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

FOR THE THREE MONTHS AND TWELVE MONTHS ENDED DECEMBER 31, 2018

MANAGEMENT’S DISCUSSION AND ANALYSIS

This Management’s Discussion and Analysis (“MD&A”) has been prepared by management as of April 29, 2019 and should be read in conjunction with the audited consolidated financial statements and related notes of LED Medical Diagnostics Inc. (“LED” or the “Company”) as at and for the three and twelve months ended December 31, 2018 (prepared in accordance with International Financial Reporting Standards or “IFRS”). All amounts are presented in United States (U.S) dollars unless otherwise noted. Additional information about the Company, 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. The words “may”, “would”, “could”, “will”, “likely”, “expect”, “anticipate”, “intend”, “plan”, “forecast”, “project”, “estimate” and “believe” or other similar words and phrases may identify forward-looking statements or information. 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: the need to develop, integrate and deploy software solutions to meet its customers’ requirements; the possibility of development or deployment difficulties or delays; the dependence on its customers’ satisfaction; the timing of entering into significant contracts; its customers’ continued commitment to the deployment of the Company’s solutions; the risks involved in developing integrated software solutions and integrating them with third-party products and services; reliance on products manufactured by other companies for resale or distribution and reliance on third-party suppliers; the performance of the global economy and growth in software industry sales; market acceptance of the Company’s products and services; customer and industry analyst perception of the Company and its technology vision and future prospects; the success of certain business combinations engaged in by the Company or by its competitors; possible disruptive effects of organizational or personnel changes; 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; reliance on a limited number of suppliers; risks related to the Company’s competition; the Company’s not adequately protecting its intellectual property; risks related to product defects and product liability; currency exchange rate risk; 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 year ended December 31, 2018, and those referred to under the heading “Risk Factors”. 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 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 three wholly-owned subsidiaries, LED Dental 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, 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 for the early discovery of oral mucosal lesions has experienced wide spread adoption in the North American dental market and is the global market leader in this product category. In 2014, the Company established its US based operations in Atlanta, Georgia and began expansion and diversification of its imaging device portfolio with the launch of the Tuxedo intraoral digital sensor and through distribution agreements with select imaging device manufacturers including RAY America with the RAYSCAN extra oral radiographic imaging product line. In February 2017, LED acquired Apteryx Inc., an Ohio based dental imaging software company. Since the Apteryx acquisition LED has taken significant and progressive steps towards establishing itself as a leader in the development, sales and support of dental imaging devices and related software including its XVWeb® software as a service (SaaS) product.

Description of the Business

LED has grown from a pre-commercial research and product development company to a niche software and technology work flow solutions provider for dentists and oral health care specialists. The Company's product portfolio is centered on a family of patented, open architected software applications which includes XVWeb® SaaS imaging software, the Tuxedo® intraoral digital radiographic sensor, the VELscope® oral assessment device and additional distributed imaging devices including the RAYSCAN line of extraoral imaging systems. The customer base of the Company's initial VELscope® product, along with customers acquired from the February 2017 Apteryx acquisition provides a predictable pipeline and growth platform for lead generation for its imaging device and software business. LED's sales and marketing activities are directed primarily within the North American market and are focused towards corporately owned group practices known as Dental Support Organizations (DSOs), government dental clinics and individual dental practices. LED markets its products and services both directly and through select dental distributor / reseller channels to its target market of end user dental professionals. Marketing activities include direct mail/e-mail campaigns, advertising in industry journals and trade magazines, the publication of white papers, postings on social media and multiple unrelated offsite activities at locations including the company's web sites, personal onsite office visits and inbound and outbound telephone calls. In limited cases, direct marketing activities are oriented towards convincing dental practitioners to attend an educational seminar, webinar or trade show event in which LED is a sponsor or participant.

LED believes there is potential for continued expansion into international markets with its VELscope® device and the recent addition of the Apteryx software portfolio, which can both be localized to different languages. LED also has had recent success in establishing indirect and direct partnerships with large dental distributors and other 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.

In February 2017, the Company acquired Apteryx Inc. providing the Company with a growing stream of recurring revenue, a significant new base of customers, an expanded and strengthened IP portfolio, research and development software capabilities and a suite of patented digital imaging software. XVWeb®, XrayVision®, XVlite®, and DataGrabber represent Enterprise, Client Server and Software as a Service (SaaS) versions of the Apteryx Imaging portfolio. Once installed at a customer's site, unlike most competitors, Apteryx software allows the practice to interface with and deploy image acquisition devices from a wide range of hardware manufacturers. Through its patented data grabber and name grabber software utilities, Apteryx software also provides integration to most dental practice management software solutions. Apteryx's "open architecture" approach is unique in the dental industry where most competitive systems are "closed" proprietary systems. Apteryx competitive advantage of open compatibility with competitive imaging devices and integration with existing dental practice software allows a practice to continue to use their existing inventory of image acquisition devices while enabling the addition of LED imaging device solutions which are optimized for Apteryx software. This allows LED to successfully compete for the imaging device sales once Apteryx is installed at a customer's site. The ability to integrate with a wide range of devices and practice management software systems creates natural pull through on sales capabilities.

XVWeb® is a cloud based dental imaging software as a service (SaaS) solution that allows an individual practice or organization to capture and view their patient images securely and remotely from most web-enabled devices. Designed to work with existing imaging applications via secure TLS DICOM, XVWeb® allows the customer to store and retrieve images and image data from a webpage or any DICOM-compatible imaging program over a secure connection. XVWeb® allows the entire imaging database to be securely accessible via any web-connected device including smart phone or tablet. XVWeb® allows our customers to scale down the size and expense of onsite servers while reducing hardware and IT maintenance costs by utilizing XVWeb® and cloud resources.

In addition, most 3rd party practice management systems can be bridged to XVWeb®, and many, communicate directly and seamlessly with XVWeb® as an embedded service for clinical image management, processing and analysis. Apteryx software products facilitate our customers and prospects transition to a complete digital imaging workflow via the provision of image capture, analysis, storage, data conversion and sharing functionalities.

The acquisition of Apteryx continues to strengthen the Company by providing a growing stream of recurring revenue from SaaS and support and maintenance agreements and additional synergies to its core business which we expect will result in a financially stronger and more diversified Company with less reliance on imaging devices sales. Currently Apteryx revenues are a mix from the sale of perpetual software licenses, and recurring revenues from XVWeb® subscription software and the sale of support and maintenance agreements to its software customers. XVWeb® software platform add on subscription modules including our recently released XVWeb® 3D which supports 3D Cone Beam Computed Tomography (CBCT) and Stereolithography (STL) data sets. XVWeb® 3D will be offered to all current XVWeb® customers.

The core of the digital imaging device line is the proprietary TUXEDO intraoral digital sensor used for acquiring low dose intra-oral radiographs. The Tuxedo sensor is optimized for use with Apteryx x\software as is the RAYSCAN α digital extra oral imaging device, which comes in panoramic, cephalometric and Cone Beam Computed Technology (CBCT) varieties.

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. 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.

Products and Intellectual Property

LED's focus is on accelerating growth through its proprietary and patented products and technologies and aggregating a comprehensive imaging product portfolio in which intellectual property and competitive barrier to entry are a central 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 30 US and foreign patents.

FORWARD-LOOKING COMPANY OBJECTIVES

The Company's objectives for 2019 are to grow EBITDA[1], net income and free cash flow and strengthen the Company's financial position by:

- Continue to invest in growing recurring and repeatable revenue streams from Apteryx software subscription and maintenance and support, VELscope® consumable products and VELcare® services via traditional sales/marketing activities and strategic partnering opportunities
- XVWeb® SaaS customer acquisition campaign via traditional sales/marketing activities and strategic partnering opportunities for our software and imaging device offerings
- Expand XVWeb® reseller partner program focused on partners that sell dental practice management solutions
- Launch of additional XVWeb® modules
- Continued growth of customer base and lead pipeline in the Dental Support Organization (DSO) space and in the government space through General Services Agency contract award to more efficiently sell LED/Apteryx products and services to federal government agencies
- Reduced focus on sale and support of 3rd party distributed imaging device products with lower gross margins[2].
- Reducing debenture debt while continuing to execute on operating expense and operational optimizations made available by the evolving business

SIGNIFICANT EVENTS FOR 2018

- On January 4, 2018, the Company announced the appointment of a new Board of Director and Chair of the Audit Committee, James Topham. Mr. Topham career includes 30 years with KPMG and 20 years as an audit partner. The Company also announced that Rodger Tourigny resigned from the Board of Directors.
- On February 15, 2018, the Company's wholly-owned subsidiary Apteryx, Inc. signed a SaaS (Software-as-a-Service) agreement with a large North American provider of dental software that will allow for dental practices to use XVWeb® cloud imaging with the Customer's cloud practice management system.
- On September 20, 2018, the Company announced that Apteryx Inc, its wholly-own subsidiary, has been awarded a VA Federal Supply (FSS) 65 II C Contract for Dental Equipment and Supplies. The five-year contact is effective from September 15, 2018 through September 14, 2023. This contract provides Apteryx the ability to serve as a preferred supplier of dental imaging products, software and services to United States government institutions worldwide.
- On September 26, 2018, the Company announced that its VELscope® Vx Enhanced Oral Assessment system has received the Cellerant "Best of Class" Technology Award for the eighth consecutive year. The Cellerant "Best of Class" Technology Award is one of the most prestigious dental industry honors recognizing innovation from manufacturers and service providers
- On December 6, 2018, the Company announced that Apteryx Inc, its wholly-own subsidiary, has received approval by the United States Food and Drug Administration for their XVWeb 3D imaging service. The XVWeb 3D is uniquely designed to provide additional functionality to its XVWeb service platform by providing dental professionals with a wide variety of visualization and diagnostic capabilities for CBCT DICOM data sets via an intuitive web-based user interface.

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[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 revenue less cost of goods sold, sales and marketing, research and development and administration expenses but 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 income (loss) of the business.*

[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.*

Financial Highlights

- Revenue for the twelve months ended December 31, 2018 was $14,215,812, an increase of 12% from the twelve months ended December 31, 2017. The increase over the prior year period is primarily due to the addition of Apteryx and the growth in XVWeb SaaS recurring and repeatable revenue stream.

- Gross Margin[3] for the twelve months ended December 31, 2018 was $8,719,973 or 61%, compared to the twelve months ended December 31, 2017 of $7,168,702 or 56%. The increase in gross margin[3] percentage is due to a favorable change in product mix with a growth in higher margin software, warranty and support products, and reduced reliance on lower margin distributed third-party products compared to the previous year.

- Operating Expenses (excluding stock-based compensation and depreciation and amortization) decreased 2% from the twelve months ended December 31, 2017 due primarily to ongoing operating expense reductions, particularly administrative expenses.

- Net income for the year ended December 31, 2018 was $816,450 compared to a net loss of ($2,495,015) for the year ended December 31, 2017.

- Cash flow provided by (used in) operations was ($1,799,295) for the year ended December 31, 2018 compared to ($4,432,082) for the year ended December 31, 2017. The net cash provided by financing activities was $2,000,875 for the year ended December 31, 2018 consisting of proceeds from a private placement, net of repayment of debentures and deferred consideration from the purchase of Apteryx. Cash flows from financing activities for the year ended December 31, 2017 were $12,791,305, relating to issuance of units and proceeds from debenture issuance, for the purchase of Apteryx.

- The Company had cash of $2,827,882 and Net Working Capital of $776,681 as of December 31, 2018. The Company had cash of $2,425,468 and Net Working Capital of ($1,221,176) as of December 31, 2017. Net Working Capital is defined as total current assets less total current liabilities.

- The Company completed a financing through the issuance of 12,175,553 convertible Preferred Shares of the Company at an issue price of CDN$0.45 per share for gross proceeds of $5.48M. In addition, the Company, issued 8,147,071 Preferred Shares in exchange for approximately CDN$3.67M of outstanding senior secured debentures including accrued interest.

- The Company repaid a total of $1.2m of deferred consideration in relation to the February 2017 purchase of Apteryx, Inc.

[3] *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. Cost of sales is the direct costs attributable to the production of the goods or service sold by the Company. These Gross Margin and Cost of sales measures do not have a comparable IFRS measure and are used by the Company to manage and evaluate the operating performance of the Company.*

SELECTED QUARTERLY INFORMATION

The information in the tables below has been derived from the Company's annual audited 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)	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Cash	$2,828	$3,413	$1,174	$ 1,433	$ 2,425	$ 1,120	$1,509	$ 2,905
Working Capital	777	2,576	(2,566)	(2,791)	(1,221)	(1,522)	(893)	(59)
Total Assets	15,444	15,815	13,655	14,332	14,857	14,093	14,378	15,037
Long-term financial liabilities	11,356	8,077	3,168	3,660	5,602	4,885	4,191	6,291
Shareholders' equity	4,087	3,483	3,473	2,982	2,818	3,924	5,268	4,145

Historically, being in the dental supply industry and due to the timing of trade shows and client spending patterns, the Company's business has been seasonal in nature, with the fourth quarter typically representing the largest portion of annual sales and annual net earnings. Management expects such seasonality to be less of a factor going forward, due to adding the Apteryx product line, focusing on a recurring revenue model, as well as selling to the DSO market and government agencies.

Consolidated Statement of Operations:

(in US$ '000's, except earnings per share)	December 31, 2018	September 30, 2018	June 30 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Revenues	$3,812	$3,401	$3,671	$ 3,332	$ 3,694	$ 3,192	$3,704	$ 2,098
Cost of goods sold	1,730	1,081	1,507	1,178	1,725	1,115	1,610	1,069
Gross margin[4]	2,082	2,320	2,164	2,154	1,968	2,077	2,094	1,029
Expenses:								
Sales and marketing	1,185	1,148	1,293	1,309	1,574	1,194	1,104	983
Research and development	292	300	270	300	332	297	249	162
Administration	1,019	486	501	518	868	760	757	569
Operating Income (loss)	(414)	386	100	27	(806)	(174)	16	(685)
Other expenses (income)	(952)	562	(278)	(48)	59	(1,274)	(921)	402
Income tax expense	0	0	0	0	0	0	0	0
Net profit (loss)	538	(176)	378	75	(865)	(1,448)	905	(1,087)
Net income (loss) per share (basic)	0.02	(0.00)	0.01	0.00	(0.00)	(0.00)	0.00	(0.00)

See Financial Results section below for further discussion on the selected quarterly income statement information.

[4] *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. Cost of sales is the direct costs attributable to the production of the goods or service sold by the Company. These Gross Margin and Cost of sales measures do not have a comparable IFRS measure and are used by the Company to manage and evaluate the operating performance of the Company.*

FINANCIAL RESULTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2018

The following analysis of the results of operations for the three months ended December 31, 2018 includes comparisons to the three months ended September 30, 2018 and December 31, 2017.

Revenue

Revenue is derived from the sale of the Company's diverse product line of digital imaging software, software as a service subscriptions (SaaS), maintenance and support services, and imaging devices which includes the VELscope® product and related consumable products, Tuxedo intra oral sensors and distributed extraoral imaging devices. Revenue is expressed net of sales and early payment discounts.

	Three months ended:		
	December 31, 2018	September 30, 2018	December 31, 2017
Total revenue	**$ 3,811,629**	$ 3,400,904	$ 3,693,874

Revenue increased 12% when compared to the three months ended September 30, 2018 and increased by 3% compared to the three months ended December 31, 2017. The increase over the prior comparable periods is primarily due to growth in the XVWeb® SaaS and Tuxedo® sensor products.

During the three months ended December 31, 2018, the Company had no customers that represent 10% or more of total revenue. During the three months ended September 30, 2018 and the three months ended December 31, 2017, revenue from customers which amounted to 10% or more of the Company's revenue was also nil.

The Company continues to generate the majority of its revenue from the North American market but is exploring expansion into other geographical regions.

Gross Margin[5]

The Company experienced the following gross margin[5] for the periods outlined:

	Three months ended:		
	December 31, 2018	September 30, 2018	December 31, 2017
Revenue	**$ 3,811,629**	$ 3,400,904	$ 3,693,874
Cost of sales	**1,730,306**	1,081,317	1,725,465
Gross margin[5]	**$ 2,081,323**	$ 2,319,587	$ 1,968,409
Percentage of revenue	**55%**	68%	53%

Gross margin[5] for the three months ended December 31, 2018 increased to 55% compared to 53% for the three months ended December 31, 2017. This increase is primarily due to the focus on sales of the higher margin dental equipment product line such as Tuxedo sensors along with the Apteryx software and support services. The gross margin for the three months ended December 31, 2018 decreased to 55% from 68% for the three months ended September 30, 2018 due to a change in sales mix associated with seasonality specific to the Dental Imaging Hardware products, resulting in a lower portion of high margin software sales in the fourth fiscal quarter of 2018.

[5] *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. Cost of sales is the direct costs attributable to the production of the goods or service sold by the Company. These Gross Margin and Cost of sales measures do not have a comparable IFRS measure and are used by the Company to manage and evaluate the operating performance of the Company.*

Expenses

	Three months ended:		
	December 31, 2018	September 30, 2018	December 31, 2017
Sales and marketing	**$ 1,184,836**	$ 1,148,091	$ 1,574,457
Research and development	**292,142**	299,520	331,715
Administration	**1,018,943**	486,352	867,837
Other operating expenses	**286,087**	304,979	1,056,489
Total expenses	**$ 2,782,008**	$ 2,238,942	$ 3,830,498
As a percentage of revenue	**73%**	66%	104%

Expenses for the three months ended December 31, 2018 decreased by approximately 27% compared to the three months ended December 31, 2017 due primarily to operational optimization strategies initiated in 2018, largely impacting administrative expenses.

Sales and Marketing

	Three months ended:		
	December 31, 2018	September 30, 2018	December 31, 2017
Sales and Marketing Expenses	**$ 1,184,836**	$ 1,148,091	$ 1,574,457
As a percentage of revenue	**31%**	34%	43%

Sales and marketing expenses consists of salaries and related personnel costs, sales commissions, consulting fees, advertising, trade show costs & customer support activities. The decrease in sales and marketing expenses for the three months ended December 31, 2018 compared to the three months ended December 31, 2017 was due to a reduction in sales staff headcount and reduced direct marketing activity.

Research and Development

	Three months ended:		
	December 31, 2018	September 30, 2018	December 31, 2017
Research and Development Expenses	**$ 292,142**	$ 299,520	$ 331,715
As a percentage of revenue	**8%**	9%	9%

Research and development expenses relates primarily to salaries and related benefit costs, costs related to and the general development of Apteryx software technology and the Company's hardware products, along with costs involved with obtaining and maintaining regulatory approvals. The Company is currently focused on enhancing and developing new Apteryx software products and additional XVWeb® modules, starting with XVWeb® 3D which is due for release in early 2019. Research and development costs for the three months ended December 31, 2018 were consistent with prior periods.

Administration

	Three months ended:		
	December 31, 2018	September 30, 2018	December 31, 2017
Administration Expenses	**$ 1,018,943**	$ 486,352	$ 867,837
As a percentage of revenue	**27%**	14%	23%

Administration expenses include executive and administrative staff, facilities, investor relations, insurance, accounting and legal fees as well as various general administrative costs. Administration expenses were higher for the three months ended December 31, 2018 compared to the three months ended September 30, 2018 and the three months ended December 31, 2017 due to a one-time expense of $172,450 relating to the exit of a long-term property lease as part of the Apteryx integration and $355,693 of transaction costs recognized relating to the preferred share private placement.

Other Operating Expenses

	Three months ended:		
	December 31, 2018	September 30, 2018	December 31, 2017
Stock-based compensation	**$ 65,899**	$ 72,732	$ 307,616
Depreciation & amortization	**220,188**	232,247	748,873
Total other operating expenses	**$ 286,087**	$ 304,979	$ 1,056,489
Percentage of revenue	**8%**	9%	29%

Stock-based compensation was lower in the period ended December 31, 2018 compared to the periods ending September 30, 2018 and 2017 as there were no additional stock option grants during the period. Depreciation and amortization expense for the three months ended December 31, 2018 decreased compared to the three months ended December 31, 2017 due to the amortization of intangible assets acquired with the Apteryx business. These intangible assets include acquired software technology, customer base, patents and brand; all of which are being amortized over 10 years, being the estimated useful life of these intangible assets. Total 2017 amortization of intangible assets was recorded in the three months ended December 31, 2017.

EBITDA[6]

	Three months ended:		
	December 31, 2018	September 30, 2018	December 31, 2017
Net income (loss)	**$ 538,132**	$ (176,507)	$ (864,574)
Add back: Other expenses (earnings)	**(952,730)**	562,131	58,974
EBITDA[6]	**$ (414,598)**	$ 385,624	$ (805,600)

EBITDA[6] was ($414,598) for the three months ended December 31, 2018 compared to $385,624 for the three months ended September 30, 2018 and $(805,600) for the three months ended December 31, 2017. The Company elected to pay a one-off fee of $172k on December 31, 2018 to terminate a long-term lease obligation and this payment was reflected in operating expenses along with $356k of transaction costs related to the preferred share financing, both of which reduced EBITDA[6] for the quarter to a negative position. Net of these expenses, the Company has delivered positive EBITDA[6] results for the past four quarters which is reflective of the Company's renewed focus on its' patented and proprietary imaging devices along with growth in the subscription-based imaging software model. The Company continues to grow these segments and additional recurring revenue streams while streamlining operations and administrative functions. This continues to be the short-term focus of the Company.

[6] *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 revenue less cost of goods sold, sales and marketing, research and development and administration expenses but 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 income (loss) of the business.*

Other Expenses (Earnings)

	Three months ended:		
	December 31, 2018	September 30, 2018	December 31, 2017
Change in fair value of Canadian dollar denominated warrants	**$ (167,542)**	$ 16,399	$ (1,203,960)
Change in fair value of derivative liabilities	**(1,248,281)**		
Foreign exchange (gain) loss	**(225,590)**	(16,494)	15,955
Interest expense	**341,923**	257,247	190,490
Other non-operating expenses	**60,673**	-	-
Total other operating expenses (earnings)	**$ (1,238,817)**	$ 257,152	$ (997,515)

For the three months December 31, 2018 other earnings increased in comparison to the three months ended September 30, 2018 due to the change in the fair value of the Canadian dollar denominated warrants, a foreign exchange gain resulting from a devaluation the Canadian currency and changes in the fair value of the derivative liability. This was offset by a loss in the disposal of office equipment when the Atlanta office relocated at the end of 2018. The Company has classified the dividend payable pertaining to the preferred shares issued in three months ended December 31, 2018 as interest expense. Other expenses for the three months ended December 31, 2017 were higher due to a significant change in the fair value of the Canadian dollar denominated warrants.

Net Income (Loss)

	Three months ended:		
	December 31, 2018	September 30, 2018	December 30, 2017
Operating income (loss)	**$ (700,685)**	$ 80,645	$ (1,862,089)
Total other Expenses (earnings)	**(1,238,817)**	257,152	(997,515)
Income tax expense	**-**	-	-
Net income/ (loss) for the period – (basic)	**$ 538,132**	$ (176,507)	$ (864,574)
Earnings/ (Loss) per share – (basic)	**$ 0.01**	$ (0.00)	$ (0.03)
Net income/ (loss) for the period – (diluted)	**$ (467,998)**	$ (176,507)	$ (864,574)
Earnings/ (Loss) per share – (diluted)	**$ (0.01)**	$ (0.00)	$ (0.03)

Net income for the three months ended December 31, 2018 was $538,132 or $0.01 earnings per share compared to net loss of $176,507 for the three months ended September 30, 2018 or ($0.00) earnings per share and $(864,574) or ($0.03) earnings per share for the three months ended December 31, 2017.

FINANCIAL RESULTS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2018

The following analysis of the results of operations for the twelve months ended December 31, 2018 includes comparisons to the twelve months ended December 31, 2017.

SELECTED ANNUAL INFORMATION

	Year ended December 31, 2018	**Year ended December 31, 2017**	**Year ended December 31, 2016**
Revenue	**$ 14,215,812**	$ 12,688,752	$ 10,168,896
Operating income (loss)	**(1,144,099)**	(3,058,072)	(5,114,465)
Net Income (Loss) and comprehensive loss for the year	**816,450**	(2,495,015)	(5,373,272)
Loss per common share (basic and diluted)	**0.02**	(0.08)	(0.47)
Distributions/cash dividends declared	**-**	-	-

As at	**December 31, 2018**	**December 31, 2017**	**December 31, 2016**
Total assets	**15,443,766**	14,856,964	2,669,908
Total non-current financial liabilities	**5,405,986**	5,601,585	2,048,024

See Financial Results section below for discussion on Revenue and Net Income (Loss) for the year. The net income for December 31, 2018 was due to a growth in revenues from the Apteryx software products and Tuxedo® sensor products along with a decrease in operational expenses. There were also other non-operating items which impacted the net income.

Revenue

Revenue is derived from the sale of the Company's diverse product line of digital imaging software, software as a service subscriptions (SaaS), maintenance and support services, and imaging devices which includes the VELscope® and related consumable products, Tuxedo intra oral sensors and distributed extraoral imaging devices. Revenue is expressed net of sales and early payment discounts.

	Twelve months ended:	
	December 31, 2018	December 31, 2017
Total revenue	**$ 14,215,812**	$ 12,688,752

For the twelve months ended December 31, 2018 the Company experienced a 12% increase in revenue compared to the twelve months ended December 31, 2017, due to increased sales of Apteryx software and imaging sensor products. The Apteryx business was acquired on February 10, 2017 therefore the twelve months ended December 31, 2017 didn't include a full twelve-month period inclusive of the Apteryx product line in the Company's reported financial results.

Gross Margin[7]

The Company experienced the following gross margin[7] for the periods outlined:

	Twelve months ended:	
	December 31, 2018	December 31, 2017
Revenue	$ 14,215,812	$ 12,688,752
Cost of sales	5,495,839	5,520,050
Gross margin[7]	**8,719,973**	7,168,702
Percentage of revenue	**61%**	56%

The increase in gross margin[7] for the twelve months ended December 31, 2018 compared to the twelve months ended December 31, 2017 is due to a more favorable mix of high margin Apteryx digital software products & imaging sensors compared to lower margin 3rd party distributed imaging device products sold in 2017. During 2018, the Company exited the distribution of these 3rd party imaging device products to focus on its internally developed software and hardware product range.

Expenses

	Twelve months ended:	
	December 31, 2018	December 31, 2017
Sales and marketing	$ 4,935,183	$ 4,855,988
Research and development	1,162,872	1,039,827
Administration	2,522,741	2,861,091
Other operating expenses	1,243,276	1,469,868
Total expenses	**$ 9,864,072**	$ 10,226,774
As a percentage of revenue	**69%**	81%

Expenses for the twelve months ended December 31, 2018 decreased as compared to the twelve months ended December 31, 2017 due to the decrease in administrative and operational expenses which reflect the Company's focus on improving operational efficiencies within the organization.

Sales and Marketing

	Twelve months ended:	
	December 31, 2018	December 31, 2017
Sales and Marketing Expenses	**$ 4,935,183**	$ 4,855,988
Percentage of revenue	**35%**	38%

Sales and marketing include staff salaries, advertising, trade show costs & customer support activities. The increase in sales and marketing expenses for the twelve months ended December 31, 2018 over the twelve months ended December 31, 2017 was due to an increase in sales activities such as trade shows and customer support activities as well as an increase in sales staff salaries & benefits relating to the growth in revenue. Relative to revenue, this expense category has decreased over the comparative 2017 period.

[7] 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. Cost of sales is the direct costs attributable to the production of the goods or service sold by the Company. These Gross Margin and Cost of sales measures do not have a comparable IFRS measure and are used by the Company to manage and evaluate the operating performance of the Company.

Research and Development

	Twelve months ended:	
	December 31, 2018	December 31, 2017
Research and Development Expenses	**$ 1,162,872**	$ 1,039,827
Percentage of revenue	**8%**	8%

Research and development expenses is primarily salaries and benefit costs, along with costs related to general research and development of new products including software products and obtaining or maintaining regulatory approvals. The Company is currently focused on the ongoing development of the Apteryx software product line. The increase in research and development expenditure for the twelve months ended December 31, 2018 compared to the twelve months ended December 31, 2017 can be attributed to addition of a full twelve-month period of the Apteryx business. Relative to revenue, this expense category has remained consistent compared to the 2017 period.

Administration

	Twelve months ended:	
	December 31, 2018	December 31, 2017
Administration Expenses	**$ 2,522,741**	$ 2,861,091
Percentage of revenue	**18%**	23%

Administration expenses include executive and administrative staff salaries, facilities, investor relations, insurance, accounting and legal fees as well as various general administrative costs. The decrease in administration expenses for the twelve months ended December 31, 2018 compared to the twelve months ended December 31, 2017 was primarily due to decreased expenditures in professional fees and reduction in administrative staff headcount and salaries, offset by transaction costs totaling $355,693 recognized as part of the preferred share financing. Relative to revenue, this expense category reduced to 18% in 2018 from 23% in the 2017 period.

Other Operating Expenses

	Twelve months ended:	
	December 31, 2018	December 31, 2017
Stock-based compensation	$ 339,892	$ 628,280
Depreciation and amortization	903,384	841,588
Total other operating expenses	**$ 1,243,276**	**$ 1,469,868**

During the twelve months ended December 31, 2018, other operating expenses decreased from the twelve months ended December 31, 2017 due to the stock-based compensation as option grants were reduced in 2018.

EBITDA[8]

	Twelve months ended:	
	December 31, 2018	December 31, 2017
Net income (loss)	$ 816,450	$ (2,495,015)
Add back: Other expenses	(717,274)	906,811
EBITDA[8]	**$ 99,176**	$ (1,588,204)

[8] 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 revenue less cost of goods sold, sales and marketing, research and development and administration expenses but 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 income (loss) of the business.

EBITDA[8] was $99,176 for the twelve months ended December 31, 2018 compared to ($1,588,204) for the twelve months ended December 31, 2017. The increased EBITDA[8] reflects the company's renewed focus on its core product line and a growth in its subscription-based software and support products, while reducing the cost base to support these growth initiatives.

Other Expenses (Earnings)

	Twelve months ended:	
	December 31, 2018	December 31, 2017
Change in fair value of Canadian dollar denominated warrants	$ (1,371,967)	$ (1,593,244)
Change in fair value of derivative liabilities	(1,248,281)	-
Foreign exchange loss (gain)	(463,411)	439,145
Interest expense (income)	1,062,437	591,042
Other non-operating expenses	60,672	-
Total other expenses (earnings)	**$ (1,960,550)**	$ (563,057)

Other expenses (earnings) for the twelve months ended December 31, 2018 increased compared to the twelve months ended December 31, 2017 due to a foreign exchange gain impacting the value of Canadian dollar denominated debentures and a gain in the fair value of derivative liabilities as part of the preferred shares. This was offset by an increased interest expense associated with Canadian dollar denominated debentures issued in February 2017, October 2017 and May 2018 and the preferred shares issued in September 2018. The Company has classified the dividend payable pertaining to the preferred shares issued in twelve months ended December 31, 2018 as interest expense. Other non-operating expenses relates to the disposal of office equipment resulting from the closure of an office as part of the Apteryx acquisition and ongoing focus on expense reduction.

Net Income (Loss) and Comprehensive Loss

	Twelve months ended:	
	December 31, 2018	December 31, 2017
Operating income (loss)	**$ (1,144,100)**	$ (3,058,072)
Total other expenses (earnings)	**(1,960,550)**	563,057
Income tax expense	**-**	-
Net income (loss) and comprehensive loss for the period – (basic)	**$ 816,450**	$ (2,495,015)
Earnings (Loss) per share – (basic)	**$ 0.02**	$ (0.08)
Net income (loss) and comprehensive loss for the period – (diluted)	**$ (189,680)**	$ (2,495,015)
Earnings (Loss) per share – (diluted)	**$ (0.00)**	$ (0.08)

The Company achieved a positive net income result for the twelve months ended December 31, 2018 compared to a net loss over the twelve months ended December 31, 2017, due to improved gross margin[9] contribution, primarily from the Apteryx software product line, while maintaining a consistent level of operating expenses relative to revenue. Other non-operating expenses also impacted net income such as the mark to market fair value adjustment of warrants, changes in fair value of derivative liabilities, interest expense and foreign exchange movements.

[9] *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. Cost of sales is the direct costs attributable to the production of the goods or service sold by the Company. These Gross Margin and Cost of sales measures do not have a comparable IFRS measure and are used by the Company to manage and evaluate the operating performance of the Company.*

LIQUIDITY AND CAPITAL RESOURCES

The Company's near-term cash requirements relate primarily to operations, working capital and general corporate purposes. Based on the current business plan, the Company believes cash and cash equivalents, along with its short-term investments will be sufficient enough to fund the Company's operating requirement for the next twelve months. The Company updates its forecasts and a regular basis and will consider additional financing sources as appropriate.

As at December 31, 2018, the Company had cash of $2,827,882 and Net Working Capital of $776,681 as compared to cash of $2,425,468 and Net Working Capital deficit of $1,221,176 as at December 31, 2017.

	Three months ended:		**Twelve months ended:**	
Cash provided by (used in):	**December 31, 2018**	December 31, 2017	**December 31, 2018**	December 31, 2017
Operating activities	**$ (1,153,233)**	$ (1,275,334)	**$ (1,799,295)**	$ (4,432,082)
Investing activities	**(1,328)**	(1,129)	**(21,684)**	(6,547,642)
Financing activities	**111,073**	2,419,076	**2,000,875**	12,791,305
Foreign exchange effect on cash	**458,638**	162,510	**222,518**	(260,680)
Net increase (decrease) in cash	**$ (695,850)**	$ 1,305,123	**$ 402,414**	$ 1,550,901

Cash used in operating activities for the twelve months ended December 31, 2018 was attributable to the Company's financial performance along with changes in working capital items.

The investing activities for the twelve months ended December 31, 2018 was due to the purchase of trade-show equipment and from the disposal of various office furniture & equipment.

The financing activities during the twelve months ended December 31, 2018 relate the issuance pf preferred shares offset by payments for deferred consideration relating to the purchase of Apteryx and the settlement of debentures.

STAFFING LEVELS

The following table summarizes the Company's headcount, consisting of employees and contractors, by functional group:

	As at December 31, 2018	**As at September 30, 2018**	**As at December 31, 2017**
Sales and marketing	13	12	20
Support	18	17	23
Research and development	10	10	10
Administration	5	5	6
Total	**46**	**44**	**59**

COMMITMENTS

The Company continues to have no bank debt, off-balance sheet financing arrangements or capital leases. The Company has operating leases with respect to its operating premises in Vancouver, B.C.; Atlanta, Georgia; and Akron, Ohio. The aggregate of minimum lease payments for subsequent years as at December 31, 2018 is $263,461.

The Company has CDN$1,150,000 principal amount of senior secured debentures that matured on February 10, 2019. The Company also has CDN$2,500,000 principal amount of second secured debentures that mature on October 30, 2019.

The Company has 20,322,624 convertible preferred shares outstanding. The preferred shares were issued at a price of CDN$0.45 per share. Each share is entitled to cumulative annual dividends of CDN$0.0225 per share (5%), payable in arrears quarterly in cash until maturity. The dividend rate may be increased to an annual dividend of CDN$0.054 per share (12%) under certain circumstances. The preferred shares mature on September 4, 2023.

The Company is required to pay US$450,000 in deferred compensation on February 10, 2019 in connection with its acquisition of Apteryx. The deferred compensation is payable in cash or in common shares at the election of the Company. The Company elected to pay the full amount in common shares of the capital of the Company and on February 10, 2019 issued 846,460 common shares of the Company to the seller at CDN$0.70, representing US$450,000 of value, in accordance with the terms of the acquisition agreement. This final payment fully extinguished all deferred payments and obligations with the seller, relating to the February 10, 2017 acquisition of Apteryx.

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 twelve months ended December 31, 2018 and 2017 respectively, the Company paid or accrued the following compensation expenses to key personnel of the Company:

	Twelve months ended:	
Cash used in:	**December 31, 2018**	December 31, 2017
Short-term compensation	**$ 562,081**	$ 915,948
Share-based payments	**$ 214,220**	$ 297,101
	776,301	1,213,049

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

These consolidated financial statements, which have been approved by the Board of Directors on April 29, 2019, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). These consolidated financial statements have been prepared using the historical cost basis and the same accounting policies as those disclosed in the Company's annual financial statements as at and for the year ended December 31, 2018 (except for the adoption of new accounting standards effective January 1, 2018 – see below). Accordingly, these interim condensed consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the Company's annual financial statements as at and for the year ended December 31, 2018 (which were prepared in accordance with International Financial Reporting Standards, or "IFRS").

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 makes 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 twelve months ended December 31, 2018 are consistent with those applied and disclosed in note 3 to the Company's audited consolidated financial statements for the year ended December 31, 2018, with the exception of the new standards adopted below.

New Standards and Interpretations Adopted

The Company considered the impact of IFRS 9 - Financial Instruments and IFRS 15 - Revenue from Contracts with Customers that may require restatement of previous consolidated financial statements, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Company. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 – Financial Instruments: Classification and Measurement

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 has applied IFRS 9 retrospectively, with the initial application date of January 1, 2018. The Company has evaluated the impact of IFRS 9 and concluded there was no impact to the consolidated financial statements.

Financial Assets

IFRS 9 includes a revised model for classifying financial assets, which results in classification according to a financial instrument's contractual cash flow characteristics and the business models under which they are held. At initial recognition, financial assets are measured at fair value. Under the IFRS 9 model for classification of financial assets the Company has classified and measured its financial assets as described below:

- Cash and cash equivalents are classified as financial assets measured at amortized cost. Previously under IAS 39 these amounts were classified as loans and receivables.
- Trade and other receivables are at measured at fair value during the respective period until the final settlement price is determined. Once the final settlement price is determined, trade receivables and other receivables are classified as financial assets measured at amortized cost. Previously under IAS 39, trade and other receivables were classified as Loans and Receivables measured at amortized cost.

IFRS 9 introduces a new three-stage expected credit loss model for calculating impairment for financial assets. IFRS

9 no longer requires a triggering event to have occurred before credit losses are recognized. An entity is required to recognize expected credit losses when financial instruments are initially recognized and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of financial instruments. There is a simplified approach where expected credit losses can be estimated and recognized upon initial recognition of the receivables. In addition, IFRS 9 requires additional disclosure requirements about expected credit losses and credit risk.

The Company has reviewed expected credit losses on trade receivables on transition to IFRS 9. The Company also implemented a process for managing and estimating provisions relating to trade receivables going forward under IFRS 9. For trade accounts receivables, the Company has applied the simplified approach for determining expected credit losses which requires us to determine the lifetime expected losses for all trade receivables.

The expected lifetime credit loss provision for trade receivables is based on historical counterparty default rates and adjusted for relevant forward-looking information, when required. As the majority of customers are considered to have low default risk and the Company does not extend credit to customer with high default risk, historical default rates are low, and the 12-month expected credit loss allowance for trade receivables is nominal as at January 1, 2018 and December 31, 2018. Accordingly, the Company did not record an adjustment relating to the implementation of the expected credit loss model for trade receivables.

The adoption of IFRS 9 did not result in a change in the carrying values of any of the Company's financial assets on the transition date.

Financial Liabilities

Financial liabilities are recognized initially at fair value and in the case of financial liabilities not subsequently measured at fair value, net of directly attributable transaction costs. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled, or expired. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements. Therefore, the adoption of IFRS 9 did not impact the Company's accounting policies for financial liabilities. Trade and other payables are classified as financial liabilities to be subsequently measured at amortized cost. There has been no change to classification or measurement of financial liabilities as a result of adopting IFRS 9.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 – Revenue from Contracts with Customers replaces all existing revenue requirements in IAS 18 - Revenues 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 Company adopted IFRS 15 using the full retrospective transition method of adoption on January 1, 2018. The Company has performed a review of existing contracts and has determined that there is no material impact on the comparative figures for 2017 in the Company's consolidated financial statements.

The Company generates revenue from the sale of goods as well as professional service contracts, subscriptions to cloud based software, perpetual software license fees, and related maintenance and service fees.

Revenue is allocated to the respective performance obligations based on relative transaction prices and is recognized as goods or services are delivered to the customer. Revenue is measured as the amount of consideration expected to be received in exchange for the goods transferred or services delivered. Contract modifications are accounted for prospectively or as a cumulative catch-up adjustment depending on the nature of the change. Where the amount of goods and services delivered to the customer corresponds directly to the amount invoiced, the Company recognizes revenue equal to what it has the right to invoice.

The Company makes judgments with respect to: determining whether the promised goods and services are considered distinct performance obligations by considering the relationship of such promised goods and services; allocating the transaction price for each distinct performance obligation identified through stand-alone selling price and evaluating when a customer obtains controls of the goods or service promised.

Hardware Revenue Recognition

Prior to the adoption of IFRS 15, revenue from the sale of its products to customers was recognized upon either the transfer of title or upon shipment of the hardware product to the customer so long as persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured. The Company recognizes revenue for goods provided when the performance obligations have been completed, when control of the goods transfer to the customer, when the goods have been accepted by the customer and collectability is reasonably assured. Determining whether the goods and services are considered distinct performance obligations may require significant judgment. The adoption of IFRS 15 did not have an impact on the timing or amount of revenue recognition.

The Company generally provides warranties for general repairs of defects that existed at the time of sale, as required by law, for production hardware products. As such, most warranties are assurance-type warranties under IFRS 15, which the Company accounts for under IAS 37- Provisions, Contingent Liabilities and Contingent Assets, consistent with its practice prior to the adoption of IFRS 15.

Software Revenue Recognition

The Company currently sells software licenses of its legacy software solution, either on a perpetual basis or on a term-based basis as well as post contract customer support ("PCS").

Prior to the adoption of IFRS 15, the Company recognized revenue from the sale of software licenses on perpetual basis upon the transfer of title to the customer, so long as persuasive evidence of an arrangement existed, delivery had occurred, the fee is fixed or determinable, and collectability was reasonably assured. The Company used the residual method to recognize revenue on delivered elements when a license agreement included one or more elements to be delivered at a future date if evidence of the fair value of all undelivered elements existed. If an undelivered element for the arrangement existed under the license arrangement, revenue related to the undelivered element was deferred based on Vendor Specific Objective Evidence ("VSOE") of the fair value of the undelivered element. If the fair value did not exist for all undelivered elements, all revenue was deferred until sufficient evidence existed or as elements were delivered. For term-base licenses, the Company recognized revenue over the term, which usually was one (1) year. PCS revenue associated with software licenses was recognized ratably over the term of the PCS period, which typically was one year. Any unrecognized revenue is recorded in deferred revenue.

Under IFRS 15, the Company recognizes revenue from the sale of term-based licenses at the time the software is delivered to customer subject to all other criteria of revenue recognition being satisfied at this time since transfer of control to the customer occurs with no further obligation from the Company. The adoption of IFRS 15 did not have an impact on the timing or amount of revenue recognition on the sale of perpetual licenses and PCS.

Services Revenue Recognition

The Company enters into contracts to provide services on the following basis:

- Time & Materials - services consist of revenues from software modification, consulting, implementation, training and integration services. These services are set forth separately in the contractual arrangements such that the

total price of the customer arrangement is expected to vary as a result of the inclusion or exclusion of these services.

- Fixed Price – arrangements to render specific consulting and software modification services which tend to be more complex since these services are essential to the functionality of other elements in the arrangement.

Prior to the adoption of IFRS 15, the Company recognized service revenue from time and material arrangements at the time such services are rendered by the Company so long as persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured. The Company recognized service revenue from fixed price arrangements using the percentage of completion method and is calculated based on actual hours incurred compared to the estimated total hours for the services under the arrangement, so long as persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured.

Under IFRS 15, the Company concluded that revenue from services will continue to be recognized over time, using an input method to measure progress towards complete satisfaction of the service similar to the previous accounting policy, because the customer simultaneously receives and consumes the benefits provided by the Company. The adoption of IFRS 15 did not have an impact on the timing or amount of revenue recognition.

Impact on Adoption of IFRS 15

The Company has evaluated the impact on the financial statements of IFRS 15 and concluded that there was no material impact to the 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 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 consolidated financial statements and intends to adopt these standards when they become effective

IFRS 16 – Leases

The standard supersedes the current IAS 17, Leases standard. IFRS 16 introduces a single accounting model for lessees and for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognize a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. The accounting treatment for lessors will remain largely the same as under IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019.

The Company is assessing the impact of this standard on its consolidated financial statements; however, the Company believes that the result will be an increase to assets and liabilities, as it will be required to record a right-of-use asset and a corresponding lease liability on the Consolidated Statements of Financial Position, as well as a decrease to operating costs, an increase to finance costs (due to accretion of the lease liability) and an increase to depreciation.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Financial instruments are measured at amortized cost or fair value. Fair value represents the estimated amounts at which financial instruments could be exchanged between knowledgeable and willing parties in an arm's length transaction. Determining fair value requires management judgment. The following financial instruments are all measured at amortized cost. The fair value of each (with the exception of the investment in customer) approximates its carrying value due to their short-term nature. The fair value of the investment in customer is determined using implied valuations from financing rounds. Therefore, it is treated as a Level 1 financial asset, as with the fair value equating its carry value.

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 carrying values and fair values of financial assets (liabilities) as at December 31, 2018 and December 31, 2017 are summarized as follows:

Classification of financial instruments

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

Financial Assets	**December 31, 2018**	December 31, 2017
Cash	**$ 2,827,882**	$ 2,425,468
Receivables	**2,531,208**	1,578,371
Total	**$ 5,359,090**	$ 4,003,839

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

	December 31, 2018	December 31, 2017
FVPTL:		
Warrants	**$ 155**	$ 1,372,122
Derivative preferred share liability	**2,901,787**	-
	$ 2,901,942	$ 1,372,122

	December 31, 2018	December 31, 2017
Other financial liabilities:		
Trades payable and accrued liabilities	**$ 1,576,953**	$ 1,709,708
Debentures	**2,558,248**	5,871,293
Preferred Shares	**2,504,044**	-
Deferred consideration on acquisition	**450,000**	1,650,000
	$ 7,089,245	$ 9,231,001

Fair value

Due to the short-term nature of cash, trade and other receivables, trade payables and accrued liabilities and deferred revenue, their fair values approximate their carrying amounts.

The fair value of the Company's debenture and accrued interest payable is estimated by a discounted cash flow model based on market rate of interest existing at the end of the reporting period. Management believes that there has been no significant change in market interest rate since the inception of the debenture and as such the fair value of the debenture approximates the carrying value given that an immaterial amount of transaction cost was allocated to the debenture at inception.

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.

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy as at December 31, 2018 and December 31, 2017. As required by IFRS 13, assets and liabilities are classified in their entirety on the lowest level of input that is significant to the fair value measurement.

	Quoted prices in active markets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Fair value at December 31, 2018**
Warrants	-	$155	-	$ 155
Derivative liability	-	-	$ 2,901,787	$2,901,787
Total	-	**$ 155**	**$ 2,901,787**	**$ 2,901,942**

	Quoted prices in active markets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Fair value at December 31, 2017**
Warrants	-	$ 1,372,122	-	$ 1,372,122
Total	**-**	**$1,372,122**	**-**	**$ 1,372,122**

The Company measures warrants using the Black-Scholes method, which utilizes the risk-free rate and the stock price volatility to estimate the fair value of warrants. The effects of non-observable inputs are not significant for CDN denominated warrants and as such this financial instrument is categorized as Level 2 in the fair value hierarchy. There were no transfers between Level 1, 2 and 3 in 2018 or 2017.

The fair value of the derivative liability was calculated using a Binomial Tree model ("Binomial Model"). This derivative has been classified as Level 3 in the fair value hierarchy. Key inputs and assumptions used in the model at initial recognition (September 4, 2018) and as at December 31, 2018 are summarized below:

Valuation Date	**December 31, 2018**	September 4, 2018
Principal amount	CDN$ 9,145,181	CDN$ 9,145,181
Conversion price	CDN$ 0.45	CDN$ 0.45
Forced conversion price	CDN$1.50	CDN$1.50
Share price at valuation date	CDN$ 0.36	CDN$ 0.47
Volatility	89.00%	89.00%
Risk-free rate	1.88%	2.16%
Maturity	4.68 years	5 years

Disclosures relating to exposure to risks, in particular credit risk, liquidity risk, foreign currency risk, and interest rate risk are provided below.

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 December 31, 2018, any accounts receivable due beyond one year have been provided for in the allowance for doubtful accounts.

As at December 31, 2018 and December 31, 2017, the Company's exposure to credit risk for these financial instruments was as follows:

Credit risk	**December 31, 2018**	December 31, 2017
Cash	**$ 2,827,882**	$ 2,425,468
Receivables	**2,531,208**	1,578,371
Total	**$5,359,090**	$ 4,003,839

Trade accounts receivable were aged as follows as at December 31, 2018 and December 31, 2017.

Accounts receivable aging	**December 31, 2018**	December 31, 2017
Current	**$ 1,583,848**	$ 1,075,602
31 - 60 days	**313,987**	184,460
Over 60 days	**545,563**	297,652
Total accounts receivable	**$ 2,443,398**	$ 1,557,714
Goods and services tax receivable	**87,810**	20,657
Total Accounts Receivable plus taxes receivable	**$ 2,531,208**	$ 1,578,371

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 were aged as follows as at December 31, 2018 and December 31, 2017, respectively and does not include accrued liabilities, warranty provision and state and provincial sales tax payable, of which are all current. All trade payables are current liabilities:

Accounts payable aging	**December 31, 2018**	December 31, 2017
Current	**$ 946,334**	$ 440,118
31 - 60 days	**6,389**	34,752
Over 60 days	**51,411**	286,840
Total	**$ 1,004,134**	$ 761,710

The following is an analysis of the contractual maturities of the Company's non-derivative accrued liabilities as at December 31, 2018:

Contractual Maturities	**Within one year**	**Between one and five years**
Trades Payable and Accrued liabilities	$ 1,576,953	$ -
Deferred Revenue	899,701	-
Debenture	2,558,248	-
Preference Shares	-	2,504,044
Deferred consideration on acquisition	450,000	-
Total	**$ 5,484,902**	**$ 2,504,044**

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 and debentures that pay interest. There is no interest rate risk associated with the debentures as they carry a fixed rate of 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 December 31, 2018, the Company had not entered into any derivative contracts to manage this risk.

Foreign Currency risk

Although substantially all of the Company's revenues are received in U.S. dollars, the Company incurs operating costs primarily attributable to its services business and has outstanding trade and other payables denominated in Canadian dollars and other foreign currencies. Fluctuations in the exchange rates between these currencies could have a

material effect on the business, financial condition and results of operations. The Company maintains certain assets, inclusive of a portion of its treasury investments, in Canadian dollars which are translated to its U.S. dollar functional currency resulting in an unrealized foreign exchange gain or loss. The Company has not hedged its exposure to currency fluctuations.

With all other variables remaining constant, assuming a 10% weakening of the Canadian dollar versus the U.S. dollar would have had the following impact on net loss as follows in the table below. An assumed 10% strengthening of the Canadian dollar versus the U.S. dollar would have had an equal but opposite effect on the amounts shown below:

	December 31, 2018	December 31, 2017
	CDN	CDN
Cash	$ 2,410,898	$ 345,952
Account Receivable	44,054	28,133
Trade payable and accrued liabilities	(12,638)	(24,386)
Net statement of financial position exposure	**$ 2,442,314**	**$ 349,699**

DISCLOSURE OF OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares, without par value and an unlimited number of preferred shares without par value. As of the date of this MD&A, the Company has 38,785,096 common shares outstanding and 20,322,624 preferred 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 December 31, 2018, the Company is entitled to grant incentive stock options for 3,793,763 and has issued 12,000 deferred share units under the Company's Deferred Share Unit Plan. The Company also had 13,090,448 warrants outstanding.

SUBSEQUENT EVENTS

On January 18, 2019 the Company appointed Alex Ryzhikov to its board of directors. Mr. Ryzhikov, who holds a Chartered Financial Analyst designation, currently serves as Partner at Ewing Morris & Co., an independent Canadian boutique investment firm. Following the recent convertible preferred share placement, Ewing Morris & Co. Investment Partners Ltd. has become a significant investor in LED Medical.

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, debt principal repayments and repayment of the convertible preferred shares upon maturity. 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.

Further, a significant portion of the Company's financial obligations, namely its senior secured debentures and second secured debentures, are secured against the assets of the Company and certain of its subsidiaries. The debentures also contain certain covenants and events of default, including a cross default provision whereby the Company will be considered in default of the debentures if it defaults on other indebtedness of CDN$100,000 or greater. If the Company were to be in default under the terms of the debentures, the debenture holders could accelerate the debt and seek to seize the assets of the Company, appoint a receiver, commence bankruptcy or insolvency proceedings or exercise other rights as secured creditors. Any such actions by its secured creditors would have a material adverse effect on the financial position and future viability of the Company.

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.

Dependence 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[10] due to no longer being able to sell such third-party products.

[10] *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. Cost of sales is the direct costs attributable to the production of the goods or service sold by the Company. These Gross Margin and Cost of sales measures do not have a comparable IFRS measure and are used by the Company to manage and evaluate the operating performance of the Company.*

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.

Fluctuations in Exchange Rates

Although substantially all of the Company's revenues are received in U.S. dollars, the Company incurs operating costs and has outstanding trade and other payables denominated in Canadian dollars and other foreign currencies. The Company attempts to mitigate this risk by denominating many of its payment obligations in U.S. dollars. The Company maintains certain assets, inclusive of a portion of its treasury investments, in Canadian dollars. Fluctuations in the exchange rates between these currencies could have a material effect on the business, financial condition and results of operations of the Company.

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.

Customer Credit Risk

Historically, the Company has offered very limited credit terms to our customers. As its customer base expands, as orders increase in size, the Company expects to offer increased credit terms and flexible payment programs to its customers. Doing so may subject the Company to increased credit risk, higher accounts receivable with longer days outstanding, and increases in charges or reserves, which could have a material adverse effect on its business, results of operations and financial condition.

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 has, and 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. Substantial growth in the Company's software initiatives may require the Company to raise additional capital through the issuance of additional shares or securing financing. There can be no assurance that the Company would be able to secure additional funding through these activities.

INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer and Chief Financial Officer have designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to them by others within the Company. The Chief Executive Officer and Chief Financial Officer have also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of the financial statements in accordance with IFRS.

Because of the inherent limitations in a control system, any control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will prevent or detect all misstatements, due to error or fraud, from occurring in the financial statements. As the Company has a limited number of personnel, management has concluded that a weakness exists in the design of internal controls over financial reporting caused by a lack of adequate segregation of duties. This weakness has the potential to result in material misstatements in the Company's financial statements and should also be considered a weakness in its disclosure controls and procedures. Management has concluded that considering the present stage of the Company's development and the best interests of its shareholders; the Company does not have sufficient size and scale to warrant the hiring of additional personnel to correct this weakness at this time. To help mitigate the impact of this weakness and to ensure quality financial reporting, supervisory controls are exercised by management and the Audit Committee is vigilant in its' oversight.

The Chief Executive Officer and Chief Financial Officer of the Company conducted an evaluation of the disclosure controls and procedures as required by National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings" issued by the Canadian Securities Administrators. They concluded that as at December 31, 2018, the Company's disclosure controls and procedures were effective to provide reasonable assurance that material information regarding required disclosures was made known to them on a timely basis.