LED MEDICAL DIAGNOSTICS INC.

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

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") has been prepared by management, in accordance with the requirements of National Instrument 51-102 *Continuous Disclosure Obligations* as of April 11, 2016 and should be read in conjunction with the condensed interim consolidated financial statements and related notes of LED Medical Diagnostics Inc. ("LED" or the "Company") as at and for the three and twelve months ended December 31, 2015 (prepared in accordance with International Financial Reporting Standards or "IFRS"). All amounts are presented in United States dollars unless otherwise noted. All referenced materials as well as additional disclosures, including the Company's Annual Information Form ("AIF"), are available on SEDAR at www.sedar.com.

DISCLAIMER FOR FORWARD-LOOKING STATEMENTS

The following Management's Discussion and Analysis contains statements which, to the extent that they are not recitations of historical fact, may constitute forward-looking information under applicable Canadian securities legislation. Such forward-looking statements or information includes financial and other projections as well as statements regarding the Company's future plans, objectives, performance, revenue, growth, profits, operating expenses or the Company's underlying assumptions and the Company's intention to expand its technology beyond dental applications including "costs of production", "capital expenditures", "costs and timing of the development of new products", "hedging practices", "currency exchange rate fluctuations", "requirements for additional capital", "government regulation of medical device operations" and "insurance coverage". Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", "believes" or variations of such words and phrases or statements that certain actions, events or results "may", "would", "could", "might" or "will be taken", "occur" or "be achieved" or the negative connotation thereof. Persons reading this Management's Discussion and Analysis are cautioned that such statements or information are only predictions, and that the Company's actual future results or performance may be materially different. Factors that could cause actual events or results to differ materially from those suggested by these forward-looking statements include, but are not limited to: economic conditions; dilution; limited history of profits and operations; operational risk; distributor risks; working capital; potential conflicts of interest; speculative investment; intellectual property risks; disruptions in production; reliance on key personnel; seasonality; management's estimates; development of new customers and products risks; stock price volatility risk; sales and marketing risk; competitors and competition risk; regulatory requirements; reliance on few suppliers; reliance on subcontractors; operating cost and quarterly results fluctuations; fluctuations in exchange rates; product liability and medical malpractice claims; access to credit and additional financing; taxation; market acceptance of the Company's products and services; customer and industry analyst perception of the Company and its technology vision and future prospects; technological change, new products and standards; risks related to acquisitions and international expansion; reliance on large customers; concentration of sales; international operations and sales; management of growth and expansion; dependence upon key personnel and hiring; the Company not adequately protecting its intellectual property; risks related to product defects and product liability; reliance on third party suppliers; future working capital investments in accounts receivable and inventory; credit terms from suppliers; and including, but not limited to, other factors described in the Company's reports filed on SEDAR, including its financial statements and this Management's Discussion and Analysis. In drawing a conclusion or making a forecast or projection set out in the forward-looking information, the Company takes into account the following material factors and assumptions in addition to the above factors: the Company's ability to execute on its business plan; the acceptance of the Company's products and services by its customers; the timing of execution of outstanding or potential customer contracts by the Company; the sales opportunities available to the Company; the Company's subjective assessment of the likelihood of success of a sales lead or opportunity; the Company's historic ability to generate sales leads or opportunities; and that sales will be completed at or above the Company's estimated margins. This list is not exhaustive of the factors that may affect the Company's forward-looking information. These and other factors should be considered carefully and readers should not place undue reliance on such forward-looking information. All forward-looking statements made in this Management's Discussion and Analysis 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 operating subsidiaries, LED Dental (US) Ltd., which was incorporated under the laws of Washington State, LED Dental Inc., which was incorporated under the BCBCA and Essentia Genetics Corp., which was incorporated under the BCBCA on January 14, 2014.

General Development of the Business

Headquartered in Vancouver, B.C., LED was founded in 2003. LED's first product, the VELscope®, has experienced wide spread adoption in the North American markets and now has an international presence as well. The company has further developed its portfolio into one that has positioned it to be a premier provider of dental imaging technology and services. Since establishing a market for the VELscope® LED has taken significant and progressive steps towards its goal of becoming a global leader in developing and distributing advanced, affordable imaging technologies targeted to dental and medical healthcare providers for the detection, diagnosis, and treatment of disease

Description of the Business

LED provides dentists and oral health care specialists with a growing portfolio of advanced diagnostic dental imaging products and software. Since its inception, LED has grown from a research and development, pre-commercial product development company to its current status as a premier dental imaging services and technology company. The Company's portfolio includes its dental imaging products and the VELscope® device. The VELscope® has provided a broad customer base and general platform for the company to launch its follow-on dental imaging product portfolio around.

LED markets its products, in conjunction with its distribution and general goodwill partners and directly to dental practitioners. Such direct marketing includes direct mail/e-mail, advertising in industry journals, participation at dental trade shows and educational events, and personal office visits. In limited cases, direct marketing activities are oriented towards convincing dental practitioners to attend an educational seminar or trade show event in which LED is a participant. LED believes that because of evolutions to its VELscope® device that it has the potential to expand usage of the product to international markets in the near and mid-terms. LED has also recently had multiple successes in establishing indirect partnerships with organizations and networks that provide goodwill marketing for the Company and its products at offsite locations. This is a cost-effective strategy that the company will look to continue in the future.

The Company launched its digital imaging product portfolio in April 2014, which provides dentists and oral health specialists with advanced diagnostic imaging products and software. The core of the product line is the RAYSCAN α digital extra oral imaging machine, which comes in panoramic, cephalometric and Cone Beam Computed Technology (CBCT), modalities. Market penetration of CBCT machines continues to rapidly expand through the general dentist market and all the dental specialties, allowing practitioners to visualize digital radiographic volumes in all three dimensions to better diagnose, treatment plan and treat their patients. The Company also offers digital imaging software, digital sensors and intraoral cameras, inter-oral optical scanners and 3D dental specific printers to round out the digital portfolio and offer practitioners the ability to convert their practice from analogue technologies to a more efficient digital imaging workflow.

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

The Company believes that the VELscope® tissue fluorescence visualization technology is backed by more clinical studies than any other oral adjunctive examination device, based on searches conducted by LED of the PubMed database developed and maintained by the National Center for Biotechnology Information at the U.S. National Library of Medicine located at the National Institutes of Health ("NIH"). The NIH, part of the U.S. Department of Health and Human Services, is the primary Federal agency for conducting and supporting medical research in the US. The technology for the VELscope® system was developed by LED in partnership with the British Columbia Cancer Agency ("BCCA").

In 2006, VELscope® received U.S. FDA and Health Canada clearances. LED received FDA 510(k) clearance for these claims in April 2007. FDA 510(k) clearance is a premarket notification required for manufacturers of medical devices. The clearances were pertinent to the VELscope®'s use of tissue fluorescence visualization technology which aids in the early visualization of mucosal diseases and enhances effective oral mucosal examinations.

The first-generation VELscope® device was introduced in 2006. Since then, LED has sold over 14,000 devices, which have been used to conduct over 25 million oral soft tissue exams worldwide. Currently, VELscope® fluorescence visualization technology is used to conduct more oral exams than any other adjunctive detection technology in the world.

Products and Intellectual Property

LED's focus is on obtaining products and technologies and aggregating a comprehensive open architected imaging product portfolio in which intellectual property and barrier to entry are a center focus. The Company plans to optimize current relationships with VELscope® sales channels via non-exclusive distributors in North America and add complimentary imaging products to build out a robust portfolio and diversify revenue streams.

The Company has developed a specialized digital imaging distribution division that in addition to the VELscope® Vx, offers digital imaging products for use by various types of health practitioners. A partnership with Ray Co. Ltd., has enabled the Company to market, sell, install and train RAYSCAN digital imaging technology. The RAYSCAN α - Expert is a multi-function digital extra oral imaging system with 3D cone beam computed tomography (CBCT), panoramic and cephalometric modalities. Furthermore, the Company has partnered with 3Shape and Envision Tech to distribute intra-oral scanners for digital impressions and 3D printing technology for a broad portfolio of dental and orthodontic applications.

The Company's VELscope®Vx, released in early 2011, is comprised of fluorescence technology which aids in the early visualization of mucosal diseases and enhances effective oral mucosal examinations. The patented VELscope® technology platform was developed in collaboration with the BCCA and MD Anderson Cancer Center, with funding provided in part by the NIH. It is based on the direct visualization of tissue fluorescence and the changes in fluorescence that occurs when abnormalities are present. The VELscope® Vx 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.

VELscope Vx helps clinicians establish a more robust oral disease and oral cancer screening protocol with benefits for the patient, clinician and practice. When used as an adjunctive aid in combination with traditional oral cancer examination procedures, VELscope®Vx facilitates the early discovery and visualization of a wide variety of mucosal abnormalities as well as lesions that may be, or may lead to oral cancer. In one or two minutes, without the use of rinses or stains, a VELscope® examination helps oral healthcare professionals assure their patients that a high level of care for oral mucosal screening has been utilized. Adding to the VELscope®'s value as an adjunctive device is its ability to aid in the visualization of a wide spectrum of oral trauma and disease. A recent study at the University of Washington demonstrated that the VELscope® system is a powerful tool for the discovery of mucosal abnormalities such as viral, fungal and bacterial infections, inflammation from a variety of causes (including lichen planus and other lichenoid reactions), squamous papillomas and salivary gland tumors. VELscope®Vx combines minimal per-patient costs with more effective oral mucosal examinations.

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.

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

FORWARD-LOOKING COMPANY OBJECTIVES

The Company's objectives are:

- Re-invent the Company with optimized VELscope® distribution and an imaging product diversification plan,
- Invest in a specialized imaging sales/marketing/support platform,
- Increase revenue and optimization of cost structure to position for future positive cash flow, and
- Target strategic partnerships and accretive acquisitions to enhance Intellectual Property portfolio and recurring revenue opportunities (rapid value creation).

SIGNIFICANT EVENTS

Major Corporate Highlights

- On February 25, 2015, the Company announced that it completed a non-brokered private placement with an oversubscribed total of 10,605,000 units at an issue price of CDN$0.25 per unit for total gross proceeds of approximately CDN$2.65 million. Each unit is comprised of one common share and one common share purchase warrant with each warrant entitling the holder to acquire one common share at an exercise price of US$0.25 for a period of 24 months. All of the securities issued in connection with the private placement will be subject to a restricted period that expires four months after the issuance date.

- On February 27, 2015, the Company announced the opening of three Ray offices in the US to further support high growth initiatives in the North American market.

- On March 12, 2015 the Company announced that it launched the new RIOSensor Intraoral Radiography System from RAY Co., Ltd., a spin-off of Samsung Electronics, in the USA and Canada. As the latest dental imaging product from RAY, the RIOSensor embraces their history of providing high-quality, dependable technology platforms at a great value.

- On April 9, 2015, the Company announced a new agreement with OrthoSynetics, a leading provider of administrative, marketing, and financial services to 350 orthodontic practices across the United States. The agreement designates the Company as the preferred imaging technology supplier for OrthoSynetics.

- On April 15, 2015, the Company announced a partnership with London Drugs to provide its VELscope® Vx Enhanced Oral Assessment Systems ("VELscope® Vx System" or "VELscope® Vx") for a pilot program for oral cancer screenings. The pilot program was be conducted by dental professionals on April 14th, April 15th and April 17that twelve London Drug pharmacies in the lower mainland of B.C. Canada and has been endorsed by the BC Oral Cancer Prevention Program (BC OCPP) and developed with oral medicine and pathology specialist Dr. Samson Ng of UBC.

- On April 21, 2015, the Company announced that the company will be serving as a strategic partner in the Oral Cancer Foundation's "Be Part of the Change"™ program, seeking to promote the importance of routine comprehensive oral screenings and early detection in the fight against oral cancer.

- On April 30, 2015, the Company announced the launch of a new cloud-based imaging solution, LED Imaging Cloud. LED Imaging Cloud combines the performance of LED Imaging Software with the convenience and security of cloud technology.

- On June 15, 2015, the Company announced an agreement that makes LED Medical subsidiary LED Dental the newest provider of 3Shape's 3D intraoral digital impression and desktop scanners.

- On June 23, 2015, the Company announced the launch of the new VELscope® Vx Imaging Adapter & VELscope Photo System Application from sub, delivering integration of the VELscope Vx with the Apple iPod touch®* for clinical photographic documentation and secure image sharing of oral lesions.

- On July 14, 2015, the Company announced that its VELscope® Vx Enhanced Oral Assessment System has received the Pride Institute's "Best of Class" Technology Award, making 2015 the fifth consecutive year that the VELscope has received this distinction as the market-leading device for adjunctive oral screening. The VELscope is one of only two products to have a five-year run as "Best of Class," putting the device among very elite company.

- On July 22, 2015, the Company raised gross proceeds of $1.1 million through the issuance of an initial tranche of Debentures. The Debentures are secured by a general security interest in all of the Company's assets. The proceeds of the Debentures are to be used for working capital purposes. 654,500 share purchase warrants were issued in connection with the offering of Debentures on July 22, 2015.

- On July 13, 2015, LED announced that the VELscope Vx Enhanced Oral Assessment System had received the Pride Institute's "Best of Class" Technology Award, making 2015 the fifth consecutive year that the VELscope has received this distinction as the market-leading device for adjunctive oral screening.

- On August 4, 2015, LED announced that it had entered into an agreement with EnvisionTec Inc. to distribute EnvisionTec's 3D printing solutions.

- On August 7, 2015, LED provided a business update, announced that LED had received clearance by Health Canada to market and sell the Rayscan Alpha Cone Beam Computed Tomography System pursuant to the exclusive distribution agreement with RAY and provided an update on the U.S. FDA warning letter.

- On September 9, 2015, LED announced that it had received regulatory approval for the distribution of the VELscope Vx Enhanced Oral Assessment System in China.

- On September 17, 2015, LED announced that it had entered into a non-binding letter of intent to acquire a technology company.

- On September 25, 2015, the Company raised gross proceeds of US$500,000 through the issuance of a second tranche of 10% senior secured debentures (the "Debentures"). The Debentures are secured by a general security interest in all of the Company's assets. The proceeds of the Debentures are to be used for working capital purposes. 357,150 share purchase warrants were issued in connection with the offering of Debentures on September 25, 2015.

- On October 8, 2015, the Company announced that it proposed, subject to TSX Venture Exchange acceptance, a 12-month extension to the term of outstanding share purchase warrants exercisable at a price of US$0.50 per Common Share for 14,661,989 Common Shares of LED, which were originally issued pursuant to a private placement that completed on October 24, 2013. The original term of the warrants was for a 24-month period from the date of issuance. The TSX Venture Exchange consented to the warrant extension on October 13, 2015.

Financial Highlights

- Net revenue for the twelve months ended December 31, 2015 was $13,135,007, which is an increase of 47% from the twelve months ended December 31, 2014. This revenue increase was largely due to increasing contributions to revenue from the Company's expanding portfolio of digital imaging products in addition to contributions from VELscope and VELscope Vx consumable sales.

- The net loss for the three months ended December 31, 2015 was $1,122,544 compared to the operating loss for the three months ended December 31, 2014 of $513,127. The increase of operating loss is mainly attributable to higher foreign exchange losses and the absence of other income on the change in fair value of Canadian dollar warrants.

- Cash flow used in operations was $5,078,306 during the twelve months ended December 31, 2015 compared to cash flow used in operations of $4,175,734 during the twelve months ended December 31, 2014. There was $4,930,524 of cash inflows from the financing activities due to the February and November 2015 private placements, exercise of warrants and issuance of 10% senior debentures during the twelve months ended December 31, 2015.

- The Company had cash of $1,987,409 and Net Working Capital of $744,501 as of December 31, 2015. Net Working Capital is defined as total current assets less total current liabilities.

SELECTED QUARTERLY INFORMATION

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

(in US$ '000's)	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
Cash	1,987	1,175	$1,458	1,109	$2,397	$815	$1,838	$3,178
Working capital	745	430	1,440	2,292	1,653	2,358	69	3,438
Total assets	9,913	4,165	4,789	5,051	7,787	5,733	4,967	5,112
Long-term financial liabilities	87	87	86	61	25	-	1	4,971
Shareholders' (deficiency) equity	1,147	742	2,060	2,958	2,170	2,957	310	-1,430

The Company has restated its functional operating expenses and other income for the three and twelve month periods ended December 31, 2014, respectively, due to a change in revenue recognition, the allocation of operating overhead costs between its functional departments, reclassification of foreign exchange on Canadian denominated warrants for consistency in presentation and the Statement of Cash Flow regarding the foreign exchange impact on cash. Being in the dental supply industry and due to the timing of trade shows and client spending patterns, the Company's business is seasonal in nature, with the fourth quarter typically representing the largest portion of annual sales and annual net earnings. Management expects such seasonality to continue.

(in US$ '000's, except earnings per share)	December,31 2015	September,30 2015	June 30, 2015	March 31, 2015 restated	December 31, 2014 restated	September 30, 2014 restated	June 30, 2014 restated	March 31, 2014
Revenues	$5,641	$1,783	$3,269	$2,442	$4,688	$1,628	$1,590	$1,055
Cost of goods sold	4,045	1,453	2,249	1,814	3,224	1,028	724	526
Gross margin	1,596	330	1,020	628	1,463	600	866	529
Expenses:								
Sales and marketing	1,875	1,188	1,581	1,351	1,902	1,621	1,546	743
Research and development	43	32	65	50	29	215	247	258
Administration	508	417	492	666	407	387	506	533
Operating Loss	-830	-1,307	-1,118	-1,441	-875	-1,623	-1,433	-1,005
Other income (expense)	-293	-55	-88	-48	383	-1,070	1,516	-1,889

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

Income tax benefit	0	0	4	-	-	-	-	-
Net (loss) income	-1,123	-1,362	-1,202	-1,489	-513	-2,693	83	-2,894
Net (loss) income per share (basic and diluted)	-.01	-0.01	-0.01	-0.02	-0.01	-0.03	0	-0.04

During the three months ended December 31, 2015, the Company used its working capital to finance the various stages of the company's growth strategy.

The Company's net is primarily due to the continued investment into our sales, marketing and operating infrastructure. See Financial Results section below for further discussion on the selected quarterly income statement information.

FINANCIAL RESULTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2015

The following analysis of the results of operations for the three months ended December 31, 2015 includes comparisons to the three months ended December 31, 2015 and December 31, 2014.

Revenue

Revenue is derived from the sale of the Company's VELscope® product, related consumable products which are disposal components for singular use of the VELscope® product and our diverse digital imaging product line. Revenue is expressed net of sales and early payment discounts.

	Three months ended December 31, 2015	Three months ended September 30, 2015	Three months ended December 31, 2014
Total revenue	**$ 5,640,365**	$ 1,783,120	$ 4,687,920

The company is subject to seasonality of sales and the summer months tend to be slower quarters within the industry. Revenue increased 20% when comparing three months ended December 31, 2015 to December 31, 2014 due to the timing of when orders were received and the Company could record revenues.

In each respective period, revenue from customers which amounted to 10% or more of the Company's revenue accounted for the following percentages of the Company's total revenue:

	Three months ended December 31, 2015	Three months ended September 30, 2015	Three months ended December 31, 2014
Revenue	**$ 0**	$ 0	1,541,575
Percentage of revenue	**0%**	0%	27%

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

Gross Margin[1]

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

	Three months ended December 31, 2015		Three months ended September 30, 2015		Three months ended December 31, 2014 (restated)	
Revenue	**$ 5,640,365**		$ 1,783,120		$ 4,687,920	
Cost of sales	**4,044,657**		1,453,370		3,224,485	
Gross margin	**$ 1,595,708**	**28%**	$ 329,750	18%	$ 1,463,435	31%

The Company earned gross margin for the three months ended December 31, 2015 of 28%, which is an increase from the Company's gross margin for the three months ended September 30, 2015. The increase is due to a one-time adjustment for installation costs in the quarter ended September 30, 2015 and increased sales mix contribution of the digital line compared to the VELscope line.

Expenses

	Three months ended December 31, 2015	Three months ended September 30, 2015	(restated)Three months ended December 31, 2014
Sales and marketing	**$ 1,874,363**	$ 1,188,194	$ 1,902,242
Research and development	**43,351**	31,744	29,221
Administration	**507,027**	417,105	406,831
Stock-based compensation	**33,976**	32,620	(110,905)
Foreign exchange (gain) loss	**100,072**	(38,977)	(81,354)
Interest expense	**32,363**	16,543	-
Other operating expenses	**127,110**	44,294	(169,472)
Total expenses	**$ 2,718,262**	$ 1,691,523	$ 1,976,563
As a percentage of revenue	**48%**	95%	42%

The increase in expenses for the three months ended December 31, 2015 as compared to the three months ended December 31, 2014 was due to higher administrative costs incurred in conjunction with debenture funding and secondary equity offering and higher foreign exchange losses and the absence of other income on the change in fair value of Canadian dollar warrants. These costs were partially offset by cost cutting measures that resulted in a reduction of departmental expenses.

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

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

Sales and Marketing

	Three months ended December 31 2015	Three months ended September 30, 2015	(restated)Three months ended December 31, 2014
Sales and marketing	**$ 1,874,363**	$ 1,188,194	$ 1,902,242
As a percentage of revenue	**33%**	67%	41%

Sales and marketing includes the cost for customer support activities. The decrease in sales and marketing expenses in the three month period ended December 31, 2015 over the three months ended September 30, 2015 was due to decreased operating costs partially offset by higher compensation expenses due to increased revenue.

Research and Development

	Three months ended December 31, 2015	Three months ended September 30, 2015	(restated)Three months ended September 30, 2014
Research and development	**$ 43,351**	$ 31,744	$ 29,221
As a percentage of revenue	**1%**	2%	1%

Research and development expenses relate primarily to salaries and related benefit costs, as well as a portion of the Company's overall facilities costs. The Company is currently focused on developing complimentary products to align with the Company's VELscope® technology.

Administration

	Three months ended December 31, 2015	Three months ended September 30, 2015	(restated)Three months ended December 31, 2014
Administration	**$ 507,027**	$ 417,105	$ 406,830
As a percentage of revenue	**9%**	23%	7%

Administration expenses include executive and administrative staff salaries, facilities, investor relations, insurance, accounting and legal fees as well as various general administrative costs. The increase in administration expenses for the three months ended December 31, 2015 compared to the three months ended September 30, 2015 was primarily due to increased costs related to secondary equity raise and execution of second tranche of debentures as well as investor relation cost and due diligence spending relating directly to growing the company.

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

Other Operating Expenses (Income)

	Three months ended December 31, 2015	Three months ended September 30, 2015	Three months ended December 31, 2014
Stock based compensation	**$ 33,976**	$ 32,620	$ (110,905)
Depreciation of property, plant and equipment	**75,801**	37,843	115,499
Amortization of intellectual property	**6,451**	6,451	6,452
Warrants Issuance Costs	**44,858**	-	-
Mark to market adjustments on Canadian dollar denominated warrants	**-**	-	(291,423)
Foreign exchange (gain) loss	**100,072**	(38,977)	(81,354)
Interest expense	**32,363**	16,543	-
Total other operating expenses (income)	**$293,521**	$54,480	$(361,731)

During the three months ended December 31, 2015, other operating expenses increased from the three month period ended December 31, 2014 due to higher stock and warrant compensation expenses and absence of the mark to market adjustment on the Canadian warrants. This increase was partially offset by a decreased depreciation of Digital Imaging demonstration and sales equipment.

Net (Loss) Income and Comprehensive (Loss) Income

	Three months ended December 31, 2015	Three months ended September 30, 2015	Three months ended December 31, 2014
Net (loss) income and comprehensive (loss) income for the period	**$ (1,122,554)**	$ (1,361,769)	$ (513,128)
(Loss) income per share - basic and diluted	**$ (0.01)**	$ (0.01)	$ (0.01)

Net loss for the three months ended December 31, 2015 increased over the three months ended December 31, 2014 due to lower gross margins due to one-time adjustment to the Company's revenue recognition policy, higher Fx costs, interest expense and costs related to secondary equity raise and second tranche of debentures.

SELECTED ANNUAL INFORMATION

	Year ended December 31, 2015	**Year ended December 31, 2014 (restate)**	**Year ended December 31, 2013**
Revenue	**$ 13,135,007**	**$ 8,961,738**	**$ 2,519,574**
Operating income (loss)	**(5,199,975)**	**(5,702,404)**	**(3,640,885)**
Net Loss and comprehensive loss for the year	**(5,175,899)**	**(6,181,130)**	**(6,955,217)**
Loss per common share (basic and diluted)	**(0.06)**	**(0.08)**	**(0.13)**
Distributions/cash dividends declared	**-**	**-**	**-**

As at	**December 31, 2015**	**December 31, 2014**	**December 31, 2013**
Total assets	**$ 9,912,587**	**$ 7,787,160**	**$ 5,823,537**
Total non-current financial liabilities	**87,411**	**24,512**	**3,676,148**

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

See Financial Results section below for discussion on Revenue and Net Loss for the year. The decrease Net Loss and comprehensive loss for December 31, 2015 to December 31, 2013 was due to the increased revenue from LED's Digital product line and synergies with sales and marketing efforts between the product lines. The increase in Total Assets as at December 31, 2015 to December 31, 2013 was due to the increase in digital product inventory for installation in the first quarter 2016.

FINANCIAL RESULTS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2015

The following analysis of the results of operations for the twelve months ended December 31, 2015 includes comparisons to the twelve months ended December 31, 2014.

Revenue

Revenue is derived from the sale of specialized digital imaging products and the VELscope® product, related consumable products which are disposal components for singular use of the VELscope® product and our diverse digital imaging product line. Revenue is expressed net of sales and early payment discounts.

	Twelve months December 2015	Twelve months December 2014 (restated)
Total revenue	**$ 13,135,007**	$ 8,961,738

The Company has a non-exclusive distribution structure for the VELscope and implemented a direct sales and marketing team for the Company's Digital Imaging product line. During the twelve month period ended December 31, 2015, the Company increased its revenue by 47% compared to the same period in the prior year due to the increased sales growth within our digital product portfolio.

In each respective period, revenue from customers which amounted to 10% or more of the Company's revenue accounted for the following percentages of the Company's total revenue:

	Twelve months ended December 31 2015	**Twelve months ended** December 31 2014
Revenue	**$0**	$1,538,574
Percentage of total revenue	**0%**	16%

The decrease shows the company has significantly reduced risk associated with the dependency associated with a single customer attributing to a significant percentage of revenue.

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

Gross Margin

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

	Twelve months ended December 31, 2015	%	Twelve months ended December 31, 2014	%
Revenue	**$ 13,135,007**		$ 8,961,738	
Cost of sales	**9,561,060**		5,502,094	
Gross margin	**$ 3,573,947**	**27%**	$ 3,459,644	39%

The Company earned a 27% gross margin for the twelve months ended December 31, 2015, which is a decrease from the Company's gross margin for the twelve months ended December 31, 2014, due to a change in the revenue contribution between our VELscope and digital product lines.

Expenses

	Twelve months ended December 31, 2015	Twelve months ended December 31, 2014
Sales and marketing	**$5,995,539**	$6,277,891
Research and development	**189,873**	503,311
Administration	**2,082,781**	1,614,644
Stock-based compensation	**163,196**	598,641
Other operating expenses	**342,532**	167,561
Mark to market adjustments on Canadian dollar warrants	**(94,610)**	402,556
Foreign exchange loss (gain)	**25,724**	76,170
Interest expense	**48,906**	-
Total expenses	**$8,753,941**	$9,640,774
As a percentage of total net revenue	**71%**	98%

The decrease in expenses for the twelve months ended December 31, 2015 as compared to the twelve months ended December 31, 2014 was primarily due to a decrease in stock-based compensation, lower mark to market adjustments on Canadian dollar warrants and lower departmental expense spending.

Sales and Marketing

	Twelve months ended December 31, 2015	Twelve months ended December 31, 2014
Sales and marketing	**$5,995,539**	$6,277,891
As a percentage of revenue	**49%**	**64%**

The decrease in expense for the twelve months ended December 31, 2015 as compared to the twelve months ended December 31, 2014 was primarily due to lower headcount costs offset by higher commission expenses resulting from higher revenues. The Company has 19 sales and marketing employees, 18 of which are located in the United States and 1 is located in Canada.

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

Research and development

	Twelve months ended December 31, 2015	Twelve months ended December 31, 2014
Research and development	**$189,873**	$503,311
As a percentage of revenue	**2%**	**5%**

The Company has a small research and development group located in Canada. Research and development expenses relate primarily to salaries and related benefit cost and developing complimentary products for the VELscope product line.

Administration

	Twelve months ended December 31, 2015	Twelve months ended December 31, 2014
Administration	**$ 2,082,781**	$ 1,614,644
As a percentage of revenue	**17%**	16%

Administration expenses include executive and administrative staff salaries, facilities, public company costs, insurance, accounting and legal fees as well as various general administrative costs. The increase in administration expenses was primarily due to increased investor relations and professional fee spending relating to the company's growth strategies.

Other Operating Expenses (Income)

	Twelve months ended December 31 2015	Twelve months ended December 31 2014
Stock-based compensation	**$163,196**	$598,641
Depreciation of property, plant and equipment	**263,627**	141,756
Amortization of intellectual property	**$25,805**	$25,805
Finder's warrants issuance costs	**$53,100**	-
Mark to market adjustments on Canadian dollar denominated warrants	**(94,610)**	402,556
Foreign exchange gain (loss)	**25,724**	76,170
Interest expense	**48,906**	-
Total other operating expenses (income)	**$485,748**	$1,244,928

During the twelve months ended December 31, 2015, the Company experienced other income due to the mark to market adjustment on Canadian dollar denominated warrants and a foreign exchange gain. This was offset by interest expense on the Company's debentures and warrant issuance costs.

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

Net Loss and Comprehensive Loss	**Twelve months ended December 31, 2015**	Twelve months ended December 31, 2014
Net loss and comprehensive loss for the period	**$ (5,175,899)**	$ (6,181,130)
Loss per share - basic and diluted	**$ (0.06)**	$ (0.08)

During the twelve months ended December 31, 2015, the Company experienced a 10% decrease in net comprehensive loss compared to 2014 as the company increased revenues while leveraging departmental spending and utilizing cost efficiencies.

LIQUIDITY AND CAPITAL RESOURCES

The Company finances its operations and capital expenditures through cash generated from operations and equity financings. As at December 31, 2015, the Company had cash of $1,987,409 and Net Working Capital of $744,501 as compared to cash of $2,396,994 and working capital of $1,653,061 as at December 31, 2014.

Cash (used in) provided by:	**Twelve months ended December 31, 2015**	Twelve months ended December 31, 2014
Operating activities	**$ (5,078,306)**	$ (4,175,734)
Investing activities	**(281,577)**	(530,529)
Financing activities	**4,930,524**	2,981,013
Foreign exchange effect on cash	**19,774**	(236,742)
Net decrease in cash	**$ (409,585)**	$ (1,961,992)

Cash used in operating activities for the period ended December 31, 2015 was attributable to the Company's net loss, increases in inventory offset by higher trade payables and accrued liabilities relating largely to inventory.

The investing activities during the twelve months ended December 31, 2015 were primarily due to an increased number of sales demo units to support the Company's marketing programs.

The financing activities during the twelve months ended December 31, 2015 relate to the proceeds from the Company's February 2015 and November 2015 private share placement, the exercise of the Company's warrants by shareholders and the issuance of 10% Senior Debentures.

STAFFING LEVELS

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

	As at December 31, 2015	**As at September 30, 2015**	**As at December 31, 2014**
Sales and marketing	19	17	20
Research and development	1	1	1

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

Sales support	9	7	9
Administration	7	4	4
Total	**36**	**29**	**34**

COMMITMENTS AND CONTINGENCIES

The Company continues to have no bank debt, off-balance sheet financing arrangements or significant capital leases. The Company has leased facilities in Canada and the USA. Minimum lease payments as of December 31, 2015 are $1,038,736.

On April 28, 2015, Daniel J. Edelman Inc. ("Edelman") filed a civil claim for alleged unpaid invoices against LED Medical Diagnostics Inc. and LED Dental Inc. ("LED"). Edelman alleges a contract of service dated December 21, 2011, wherein Edelman would perform public relations services on a contract rate of pay and would prepare and deliver a monthly invoice for LED representing the agreed services provided and expenses incurred by Edelman.
Edelman claims that per the contract between the parties, they had delivered monthly invoices to LED representing services rendered, expenses incurred by Edelman and accumulated late fees, the sum of which that has not been paid by LED amounts to CAD $110,792.89 despite demand and given all just discounts. LED has filed a response to the civil claim, denying liability.

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 which are controlled by these individuals as well as certain persons performing similar functions.

During the three months and twelve months ended December 31, 2015 and 2014, the Company paid or accrued the following compensation expenses to key personnel of the Company:

Cash used in:	Three months ended December 31, 2015	Twelve months ended December 31, 2015
Short-term compensation*	$ 155,116	$ 709,731
Share-based payments	$ 43,534	$ 93,722

During the three months ended December 31, 2015, no options were awarded to directors and key management under the Company's stock option plan.

PROPOSED TRANSACTIONS

None.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's management makes judgments in its process of applying the Company's accounting policies in the preparation of its condensed interim consolidated financial statements. In addition, the preparation of the financial data requires that the Company's management make assumptions and estimates of the impacts from uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates and the resulting impacts on the carrying amounts of the Company's assets and liabilities are accounted for prospectively. The critical judgments and estimates applied in the preparation of the Company's condensed interim consolidated financial statements for the three months and twelve months ended December 31, 2015 are consistent with those applied and disclosed in note 3 to the Company's audited consolidated financial statements for the year ended December 31, 2014.

New Standards and Interpretations Not Yet Effective

Standards issued but not yet effective up to the date of issuance of the Company's condensed interim consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company is currently assessing the impact of the following standards on the condensed interim consolidated financial statements and intends to adopt these standards when they become effective.

IFRS 9 – Financial Instruments

IFRS 9 replaces the current IAS39 - Financial Instruments Recognition and Measurement. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. The standards is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programs, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions involving Advertising Services. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

IFRS 16 – Leases

In January 2016, the IASB released IFRS 16 *Leases*, completing its long-running project on lease accounting. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (the lessee and the lessor).

All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, from the perspective of the lessee, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 *Leases* and, instead, introduces a single lessee accounting model. When applying that model, a lessee is required to recognize:

- assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- depreciation of lease assets separately from interest on lease liabilities in the income statement.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early application permitted. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements

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

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

Classification of financial instruments

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

Financial Assets		**As at December 31, 2015**		As at December 31, 2014
Cash and cash equivalents				
Cash	$	1,987,409	$	2,396,994
Receivables		1,565,853		1,373,693
Total	**$**	**3,553,262**	$	3,770,687

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

Financial Liabilities		**As at December 31, 2015**		As at December 31, 2014
Non-derivative financial liabilities				
Trade payable and Accrued liabilities	$	6,685,719	$	4,301,950
Deferred Revenue		746,242		1,124,621
Warrants		-		162,872
Debenture		1,246,338		-
Current portion of finance lease obligation				3,190
Total	**$**	**8,678,299**	$	5,592,633

Fair value

The fair value of the Company's financial assets and liabilities approximates their carrying amount.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

As at December 31, 2015, the Company no longer measures any assets at an estimated fair value.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risks arising from its cash and restricted cash and receivables. The Company manages credit risk by placing cash with major Canadian financial institutions. With respect to receivables, the Company performs ongoing credit evaluations of its customers' financial condition.

The Company monitors collectability of receivables on an on-going basis to determine credit risk. 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, 2015, no accounts receivable are due beyond one year.

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

As at December 31, 2015 and December 31, 2014, the Company's exposure to credit risk for these financial instruments was as follows:

Credit Risk		As at December 31, 2015		As at December 31, 2014
Cash	$	1,987,409	$	2,396,994
Receivables		1,565,853		1,373,693
Total	**$**	**3,553,262**	$	3,770,687

Trade accounts receivable balances of $1,565,853 as at December 31, 2015 (December 31, 2014 - $1,373,693) were aged as follows in the below table.

Accounts Receivable Aging		As at December 31, 2015		As at December 31, 2014
Current	$	1,267,418	$	864,403
31 - 60 days		18,946		136,083
Over 60 days		279,489		331,969
Total accounts receivable	**$**	**1,565,853**	$	1,332,455
Goods and services tax receivable		16,195		41,238
Total Accounts Receivable less taxes receivable	**$**	**1,582,048**	**$**	**1,373,693**

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company manages its liquidity risk associated with its financial liabilities through the use of cash flow generated from operations, and the issuance of additional equity primarily through private placements, as required to meet the payment requirements of maturing financial liabilities.

The contractual maturities of the Company's trade payables as at December 31, 2015 are listed below.

Trade payables were aged as follows as at December 31, 2015 and December 31, 2014 and does not include accrued liabilities, warranty provision and state and provincial sales tax payable of which are all current:

Accounts Payable Aging		As at December 31, 2015		As at December 31, 2014
Current	$	2,062,258	$	1,909,252
31 - 60 days		2,573,223		569,931
Over 60 days		493,095		841,659
Total	**$**	**5,128,576**	$	3,320,842

The following is an analysis of the contractual maturities of the Company's non-derivative accrued liabilities as at December 31, 2015:

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

Contractual Maturities		Within one year		Between one and five years
Trades Payable and Accrued liabilities	$	8,678,299	$	-
Total	**$**	**8,678,229**	$	-

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

Interest rate risk

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

Due to the limited and short term nature of these financial instruments, fluctuations in the interest rates will not have a significant impact on their fair value. As at December 31, 2015, the Company had not entered into any derivative contracts to manage this risk.

Currency risk

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

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

DISCLOSURE OF OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares, without par value and an unlimited number preference shares without par value. As of December 31, 2015, the Company has 112,319,063 common shares outstanding and no preference shares outstanding.

The Company has instituted a rolling incentive stock option plan whereby shares reserved for issuance under the plan shall reflect 10% of the issued and outstanding common shares of the Company from time to time. As of December 31, 2015, the Company is entitled to grant incentive stock options for 11,231,906 common shares under the Company's stock option plan with a total of 7,160,000 options being issued and outstanding and has issued 710,000 deferred share units under the Company's Deferred Share Unit Plan. The Company also has 34,026,130 warrants outstanding.

SUBSEQUENT EVENTS

On February 5, 2016, the company issues 3,225,000 stock options priced at $0.125 USD ($0.18 CAD) to its Directors, Officers and Employees. Vesting terms are immediate to three and one half years from issuance.

RISKS AND UNCERTAINTIES

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

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

History of Losses

The Company has a history of losses, and there can be no assurance that the Company's losses will not continue in the future. As at December 31, 2015, the Company had an accumulated deficit of $47 million. The Company's prospects must be considered in the context of its stage of development, the risks and uncertainties it faces, and the inability of the Company to accurately predict its operating results in the results of product development and sales and marketing initiatives. There can be no assurances that implementation of the Company's strategies will result in the Company becoming profitable. The Company uses cash raised in equity markets to partially fund working capital. If adequate funds are not available when required or on acceptable terms, the Company may be required to delay, scale back or terminate its product development activities and sales and marketing efforts, and may be unable to continue operations. There can be no assurance that the Company will be able to obtain the additional financial resources required to compete in its markets on favorable commercial terms or at all. Any equity offering may result in dilution to the ownership interests of shareholders and may result in dilution of the value of such interests. The availability, or lack thereof, of bank credit, additional supplier credit, or additional equity investment could adversely affect the Company's ability to meet its business objectives. Recent market events and conditions, including disruptions in the Canadian and international credit markets and other financial systems and the deterioration of the Canadian and global economic conditions, could, among other things, impede access to capital or increase the cost of capital, which would have an adverse effect on the Company's ability to fund its working capital and other capital requirements. The Company's access to additional capital may not be available on terms acceptable to the Company or at all.

Operational Risk

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

Distributor Risks

LED distributes its 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

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

Management's Estimates

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

Regulatory Requirements

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

Reliance on Suppliers

The Company has a limited number of suppliers for the raw materials required for its products. A dispute with one of these suppliers, or adverse changes in the business of the suppliers may have a negative impact on the business, operating results and financial condition of the Company if it is unable to source comparable raw materials from alternate sources at competitive rates. Reliance on key distribution partners whose products the Company resells/distributes as part of its new imaging produce offering. The Company has agreements with its manufacturer distribution partners that have termination for convenience provisions of various time frames. In the event a termination notice is received from a key supplier and the Company is not able to reach an agreement with an alternative supplier in a timely manner. This could result in a material adverse effect on the Company's product offering and recognized revenue.

Dependence on a Limited Number of Third Party Product Vendors

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

Reliance on Subcontractors

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

The Company May Not Realize the Benefits Currently Anticipated

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

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

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

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

Assuming that all other variables remain constant, a 10% change in the value of the Canadian dollar against the US dollar would not materially affect the loss from operations. All sales and cost of sales are in US$ with a large majority of operating expenses are also in US$.

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

	December 31, 2015	December 31, 2014
	CDN	CDN
Cash	871,646	100,866
Account Receivable	70,449	65,237
Trade payable and accrued liabilities	(340,513)	(604,200)
Net statement of financial position exposure	**(601,582)**	(438,097)

Taxation

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

Worsened General Economic Conditions

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

Additional Financing

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

Canadian and global economic conditions, could, among other things, impede access to capital or increase the cost of capital, which would have an adverse effect on the Company's ability to fund its working capital and other capital requirements. The Company's access to additional capital may not be available on terms acceptable to the Company or at all.

Research and Development

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

Stock Price Volatility

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

Product Development and Technological Change

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

Sales and Marketing and Strategic Alliances

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

Dependence on a Small Number of Customers

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

Intellectual Property Protection

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

Competition

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

Potential Fluctuations in Quarterly Results

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

Dependence on Key Personnel

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

Acquisitions

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

Product Liability and Medical Malpractice Claims

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

Future Share Sales

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

Management of Growth

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