing of trade shows and client spending patterns, the Company's business is seasonal in nature, with the fourth quarter typically representing the largest portion of annual sales and annual net earnings. Management expects such seasonality to continue.

(in US$ '000's, except earnings per share)	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
Revenues	$ 3,192	$3,704	$ 2,098	$ 1,865	$ 2,489	$ 3,661	$ 2,153	$ 5,641
Cost of goods sold	1,115	1,610	1,069	1,610	1,872	2,590	1,617	4,045
Gross margin	2,077	2,094	1,029	255	617	1,071	536	1,596
Expenses:								
Sales and marketing	1,194	1,104	983	776	988	1,436	1,555	1,875
Research and development	297	249	162	26	37	20	50	43
Administration	760	737	570	608	423	502	617	508
Operating Income (loss)	(174)	4	(685)	(1,155)	(831)	(887)	(1,686)	(830)
Other (income) expenses	(1,274)	(901)	402	228	(24)	196	366	293
Income tax expense	0	0	0	0	0	0	0	0
Net income (loss)	(1,448)	905	(1,087)	(1,383)	(855)	(1,083)	(2,052)	(1,123)
Net loss per share (basic and diluted)	0.00	0.00	0.00	(0.01)	(0.01)	(0.01)	(0.02)	(0.01)

The Company's investment into the sales and marketing infrastructure and the addition of Apteryx has resulted in operating income just below breakeven. See Financial Results section below for further discussion on the selected quarterly income statement information.

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

FINANCIAL RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2017

The following analysis of the results of operations for the three months ended September 30, 2017 includes comparisons to the three months ended June 30, 2017 and September 30, 2016.

Revenue

Revenue is derived from the sale of the Company's diverse product line of digital imaging software and hardware which includes the VELscope® product and related consumable products. Revenue is expressed net of sales and early payment discounts.

	Three months ended:		
	September 30, 2017	June 30, 2017	September 30, 2016
Total revenue	$ 3,191,963	$ 3,704,499	$ 2,488,725

Revenue decreased by 14% when comparing the three months ended September 30, 2017 to June 30, 2017 due to the seasonality of sales. The late summer months tend to be slower sales months within the industry.

During the three months ended September 30, 2017, the Company had no customers that represent 10% or more of total revenue. During the three months ended June 30, 2017 and the three months ended September 30, 2016, revenue from customers which amounted to 10% or more of the Company's revenue was also nil.

Gross Margin[1]

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

	Three months ended:		
	September 30, 2017	June 30, 2017	September 30, 2016
Revenue	$ 3,191,963	$3,704,499	$ 2,488,725
Cost of sales	1,114,974	1,610,046	1,871,511
Gross margin	$ 2,076,989	$2,094,453	$ 617,214
Percentage of revenue	65%	57%	25%

The Company earned gross margin for the three months ended September 30, 2017 of 65%, an increase from the Company's gross margin for the previous 2 quarters of 57% and 49% respectively. The increase in gross margin is reflective of the Company's intensified sales focus on higher margin products such as Apteryx's imaging software products and VELscope consumables product line.

Expenses

	Three months ended:		
	September 30, 2017	June 30, 2017	September 30, 2016
Sales and marketing	$ 1,193,760	$1,104,460	$ 988,997
Research and development	297,043	249,073	36,618
Administration	644,859	757,093	423,309
Stock-based compensation	92,011	217,211	(13,202)
Depreciation and amortization	22,975	26,551	21,122
Total expenses	$ 2,250,648	$2,354,388	$ 1,456,844
As a percentage of revenue	71%	64%	59%

[1] 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 revenue 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)

Expenses (cont'd)

The decrease in expenses for the three months ended September 30, 2017 as compared to the three months ended June 30, 2017 was primarily attributable to a reduction in administration expenses from the Company's focus on cost control, along with a lower stock-based compensation expense offset by additional spending on sales, marketing and R&D. Total operating expenses for the current period increased compared to the three months ended September 30, 2016 due to the acquisition of Apteryx in February 2017.

Sales and Marketing

	Three months ended:		
	September 30, 2017	June 30, 2017	September 30, 2016
Expenses	$ 1,193,760	$ 1,104,460	$ 988,987
Percentage of revenue	37%	30%	39%

Sales and marketing includes the cost associated with customer support activities. The increase in sales and marketing expenses for the three-month period ended September 30, 2017 over the three months ended September 30, 2016 was due to increased sales activities, such as trade shows and conventions and an increase in head count during the quarter.

Research and Development

	Three months ended:		
	September 30, 2017	June 30, 2017	September 30, 2016
Expenses	$ 297,043	$ 249,073	$ 36,618
Percentage of revenue	9%	7%	1%

Research and development expenses relate primarily to salaries and benefit costs related to the software developing and innovation as well as maintaining regulatory approvals. The increase in research and development costs in the three-month period ended September 30, 2017 over the three months ended June 30, 2017 and September 30, 2016 was due to the salaries and benefit costs related to software development associated with the Apteryx product line.

Administration

	Three months ended:		
	September 30, 2017	June 30, 2017	September 30, 2016
Expenses	$ 644,859	$ 757,093	$ 423,309
Percentage of revenue	20%	20%	17%

Administration expenses include executive and administrative staff salaries, facilities, rent, investor relations, insurance, accounting and legal fees as well as various general administrative costs. The decrease in administration expenses for the three months ended September 30, 2017 compared to the three months ended June 30, 2017 was primarily due to lower legal and other professional fees and an overall focus on cost control.

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

Stock-based compensation

	Three months ended:		
	September 30, 2017	June 30, 2017	September 30, 2016
Expenses	$ 92,011	$ 217,211	$ (13,202)
Percentage of revenue	3%	6%	0%

Stock-based compensation expenses decreased for the three months ended September 30, 2017 compared to the three months ended June 30, 2017 due to no stock option grants during this quarter.

Depreciation and amortization

	Three months ended:		
	September 30, 2017	June 30, 2017	September 30, 2016
Expenses	$ 22,975	$ 26,551	$ 21,122
Percentage of revenue	1%	1%	1%

Depreciation expense for the three months ended September 30, 2017 reduced compared to the three months ended June 30, 2017 due to various property and equipment being fully depreciated and no new fixed asset purchases. Depreciation expense for the three months ended September 30, 2017 increased compared to the three months ended September 30, 2016 due to additional property and equipment acquired as part of the Apteryx acquisition in February 2017.

Other (Income) Expenses

	Three months ended:		
	September 30, 2017	June 30, 2017	September 30, 2016
Change in fair value of Canadian dollar denominated warrants	980,410	(1,586,375)	-
Foreign exchange (gain) loss and other (gain) loss	149,143	286,650	(23,843)
Interest expense	144,501	134,557	39,697
Total other operating (income) expenses	$ 1,274,054	$ (1,165,168)	$15,854

During the three months ended September 30, 2017, other operating expenses increased from the three months ended September 30, 2016 due to the gain in the fair value of the Canadian dollar denominated warrants, along with a stronger Canadian dollar creating a foreign exchange loss and increasing interest expense associated with Canadian dollar denominated debentures.

Net Loss and Comprehensive Loss

	Three months ended:		
	September 30, 2017	June 30, 2017	September 30, 2016
Net gain (loss) and comprehensive gain (loss) for the period	$ (1,447,713)	$ 905,233	$ (855,484)
Loss per share - basic and diluted	$ 0.00	$ 0.00	$ (0.01)

For the three months ended September 30, 2017 the Company experienced a net loss compared to a net gain for the three months ended June 30, 2017 and a net loss for the three months ended September 30, 2016. Much of the net loss is a result of the movement in the value of Canadian denominated warrants, along with unrealized foreign exchange losses.

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

FINANCIAL RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

The following analysis of the results of operations for the nine months ended September 30, 2017 includes comparisons to the nine months ended September 30, 2016.

Revenue

Revenue is derived from the sale of the Company's diverse product line of digital imaging software and hardware as well as the VELscope® product and related consumable products. Revenue is expressed net of sales and early payment discounts. The company is subject to seasonality of sales and the late summer months tend to be slower within the industry.

	Nine months ended:	
	September 30, 2017	September 30, 2016
Total revenue	$ 8,994,878	$ 8,303,466

Revenue increased 8% when comparing the nine months ended September 30, 2017 to the corresponding 2016 period due to the addition of the Apteryx business in Feb 2017 offset by lower sales of digital imaging products.

In each respective period, revenue from customers which amounted to 10% or more of the Company's revenue, was nil.

Gross Margin[2]

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

	Nine months ended:	
	September 30, 2017	September 30, 2016
Revenue	$ 8,994,878	$ 8,303,486
Cost of sales	3,794,585	6,079,487
Gross margin	5,200,293	2,223,979
Percentage of revenue	58%	27%

The increase in gross margin for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 is due to a more favorable mix of high margin Apteryx digital software products and VELscope consumables compared to lower margin imaging products.

Expenses

	Nine months ended:	
	September 30, 2017	September 30, 2016
Sales and marketing	$ 3,281,531	$ 3,965,679
Research and development	708,112	106,555
Administration	1,993,254	1,542,361
Stock-based compensation	320,664	230,354
Depreciation and amortization	92,715	224,863
Total expenses	$ 6,396,276	$ 6,069,812
As a percentage of revenue	71%	73%

[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 revenue 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)

Expenses (cont.)

The increase in expenses for the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016 was primarily due to the additional expenses associated with Apteryx Inc. acquired in February 2017, in particular for R&D and administration related expenses. This increase was offset by lower sales and marketing expenses especially on the imaging products. Depreciation expense was lower due to fixed assets being fully depreciated and no significant new fixed asset purchases. Stock-based compensation increased as the options granted in 2017 was greater in the nine months ended September 30, 2017.

Sales and Marketing

	Nine months ended:	
	September 30, 2017	September 30, 2016
Expenses	$ 3,281,531	$ 3,965,679
Percentage of revenue	36%	48%

Sales and marketing includes the costs for customer and support activities. The decrease in sales and marketing expenses for the nine months ended September 30, 2017 over the nine months ended September 30, 2016 was due to decreased sales activities such as trade shows as well as fewer sales and support staff for imaging products.

Research and Development

	Nine months ended:	
	September 30, 2017	September 30, 2016
Expenses	$ 708,112	$ 106,555
Percentage of revenue	8%	1%

Research and development expenses relate primarily to salaries and benefit costs related to the software developing and innovation as well as maintaining regulatory approvals. The Company is currently focused on the ongoing development of the Apteryx software product line and developing complimentary products to align with the Company's VELscope® technology. The increase in costs reflects the inclusion of the Apteryx business which delivers a high margin product, but also comes with a significant R&D expenditure to develop and maintain the software line of products.

Administration

	Nine months ended:	
	September 30, 2017	September 30, 2016
Expenses	$ 1,993,254	$ 1,542,361
Percentage of revenue	22%	19%

Administration expenses include executive and administrative staff salaries, facilities, investor relations, insurance, accounting and legal fees as well as various general administrative costs. The increase in administration expenses for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 was primarily due to increased costs related to the Apteryx business, along with an increase of administrative head count.

Other (Income) Expenses

	Nine months ended:	
	September 30, 2017	September 30, 2016
Mark to market adjustments on Canadian dollar denominated warrants	(389,284)	-
Foreign exchange (gain) loss and other (gain) loss	423,190	37,654
Interest expense	400,552	106,655
Total other (income) expenses	$ 434,458	$ 144,309

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

Other (Income) Expenses (cont.)

During the nine months ended September 30, 2017, other operating expenses increased from the nine months ended September 30, 2016 due to increased interest expense associated with additional debenture holdings, along with a stronger Canadian dollar resulting in significant foreign exchange losses for the period. Foreign exchange losses include both realized and unrealized losses from the revaluation of Canadian dollar denominated balance sheet items. These expenses were partially offset by a gain in the fair market value of Canadian dollar denominated warrants resulting primarily from increase in the Company's quoted stock price since the warrants were issued.

Net Loss and Comprehensive Loss

	Nine months ended:	
	September 30, 2017	September 30, 2016
Net loss and comprehensive loss for the period	$ (1,630,441)	$ (3,990,142)
Loss per share - basic and diluted	(0.00)	(0.04)

Net loss for the nine months ended September 30, 2017 decreased over the nine months ended September 30, 2016 due the introduced positive net contribution of the Apteryx business.

LIQUIDITY AND CAPITAL RESOURCES

The Company finances its operations and capital expenditures through cash generated from operations and debt and equity financings. As at September 30, 2017, the Company had cash of $1,120,345 and Net Working Capital deficit of $1,521,730 as compared to cash of $341,108 and net working capital deficit of $2,857,333 as at September 30, 2016.

	Three months ended:		Nine months ended:	
Cash (used in) provided by:	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Operating activities	$ (240,299)	$ (296,592)	$ (2,696,613)	$ (1,801,979)
Investing activities	-	-	(10,246,564)	(117,672)
Financing activities	-	273,350	13,612,145	273,350
Net increase/ (decrease) in cash	$ (240,299)	$ (23,242)	$ 668,968	$ (1,646,301)

Cash used in operating activities for the period ended September 30, 2017 was attributable to cash utilized in normal business operations along with changes in working capital assets and liabilities.

Cash used in investing activities for the nine-month period ended September 30, 2017 were for the acquisition of Apertyx, Inc.

The financing activities during the nine months ended September 30, 2017 relate to the proceeds from the Company's private placement financing and issuance of debenture financing relating to the Apteryx acquisition.

STAFFING LEVELS

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

	As at September 30, 2017	As at June 30, 2017	As at September 30, 2016
Sales and marketing	19	18	12
Support	21	22	10
Research and development	13	9	1
Administration	5	5	5
Total	**58**	**54**	**28**

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

COMMITMENTS

The Company continues to have no bank debt, off-balance sheet financing arrangements or capital leases. The Company has leased office facilities in Canada and the USA. Minimum lease payments as of September 30, 2017 are $1,163,175.

INTANGIBLE ASSET IMPAIRMENT

The Company has no impaired intangible assets.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

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

During the nine months ended September 30, 2017 and 2016 respectively, the Company paid or accrued the following compensation expenses to key personnel of the Company:

	Nine months ended:	
Cash used in:	September 30, 2017	September 30, 2016
Short-term compensation	$ 693,868	$ 375,138
Share-based payments	$ 105,555	$ 180,815

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 revenue 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 and nine months ended September 30, 2017 are consistent with those applied and disclosed in note 3 to the Company's audited consolidated financial statements for the year ended December 31, 2016.

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.

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

IFRS 9 – Financial Instruments

IFRS 9 - Financial Instruments replaces the current IAS 39 Financial Instruments Recognition and Measurement. The standard introduces new requirements for classifying and measuring financial assets and liabilities. The Company will start the application of IFRS 9 in the financial statements effective from January 1, 2018. The Company has not yet evaluated the impact on the financial statements.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 – Revenue from Contracts with Customers. The standard replaces all existing revenue requirements in IFRS and applies to all revenue arising from contracts with customers. The standard outlines the principles an entity must apply to measure and recognize revenue. The core principle is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 will be applied using a five-step model:

1) Identify the contract(s) with a customer;
2) Identify the performance obligations in the contract;
3) Determine the transaction price;
4) Allocate the transaction price to the performance obligations in the contract; and
5) Recognize revenue when (or as) the entity satisfies a performance obligation

The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The Company will start the application of IFRS 15 in the financial statements effective from January 1, 2018. The Company has not yet evaluated the impact on the financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

Classification of financial instruments

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

Cash and cash equivalents	September 30, 2017	September 30, 2016
Cash	$ 1,120 345	$ 341,108
Receivables	1,197,388	969,856
Total	$ 2,317,733	$ 1,310,964

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

Non-derivative financial liabilities	September 30, 2017	September 30, 2016
Trade payable and Accrued liabilities	$ 2,559,908	$ 3,660,631
Deferred Revenue	358,340	195,766
Debenture	3,837,115	1,519,688
Derivative financial liabilities		
Warrants	1,698,148	-
Total	$ 8,453,511	$ 5,376,085

LEDMD
LED MEDICAL DIAGNOSTICS INC.

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

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.

As at September 30, 2017, the Company no longer measures any assets at an estimated fair value.

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. 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 September 30, 2017, no accounts receivable are due beyond one year.

As at September 30, 2017 and September 30, 2016, the Company's exposure to credit risk for these financial instruments was as follows:

Credit Risk	September 30, 2017	September 30, 2016
Cash	$ 1,120,345	$ 341,108
Receivables	1,197,388	969,856
Total	$ 2,317,733	$ 1,310,964

Trade accounts receivable as at September 30, 2017 and September 30, 2016 were aged as follows in the below table.

Trades Receivable Aging	September 30, 2017	September 30, 2016
Current	$ 839,282	$ 812,930
31 - 60 days	96,570	49,081
Over 60 days	249,151	73,725
Total trade accounts receivable	$ 1,185,003	$ 935,736
Goods and services tax receivable	12,385	13,320
Total Accounts Receivable plus taxes receivable	$ 1,197,388	$ 949,056

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 September 30, 2017 are listed below.

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

Trade payables were aged as follows as at September 30, 2017 and September 30, 2016 and does not include accrued liabilities, warranty provision and state and provincial sales tax payable of which are all current:

Accounts payable aging	September 30, 2017	September 30, 2016
Current	$ 839,895	$ 1,601,693
31 - 60 days	4,474	274,105
Over 60 days	506,192	788,484
Total	$ 1,350,561	$ 2,664,282

The following is an analysis of the contractual maturities of the Company's non-derivative accrued liabilities as at September 30, 2017:

Contractual Maturities	Within one year	Between one and five years
Trades Payable and Accrued liabilities	$ 2,559,908	
Deferred Revenue	358,340	
Debenture	1,166,165	$ 2,670,950
Deferred consideration on acquisition	1,200,000	450,000
Total	$ 5,284,413	$ 3,120,950

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 September 30, 2017, 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 the date of this MD&A, the Company has 379,146,372 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 September 30, 2017, the Company is entitled to grant incentive stock options for 37,344,220 common shares under the Company's stock option plan with a total of 32,809,681 options being issued and outstanding and has issued 360,000 deferred share units under the Company's Deferred Share Unit Plan. The Company also had 130,544,234 warrants outstanding.

SUBSEQUENT EVENTS

On October 30, 2017 (the "closing date"), the Company issued 250 senior secured debentures with a principle amount of $2,500,000 CDN ($1,938,690.18 USD), maturing 24 months from the closing date. Each unit consists of a debenture in principal in the amount of $10,000 CDN and 21,250 common shares of the company and is attached with a 12% coupon. The company issued 888,000 broker warrants (the "Broker's Warrants") to arm's length brokers. Each Broker's Warrant is non-transferrable and exercisable at an exercise price of $0.10 CDN at any time up to and including the date which is 24 months from the closing date. Transaction costs associated with this issuance were $232,031.65 CDN ($179,935 USD) and have been netted against the debenture proceeds received.

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. 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.

Debt Repayment

The Company has significant financial obligations maturing in the near-term including deferred consideration on the purchase of Apteryx, interest payments and debt principle repayments. Its ability to meet the payment requirements is dependent on generating sufficient cash flows from operations, securing additional financing or renegotiating terms of these obligations.

Distributor Risks

LED distributes its VELscope® product line in the North American market through non-exclusive distribution partnerships with multiple distributors. LED's reliance on distributors or if 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 licenses; (c) sales price redeterminations; (d) future litigation; (e) work stoppages or other labor 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

Although Company management believes in the long-term opportunity and its ability to execute on its business plan, the continued growth and success of the Company is tied to its ability to raise additional capital. The Company may not be able to raise capital or 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.

The Company faces regulatory risk including national security review risk by the Committee on Foreign Investment in the United States.

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 key distribution partners whose products the Company resells/distributes as part of its new imaging produce offering. The Company has agreements with its manufacturer distribution partners that have termination for convenience provisions of various time frames. In the event a termination notice is received from a key supplier and the Company is not able to reach an agreement with an alternative supplier in a timely manner. This could result in a material adverse effect on the Company's product offering and recognized revenue.

Dependence on a Limited Number of Third Party Product Vendors

The Company is a distributor of third party products to its customers, which are supplied by vendors such as RAY Company. The Company is dependent upon the timely availability of these third-party products in addition to obtaining reasonable commercial terms pertaining to the purchase of such third-party products for resale by the Company. The distribution agreements between the Company and these third-party vendors include termination by the vendor with a limited notice period. In the event that the distribution agreement is either terminated by the third-party vendor or the third-party vendor is not able to supply the Company with its products or the vendor competes with the Company either directly or indirectly in its market, the Company's ability to resell such third-party products may be hindered accordingly resulting in a material adverse effect on the Company's revenue and related gross margin due to no longer being able to sell such third-party products.

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, labor, 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 prudently 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. The transition to higher cost US operations, which are fixed in general, increases breakeven point, which may not be fully funded by sales resulting in negative cash flow.

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

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. All sales and cost of sales are in US$ with a large majority of operating expenses are also in US$.

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

	September 30, 2017	September 30, 2016
	CDN	CDN
Cash	$ 179,678	$ 16,989
Account Receivable	20,005	15,441
Trade payable and accrued liabilities	(60,536)	(920,869)
Net statement of financial position exposure	$ 139,147	$ (888,438)

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 revenue 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 here 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. 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. Infringement claims 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 revenue and a high percentage of the Company's expenses are relatively fixed in the short term, variations in the timing of recognition of revenue 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 revenue 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.