LED MEDICAL DIAGNOSTICS INC.

**Chief Executive Officer Letter**

Dear Fellow Shareholders,

I am pleased to report that Q3 was a breakeven quarter with EBITDA from operations for the three months ended September 30, 2017 at (US$58,673). Revenues in Q3 declined over the prior quarter due to the lower sales seasonality typically seen in the summer months as well as a dip in Apteryx software revenues attributed to a reduction in sales of our perpetual license software as we transition to our cloud based XV Web software as a service (SaaS) subscription model.

Our renewed focus on high margin repeatable revenues is starting to pay off as we witness a growing number of subscriptions for our cloud based imaging service XV Web. We are happy with the market response to XV Web to date and have high expectations that XV Web will be a solid revenue contributor in the months to come while providing a smoothing effect on revenue seasonality that we have seen historically in previous quarters with imaging device sales.

VELscope revenues were negatively impacted this quarter by slower than anticipated adoption of VELscope handpieces by our Chinese distribution partner as well as from a transition from a direct to a distributed sales model in the US and Canadian market. This was offset in part by an increase in VELscope disposable sales recurring revenue.

Blended Gross Margins were 65% in Q3 (US$2.1M), improved from 57% in Q2 FY17 and up from 25% in Q3 2016. Gross margins were positively impacted by a changing product sales mix which included greater contribution from software sales, Tuxedo intraoral sensors and early revenue contributions from software maintenance and support.

## Financial Highlights

- Net revenue for the three months ended September 30, 2017 was US$3.2 million which is a 14% decrease in revenues from the three months ended June 30, 2017 and a 28% increase from the three months ended September 30, 2016.
- The net loss before tax for the three months ended September 30, 2017 was US$1,447,713 compared to the net loss before taxes for the three months ended September 30, 2016 of US$855,484. The net loss for the three months ended September 30, 2017 was largely due to a significant decrease in the fair market value of the Company's Canadian dollar denominated warrants as well as losses resulting from normal business operations. The decrease in the fair market value of the Canadian dollar warrants is an accounting adjustment with no impact on cash flow.
- Cash flow used in operations was US$2.7 million during the nine months ended September 30, 2017 compared to cash flow used in operations of US$1.8 million during the nine months ended September 30, 2016. There were inflows from financing for the nine months ended September 30, 2017 of US$13.6 million as compared to US$273,350 cash inflows from the financing

activities for the nine months ended September 30, 2016. The cash outflows from investments of US$10.2 million were attributed to the purchase of Apteryx, Inc. The Company had cash at September 30, 2017 of US$1,120,345.

- On October 30, 2017 (the "closing date"), the Company issued 250 senior secured debentures with a principle amount of CDN $2,500,000 (US$1,938,690), maturing 24 months from the closing date. Each unit consists of a debenture in principal in the amount of CDN $10,000 and 21,250 common shares of the company and is attached with a 12% coupon. The Company issued 888,000 broker warrants (the "Broker's Warrants") to arm's length brokers. Each Broker's Warrant is non-transferrable and exercisable at an exercise price of CDN $0.10 at any time up to and including the date which is 24 months from the closing date. Transaction costs associated with this issuance were CDN $232,031.65 (US$179,935) and have been netted against the debenture proceeds received. Certain insiders of LED, including a director and officer, acquired units in the offering.

Nine months after the acquisition of Apteryx we continue to work to explore new business opportunities while continuing to refine our organization and optimize our cost structure. Our sales and marketing initiatives now includes Dental Support Organizations which are growing at an impressive rate as well as government agencies, some of which now represent some of our biggest accounts.

Recently the Company announced a 10:1 consolidation of our share capital anticipated to take place before year end. The increased share price post consolidation is expected to help our Company by making it more attractive to institutional investors and is expected to make it easier for us to attract and do business with Dental Support Organizations, government agencies and other large corporate customers, while more accurately reflecting the size and potential of our business.

Thank you for your interest in our Company, our products, and our services.

Sincerely,

Dr. David Gane
Chief Executive Officer
November 27, 2017

*Please refer to the risk factors and forward-looking statements included in the Company's Management's Discussion & Analysis for the three months ended September 30, 2017 filed by the Company on Sedar.*