

IMAGING DYNAMICS COMPANY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2023



Your Global Medical Imaging Technology Provider

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

As at April 26, 2024

General

Imaging Dynamics Company Ltd. (the "Company" or "IDC") is a medical technology company in the field of Digital Radiography ("DR") equipment. IDC offers a family of products, which can be found in many leading medical and healthcare facilities, throughout the world. IDC was founded in May 1995 and maintains its corporate headquarters in Toronto, Ontario, Canada. IDC has subsidiary in USA, Euro and Hongkong. IDC is a publicly traded company incorporated under the laws of the Province of Alberta. The Company is listed on the TSX Venture Exchange ("TSXV"), trading under the symbol "IDL".

The Company's technology produces digital diagnostic images. It replaces the need for film and chemical film processing, as well as reduces storage and retrieval costs normally associated with traditional X-ray technology.

The information included in this document should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2023 and related notes to the consolidated financial statements. The financial information contained in this document is derived from the Company's consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). For additional information and details, readers are referred to the quarterly and annual consolidated financial statements and MD&A for the fiscal years 2022 and 2023 all of which are published separately and are available at www.sedarplus.ca. Additional information relating to the Company may be found on the Company's web site: www.imagingdynamics.com.

Advisory regarding Forward-Looking Statements

This MD&A is intended to provide readers with the information that management believes is required to gain an understanding of IDC's current results and to assess the Company's future prospects. This MD&A contains certain forward-looking information (collectively referred to herein as "forward-looking statements") within the meaning of Canadian securities laws. All statements other than statements of historical fact are forward-looking statements. Forward-looking information typically contains statements with words such as "anticipate", "believe", "plan", "continuous", "estimate", "expect", "may", "will", "project", "should", or similar words suggesting future outcomes. In particular, this MD&A may contain forward-looking statements including, but not limited to the following:

- revenues;
- cost of sales;
- sales and marketing expenses;
- general and administration expenses;
- production/manufacturing expenses;
- research and development expenses;
- foreign exchange (gain) loss;
- warranty;
- bad debts;
- amortization;
- inventory;
- accounts receivable;
- short term borrowing;
- sources of funding;
- convertible debentures.

Undue reliance should not be placed on forward-looking statements, which are inherently uncertain, are based on estimates and assumptions, and are subject to known and unknown risks and uncertainties (both general and specific) that contribute to the possibility that the future events or circumstances contemplated by the forward-looking statements will not occur.

There can be no assurance that the plans, intentions or expectations upon which forward-looking statements are based will in fact be realized. Actual results will differ, and the difference may be material and adverse to the Company and its shareholders.

Forward-looking statements are based on the Company's current beliefs as well as assumptions made by, and information currently available to, the Company concerning anticipated financial performance, business prospects, strategies, regulatory developments, future demand for digital radiography products, competition, product pricing, cost of goods and external financing options. Although management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

By their very nature, forward-looking statements involve inherent risks and uncertainties (both general and specific) and risks that forward-looking statements will not be achieved. These factors include, but are not limited to: risks associated with competition, financial risks, substantial capital requirements, bank financing, government regulation, environmental, prices, markets and marketing, dependence on key personnel, dependence of key and single source vendors, risks may not be insurable, management of growth, expiration of licenses and patents, seasonality, conflicts of interest, issuance of debt, title to patents and property, variations in foreign exchange rates. Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive.

Certain statements in the MD&A, other than statements of historical fact, may include forward-looking information that involves various risks and uncertainties. These can include, without limitation, statements based on current expectations involving a number of risks and uncertainties related to all aspects of the medical imaging industry. These risks and uncertainties include, but are not limited to, continued increased demand for the Company's products, the Company's ability to maintain its technological and competitive advantages in the field of digital radiography, the Company's ability to attract and retain key employees, the enforceability of the Company's patents, the Company's ability to raise capital on acceptable terms when needed, and the availability of key components. These uncertainties may cause actual results to differ from information contained herein. There can be no assurance that such statements will prove to be accurate. Actual results and future events could differ materially from those anticipated in such statements. These forward-looking statements are based on the estimates and opinions of Management on the dates they are made and are expressly qualified in their entirety by this notice. The reader is cautioned not to rely on these forward-looking statements. The Company will provide appropriate periodic updates to forward-looking statements should circumstances or Management's estimates or estimates or opinions change.

All dollar amounts are in Canadian Dollars unless otherwise stated.

In this MD&A, we may describe certain income and expense items that are unusual or non-recurring. These terms are not defined by IFRS. Our usage of these terms may vary from the usage adopted by other companies. We provide this detail so that readers have a better understanding of the significant events and transactions that have had an impact on our results. In addition, terms such as income

before interest, taxes, depreciation and amortization (“EBITDA”) and backlog are not defined by IFRS, and our use of such terms or measurement of such items may vary from that of other companies. Where relevant, and particularly for earnings-based measures, we provide tables in this document that reconcile non-IFRS measures used to amounts reported on the face of the consolidated financial statements.

Executive Summary

Management continues to work on a new strategy to grow the business and work towards profitability.

The mix of sales is shifting to flat panel DR systems versus CCD's and related parts.

Accounts receivable balances contains the allowance for doubtful accounts.

Goals and outlook

The consolidated financial statements of the Company have been prepared by Management in accordance with IFRS applicable to a going concern, which assumes that the Company will realize the carrying value of its assets and satisfy its obligations as they become due in the normal course of operations.

The executive team, along with the Board, continues to work on the strategy to grow the business and work towards profitable operations. The Company continues to work towards developing new strategic business relationships globally, to look at potential strategic business acquisition opportunities, develop new products and to secure new sales. The Company will also work on developing new medical device business categories that are complementary to its business and take advantage of the Company's global brand and distribution network. The Company has also been working to develop new markets and obtain further product certifications.

Liquidity and Capital Resources

At December 31, 2023, the Company had negative working capital of \$3,878,274 (negative working capital of \$2,842,134 at December 31, 2022), cash flows used from operating activities for the year of \$838,658 (year ended December 31, 2022 - \$697,211) and a net loss of \$1,016,954 (year ended December 31, 2022 net loss – \$595,047) and a deficit at December 31, 2023 of \$115,604,743 (December 31, 2022 deficit – \$114,587,789).

The ability of the Company to continue as a going concern will depend on attaining a satisfactory revenue level, the generation of cash from operating activities, and the ability to secure additional new financing arrangements and new capital, and the economic recovery of the Canadian, and the rampant inflation since late 2022. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds.

The Company will seek to raise additional capital through equity markets, debt markets or other innovative financing arrangements, including partnership or licensing arrangements that may be available for continued operations. Material uncertainties may cast significant doubt on the Company's ability to continue as a going concern. Although, in the opinion of management, the use of the going concern assumption is appropriate, there can be no assurance that any steps management is taking will be successful. These consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, revenues, expenses and the balance sheet classifications that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

The Company's cash and cash equivalents totaled \$118,567 (compared to \$28,365 at December 31, 2022), an increase from the cash balance of \$90,202 available at December 31, 2022. Funds were used for funding working capital to support increases sales, and overhead expenses in anticipation of future demand for cash.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development and sales of its digital imaging products and medical devices and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes the components of shareholders' equity and the Convertible Debentures proceeds.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets to adjust the amount of cash and cash equivalents.

Fourth Quarter and Annual 2023 Results

- Gross revenues for the three months ended December 31, 2023 decreased by 63 percent and twelve months ended December 31, 2023 decreased 54 percent respectively compared to the same periods in 2022. Gross revenues for the three and twelve months ended December 31, 2023 were \$28,301 and \$103,647, compared to \$76,285 and \$223,404 respectively in the same periods of 2022.
- Gross loss for the three months and Gross margins for twelve months ended December 31, 2023 were \$8,201 (-29 percent) and \$48,094 (46 percent) compared to \$60,012 (79 per cent) and \$156,981 (70 percent) respectively, for the same periods in 2022.
- Expenses (sales, general and administrative, and research and development expenses) for the year ended December 31, 2023 were \$932,337, compared to \$836,504 in 2022.
- Net loss for the three months ended December 31, 2023 was \$279,958 (\$0.03 per share) and net loss for the twelve months ended December 31, 2023 was \$1,016,954 (\$0.10 per share) compared to a net income of \$ 172,405 (\$0.03 per share) and net loss of \$595,047 (\$0.06 per share) in the same periods of 2022 on a post-consolidated basis.
- Trade accounts receivable includes **\$11,944** owing from customers with \$6,283 past due in 31 – 60 days, **\$635 past due 61-90 days** and **\$5,026** past due **91+** days. The Company recorded a total allowance for doubtful accounts of \$4,220 which has been netted against trade receivables.
- Trade and other payables increased from \$352,914 at December 31, 2022 to \$505,658 at December 31, 2023. This increase is mainly due to unpaid invoices from suppliers.

Overall Performance

Trade and other receivables

Trade and other receivables increased to \$7,724 at the end of December 31, 2023 compared to \$6,928 at the end of December 31, 2022 due to some customers have agreements with company regarding the payment period.

Most of the Company's distribution partners have income streams from various sources and have an established history of providing goods and services to the health care industry. The Company does not usually sell to the end user and as such has limited recourse in collecting any delinquent balances. In cases where collection is in question, the Company has the ability to withhold both warranty support or warranty parts to a dealer that has not paid, remove the dealer as a qualified Company dealer, as well as any and all legal recourse measures.

Trade accounts receivable includes \$11,944 owing from customers with \$6,283 past due in 31 – 60 days, \$635 past due 61-90 days and \$5,026 past due 91+ days. The Company recorded a total allowance for doubtful accounts of \$4,220 which has been netted against trade receivables. Given this business practice, the Company currently believes its allowance for doubtful accounts is adequate but continues to monitor its outstanding receivables.

Inventory

The inventory value of \$20,137 at December 31, 2023. Inventory included \$3,697 of purchased components and \$16,440 of finished goods. The Company recorded an allowance for inventory obsolescence of \$22,583.

Prepaid expenses

The prepaid expenses are \$17,890 at December 31, 2023 which includes the facility rental deposit and prepaid regulatory expense.

Revenues

	Three months ended December 31,		Year ended December 31,	
	2023	2022	2023	2022
Total revenues	\$ 28,301	\$ 76,285	\$ 103,647	\$ 223,404
Percentage change from corresponding prior year period	-63%	242%	-54%	-12%

Gross revenues for the three months ended December 31, 2023 decreased by 63 percent and twelve months ended December 31, 2023 decreased 54 percent respectively compared to the same periods in 2022. Gross revenues for the three and twelve months ended December 31, 2023 were \$28,301 and \$103,647, compared to \$76,285 and \$223,404 respectively in the same periods of 2022.

Gross Profit

	Three months ended December 31,		Year ended December 31,	
	2023	2022	2023	2022
Gross profit (loss)	\$ (8,201)	\$ 60,012	\$ 48,094	\$ 156,981
Percentage of sales	-29%	79%	46%	70%

Gross loss for the three months and Gross margins for twelve months ended December 31, 2023 were \$8,201 (-29 percent) and \$48,094 (46 percent) compared to \$60,012 (79 per cent) and \$156,981 (70 percent) respectively, for the same periods in 2022.

Expenses - Sales and marketing, General and Administration and Research and development (SAR)

	Three months ended December 31,		Year ended December 31,	
	2023	2022	2023	2022
Expenses- SAR	\$ 275,209	\$ 81,751	\$ 932,337	\$ 836,504
Percent of sales	972%	107%	900%	374%

SAR consist principally of salaries and other costs associated with the Company's sales force and marketing activities and administration. Marketing expense is in the form of advertising, promotions, travel and post-sales support and service for sales and marketing.

Expenses (sales, general and administrative, and research and development expenses) for the year ended December 31, 2023 were \$932,337, compared to \$836,504 in 2022.

Foreign Exchange (Gain) / Loss

	Three months ended December 31,		Year ended December 31,	
	2023	2022	2023	2022
Foreign exchange loss (gain)	\$ (65,324)	\$ (9,027)	\$ (55,565)	\$ 141,545
Percentage of sales	-231%	-12%	-54%	63%

During the three and twelve months periods ended December 31, 2023, the Company incurred a foreign exchange gain of \$65,324 and \$55,565, compared to foreign exchange gain of \$9,027 and capital loss of \$141,545, respectively for the same periods in 2022. The main reason for the change year over year is exchange rate change and does not have the ability to hedge. The foreign exchange loss was impacted as a result of the Canadian dollar increasing versus the USD. The principal currencies to which the Company is exposed are the US dollar in 2023.

The Company did not enter into any foreign currency forward contracts during 2023 and 2022. The Company endeavors to maintain a natural hedge between receivables and payables denominated in US dollars. The Company is limited in the amount of forward contracts into which it can enter. As at December 31, 2023, the Company had no outstanding forward contracts.

Warranty Expense / (Recovery)

	Three months ended December 31,		Year ended December 31,	
	2023	2022	2023	2022
Warranty expense (recovery)	\$ (17,030)	\$ (2,371)	\$ (13,201)	\$ 4,864
Percentage of sales	-60%	-3%	-13%	2%

An estimate of warranty claims is recognized at the time of sale and a liability is set up on the balance sheet. Cost of parts issued under warranty is adjusted against the warranty provision and on expiry of the warranty period the unused warranty provision is recognized as a warranty recovery on the consolidated statement of operations and comprehensive loss.

In 2023, the Company recorded a net warranty recovery of \$13,201 compared to a warranty expense of \$4,864 in 2022.

Share-based payments

Stock based payments expense for 2023 and 2022 was \$nil. There were no stock option grants in 2023. Because past granted stock options vested immediately, there were no period costs for stock based compensation recorded in 2023.

Bad debts expense

	Three months ended December 31,		Year ended December 31,	
	2023	2022	2023	2022
Bad debts expense (recoveries)	\$ 4,220	\$ -	\$ 4,220	\$ -
Percentage of revenue	15%	0%	0%	0%

The Company record \$4,220 bad debt expense in 2023 compared to the bad debt expense of \$nil in year 2022.

Depreciation and Amortization

	Three months ended December 31,		Year ended December 31,	
	2023	2022	2023	2022
Depreciation and amortization	\$ 20,976	\$ 19,349	\$ 73,541	\$ 77,195
Percentage of sales	74%	25%	71%	35%

The Company recognize its new facility lease assets under IFRS 16 in December 2021 and amortize the lease asset in 2022 and 2023.

Recovery of trade and other payables

	Three months ended December 31,		Year ended December 31,	
	2023	2022	2023	2022
Recovery of trade and other payables	\$ -	\$ 380,298	\$ -	\$ 380,298
Percentage of sales	0%	499% 	0%	170%

The Company realized the recovery of trade and other payables in 2022, which includes \$318,000 of accrued wages payable and \$62,298 of trade payables. The accrued wages were initially recorded in 2011, in 2017 in connection with legal claims related to terminations, the case against the Company was dropped without costs. The trade payables are from 2014 and the Company has had no contact with the vendor since 2018. The Company recorded \$380,298 recovery of trade and other payables in 2022. The Company didn't record any recovery of trade and other payables in 2023.

Interest	Expense			
	Three months ended December 31,		Year ended December 31,	
	2023	2022	2023	2022
Interest expense	\$ 75,529	\$ 44,609	\$ 188,276	\$ 154,277
Percentage of sales	267%	58%	182%	69%

Interest expenses for the three and twelve months ended December 31, 2023 was \$52,113 and \$188,276, respectively, compared to interest expense of \$44,609 and \$154,277 for the same periods in 2022. The increase in interest expense for 2023 relates to the USD Promissory Notes borrowed from the directors. The Company entered into USD Promissory Notes (annual interest rate 6% and due on demand) with its directors in 2023 and 2022.

Net Profit (Loss)

	Three months ended December 31,		Year ended December 31,	
	2023	2022	2023	2022
Net profit (loss)	\$ (279,958)	\$ 172,405	\$ (1,016,954)	\$ (595,047)

Net loss for the three months and twelve months ended December 31, 2023 was \$279,958 (\$0.03 per share) and \$1,016,954 (\$0.10 per share) compared to a net profit of \$ 172,405 (\$0.02 per share) and net loss of \$595,047 (\$0.06 per share) in the same periods of 2022 on a post-consolidated basis.

Share capital

The Company's shares trade on the TSX Venture Exchange under the symbol IDL.

Common shares outstanding and dilutive instruments as at the date hereof are as follows:

	April 29, 2024	December 31, 2023	December 31, 2022
Common shares outstanding	10,334,550	10,334,550	10,334,550
	10,334,550	10,334,550	10,334,550

Selected Annual Information

As at December 31,	2023	2022	2021
Cash and cash equivalents	\$ 118,567	\$ 28,365	\$ 48,111
Current assets	187,590	74,743	107,378
Total assets	361,663	306,163	412,465
Total liabilities	4,147,197	3,074,743	2,585,998
Working capital (deficiency)	(3,878,274)	(2,842,134)	(2,233,344)
For the year ended December 31,	2023	2022	2021
Revenue	\$ 103,647	\$ 223,404	\$ 253,325
Gross profit	48,094	156,981	122,091
Gross profit percentage	46.40%	70.27%	48.20%
Net income (loss)	(1,016,954)	(595,047)	(693,744)
Net comprehensive income (loss)	(1,016,954)	(595,047)	(693,744)
Basic and diluted income (loss) per share (*)	\$ (0.10)	\$ (0.06)	\$ (0.07)
Weighted average common shares outstanding (*)	10,334,550	10,334,550	10,334,550

Selected Quarterly Information

The following selected financial data has been extracted from the unaudited interim consolidated financial statements, prepared in accordance with IFRS, for the fiscal periods indicated and should be read in conjunction with those audited financial statements

As at	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023
Cash and cash equivalents	\$118,567	\$80,603	\$42,332	\$123,141
Current assets	187,590	136,812	92,552	197,861
Total assets	361,663	328,060	295,292	411,732
Total liabilities	4,147,197	3,833,636	3,489,648	3,408,604
Working capital (deficiency)	(3,878,274)	(3,595,263)	(3,276,078)	(3,070,949)
For the three months ended	December 31, 2021	June 30, 2023	June 30, 2023	March 31, 2023
Revenues	\$28,301	\$3,980	\$15,471	\$55,895
Gross profit (loss)	(8,201)	2,576	6,188	47,531
Gross profit percentage	-29.0%	64.7%	40.0%	85.0%
Net loss	(279,958)	(311,220)	(197,484)	(228,292)
Net Comprehensive loss	(279,958)	(311,220)	(197,484)	(228,292)
Basic and diluted loss per share	\$ (0.03)	\$ (0.03)	\$ (0.02)	\$ (0.02)
Weighted average common shares outstanding (*)	10,334,550	10,334,550	10,334,550	10,334,550
As at	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022
Cash and cash equivalents	\$28,365	\$45,396	\$54,279	\$34,413
Current assets	74,743	97,196	105,155	64,662
Total assets	306,163	347,965	375,273	352,202
Total liabilities	3,074,743	3,288,950	2,994,940	2,690,356
Working capital (deficiency)	(2,842,134)	(2,990,840)	(2,672,208)	(2,395,100)
For the three months ended	December 31, 2021	September 30, 2022	June 30, 2022	March 31, 2022
Revenues	\$76,285	\$49,196	\$53,659	\$44,264
Gross profit	60,012	34,134	43,848	\$18,987
Gross profit percentage	78.7%	69.4%	81.7%	43%
Net loss	172,405	(321,318)	(281,513)	(164,621)
Net Comprehensive loss	172,405	(321,318)	(281,513)	(164,621)
Basic and diluted loss per share (*)	\$ 0.02	\$ (0.03)	\$ (0.03)	\$ (0.02)
Weighted average common shares outstanding (*)	10,334,550	10,334,550	10,334,550	10,334,550

Related Party Transactions

Related party transactions are documented in detail in the financial statements. For the year ended December 31, 2023, refer to details of related party transactions in note 17 to financial statements.

Off-Balance Sheet Arrangements

At the date of this report, the Company had no off-balance sheet arrangements.

Financial Instruments and Other Instruments

The risk of financial instruments and other instruments is documented in detail in the financial statements. For the year ended December 31, 2023, refer to detail of financial risk management in note 20 to financial statements.

Risk Factors

In the normal course of business, the Company's operations are 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.

The activities of the Company are subject to ongoing operational risks including the performance of key suppliers, product performance, governmental and other industry regulations, operating in foreign countries and reliance on information systems, all of which may affect the ability of the Company 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.

a) Impact of Current Economic Environment

The Company may experience increased price pressure and other competitive pressures as customers adjust to the current environment. The Company also expects that the global economic environment will impact the financial condition of some of the Company's customers and suppliers. The Company will continue to closely monitor its customers' ability to pay their receivables and monitor the Company's suppliers in an effort to ensure consistency of supply. The interruption of supply from a supplier, especially for single sourced components, could have a significant impact on the Company's operations and its customers, if the Company is unable to deliver finished product in a timely manner.

b) Risks Related to Current Global Financial Markets

The Company is subject to counter-party risk and liquidity risk. The Company is exposed to various counter-party risks including, but not limited to: (i) through financial institutions that hold the Company's cash; (ii) through customers, dealers, distributors and OEM's that have payables to the Company; (iii) through the Company's insurance providers; (iv) through the Company's lenders; and (v) through companies that have received deposits from the company for the future delivery of parts for the company's products. The Company is also exposed to liquidity risks in meeting its operating expenditure requirements in instances where cash positions are unable to be maintained or appropriate financing is unavailable. These factors may impact the ability of the Company to obtain loans and other credit facilities in the future and, if obtained, on terms favorable to the Company. If these increased levels of

volatility and market turmoil continue, the Company's planned growth could be adversely impacted and the trading price of the Company's securities could also be adversely affected.

c) Key Personnel

The DR industry involves a high degree of risk, which a combination of experience, knowledge and careful business evaluation may not be able to overcome. The success of the Company is dependent on the services of its senior management. The experience of these individuals will be a factor contributing to the Company's continued success and growth. The loss of one or more of its key employees could have a material adverse effect on the Company's operations and business prospects. In addition, the Company's future success will depend in large part on its ability to attract and retain additional highly skilled technical, management, manufacturing, sales and marketing personnel. There can be no assurance that the Company will be successful in attracting and retaining such personnel and the failure to do so could have a material adverse effect on the Company's business, operating results and financial condition.

d) Accounts Receivable, Allowance for Doubtful Accounts & Bad Debts

The Company evaluates the collectability of its trade receivables based upon a combination of factors on a periodic basis. The Company records an expected credit loss model to reduce the customer's related trade receivable to its estimated net realizable value. If circumstances related to specific customer's change, the Company's estimates of the recoverability of trade receivables could be further adjusted. It should be noted that the Company does not usually sell to the end user and as such has limited recourse in collecting any delinquent balances.

e) Additional Financing Requirements

The Company currently does not have the necessary financing in place to support short term operating losses, and is not able to support sustained operating losses. Historically, the Company has financed its operations and investments through the use of funds obtained from share issuances and debt financing. These matters raise significant doubt about the Company's ability to continue as a going concern and the appropriateness of the use of accounting principles applicable to a going concern. The Company's continuation as a going concern is dependent upon, amongst other things, attaining a satisfactory revenue level, the generation of cash from operations and the ability to secure new financing arrangements and new capital.

The Company is considering various alternatives to remedy any future shortfall in capital. Options open to the Company are to raise capital through equity markets, debt markets or other innovative financing arrangements, including partnership or licensing arrangements that may be available for continued operations. There is no assurance this capital will be available and if it is not, the Company may be forced to substantially curtail or cease operations. Although in the opinion of Management, the use of the going concern assumption is appropriate, there can be no assurance that any steps Management is taking will be successful.

f) Protection of Intellectual Property

Although the Company does not believe that its products infringe the proprietary rights of any third parties, there can be no assurance that infringement or invalidity claims (or claims for indemnification resulting from infringement claims) will not be asserted or prosecuted against the Company or that any such assertions or prosecutions will not materially adversely affect the Company's business, financial condition or results of operations. Irrespective of the validity or the successful assertion of such claims, the Company could incur significant costs and diversion of resources with respect to the defence thereof which could have a material adverse effect on the Company's business, financial condition or results of operations. The Company's performance and ability to compete are dependent to a significant degree on its proprietary technology. The Company relies on its patents and a combination of copyright and trade secret laws, as well as confidentiality agreements and technical measures, to establish and protect its proprietary rights. As part of its confidentiality procedures, the Company generally, enters into agreements with its employees and consultants and limits access to and distribution of its documentation and other proprietary information.

Accordingly, while the Company will endeavour to protect its intellectual property, there can be no assurance that the steps taken by the Company will prevent misappropriation of its technology or that agreements entered into for that purpose will be enforceable. The laws of other countries may afford the Company little or no effective protection of its intellectual property. While the Company's technology is developed and owned by the Company, it may in the future also rely on technology licenses from third parties. There can be no assurance that these third party licences will be, or will continue to be, available to the Company on commercially reasonable terms. The loss of, or inability of the Company to maintain, any of these technology licences could result in delays in completing its product enhancements and new developments until equivalent technology can be identified, licensed or developed and integrated. Any such delays would materially adversely affect the Company's business, financial condition and results of operations.

g) Competition

The Company may not be able to compete successfully against current and future competitors, and the competitive pressures the Company faces could harm its business and prospects. Broadly speaking, the market for Digital Radiography is approaching maturity and is highly competitive. The level of competition is likely to increase as current competitors improve their product offerings and as new participants enter the market. Many of the Company's current and potential competitors have longer operating histories, larger customer bases, greater name and brand recognition, and significantly greater financial, sales, marketing, technical, and other resources than the Company. Additionally, these competitors have research and development capabilities that may allow them to develop new or improved products that may compete with products the Company markets and distributes. New technologies and the expansion of existing technologies may also increase competitive pressures on the Company. Increased competition may result in reduced operating margins as well as loss of market share. This could result in decreased usage of the Company's products and may have a material adverse effect on the Company's business, financial condition and results of operations.

h) Implementation Delays

Many of the Company's customers will be in the initial adopter stage of utilizing the Company's products and may encounter delays or other problems in the introduction or implementation of the Company's products. A decision not to do so, or a delay in implementation, could result in a delay or loss of related revenue or could otherwise harm the Company's business and prospects. The Company will not be able to predict when a customer that is in an early adopter use phase will adopt a broader use of the Company's products.

i) Developing Markets

The market for the Company's products is relatively new in Emerging Markets and continues to evolve in established markets. The adoption and use of the Company's products will involve changes in the manner in which medical facilities have traditionally used such products. In some cases, the Company's customers will have little experience with products like those offered by the Company. The Company's ability to influence usage of its products by customers will be limited or non-existent. The Company will spend considerable resources educating potential customers about the value of the Company's products. It is difficult to assess, or predict with any assurance, the present and future size of the potential market for the Company's products, or its growth rate, if any. Moreover, the Company cannot predict whether its products will achieve broad market acceptance. The Company's ability to achieve its business objectives also depends upon rapid market acceptance of future enhancements to its products. Any enhancement that is not favorably received by customers may not be profitable and, furthermore, could damage the Company's reputation or brand name.

j) Technological Change

The Digital Radiography industry is susceptible to technological advances and the introduction of new products utilizing new technologies. Further, the Digital Radiography industry is also subject to changing industry standards, market trends and customer preferences, and to competitive pressures which can, among other things, necessitate revisions in pricing strategies, price reductions and reduced profit margins. The success of the Company will depend on its ability to secure technological superiority in its products and maintain such superiority in the face of new products. While the Company believes that its products will be competitive, no assurances can be given that the products of the Company will be commercially viable or that further modification or additional products will not be required in order to meet demands or to make changes necessitated by developments made by competitors which might render the products of the Company less competitive, less marketable, or even obsolete over time. The future success of the Company will be influenced by its ability to continue to develop or offer new competitive products through OEM relationships.

Although the Company is committed to the development of new products and the improvement of its existing products, there can be no assurance that these research and development activities will prove profitable, or that products or improvements resulting there from, if any, will be successfully produced and marketed. The Digital Radiography industry is characterized by technological change, changes in user and customer requirements, new product introductions and new technologies, and the emergence

of new industry standards and practices that could render the Company's technology obsolete or have a negative impact on sales margins the Company's product may command. The Company's performance will depend, in part, on its ability to enhance its existing products, develop new proprietary technology that addresses the sophisticated and varied needs of its prospective customers and respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis.

The development of technology entails significant technical and business risks. There can be no assurance that the Company will be successful in using new technologies effectively or adapting its products to customer requirements or emerging industry standards.

k) Strategic Alliances

The Company's growth and marketing strategies are based, in part, on seeking out and forming strategic alliances and working relationships with suppliers and distribution channels. To date, the strategic alliances negotiated by the Company have not been exclusive or restricted as to location or technological environment. This strategy has afforded the Company the necessary flexibility to broaden its distribution by increasing the number of strategic alliances and working relationships. There can be no assurance that existing strategic alliances and working relationships will not be terminated or modified in the future, nor can there be any assurance that new relationships, if any, will afford the Company the same flexibility under which the Company currently operates.

l) Resolution of Product Deficiencies

Difficulties in product design, performance and reliability could result in lost revenue, delays in customer acceptance of the Company's products and/or lawsuits, and would be detrimental, perhaps materially, to the Company's market reputation. Some product deficiencies are typically found during the period immediately following the introduction of new products or enhancements to existing products. Undetected software bugs or product performance problems may be discovered in the future. Moreover, known errors which the Company considers minor may be considered serious by its customers. If the Company's internal quality assurance testing or customer testing reveals performance issues and/or desirable feature enhancements, the Company could postpone the development and release of updates or enhancements to its current products or the release of new products. The Company may not be able to successfully complete the development of planned or future products in a timely manner, or to adequately address product defects, which could harm the Company's business and prospects. In addition, product deficiencies may expose the Company to liability claims, for which the Company may not have sufficient liability insurance. A successful law suit against the Company could harm its business and financial condition.

m) Management of Growth

The Company may be subject to growth-related risks, including capacity constraints and pressure on its internal systems and controls. The Company's ability to manage its growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and

manage its employee base. The inability of the Company to deal with this growth could have a material adverse impact on its business, operations and prospects.

While management believes that it will have made the necessary investments in infrastructure to process anticipated volume increases in the short term, the Company may experience growth in the number of its employees and the scope of its operating and financial systems, resulting in increased responsibilities for the Company's personnel, the hiring of additional personnel and, in general, higher levels of operating expenses.

In order to manage its current operations and any future growth effectively, the Company will also need to continue to implement and improve its operational, financial and management information systems and to hire, train, motivate, manage and retain its employees. There can be no assurance that the Company will be able to manage such growth effectively, that its management, personnel or systems and will be adequate to support the Company's operations.

n) Negative Cash Flow & Absence of Profits

The Company has been unable to consistently generate profits and there is no assurance that it will be able to in the future. A significant portion of the Company's financial resources will continue to be directed to working capital, the ongoing improvement and development of its products, and channel related marketing activities. There is no assurance that future revenues will be sufficient to generate the required funds to continue business development and marketing activities.

o) Exchange Rate Fluctuations

The Company will transact the majority of its sales in US dollars, while a large portion of the Company's operating expenses will be in Canadian dollars. Even though the Company periodically has hedging programs in place to manage the potential exposure to fluctuations in the US/ Canadian dollar exchange rate, fluctuations in the US/ Canadian dollar exchange rate will impact the Company's earnings and cash flows.

Currently the Company is not entering into any hedging programs due to the non-availability of a credit facility with its bank.

p) Expansion into International Markets

The Company may choose to invest significant financial and managerial resources to the continued improvement and development of its products. Should it find it necessary to do so, the cost of opening new offices abroad and hiring new personnel for such offices could significantly decrease the Company's profitability if such new offices do not generate sufficient additional revenue within the same fiscal period.

A key component of the Company's strategy will be to further expand into international markets including Latin America, the Middle East, and Asia and the Company must devote substantial resources to its international operations in order to succeed in these markets. In this regard, the Company may encounter difficulties such as: (i) unexpected changes in regulatory requirements and trade barriers

applicable to the Company's business; (ii) challenges in staffing and managing foreign operations, including employment laws and practices in jurisdictions with different legal systems; (iii) seasonal reductions in business activity and economic downturns; (iv) longer payment cycles and problems in collecting accounts receivable; (v) different technology standards; and (vi) reduced protection for intellectual property rights in certain countries in which the Company may operate. In addition, the Company's focus on international markets subjects it to fluctuations in currency exchange rates and, depending on the jurisdiction, foreign currency exchange laws. Any of the foregoing difficulties of conducting business internationally could harm the Company's international operations and, consequently, its business and prospects.

q) Dependence on Third Party Suppliers

The Company has established relationships with certain third party suppliers upon whom it presently relies to provide certain key materials and components for completion of its products. In the event of the inability of these third parties to supply those materials and components in a timely manner or to supply materials and components that continue to meet the Company's quality, quantity or cost requirements, the Company will be required to purchase these materials and components from another supplier. If another supplier who can supply the materials and components in a timely manner or that meet the Company's quality, quantity, or cost requirements cannot be found, then the Company's ability to manufacture its products will be negatively impacted.