DIAGNOS Inc.

2021 Management Discussion & Analysis

# Management Discussion and Analysis

This Management Discussion and Analysis ("MD&A"), dated June 8, 2021, analyses the consolidated financial position of DIAGNOS Inc. and its subsidiaries ("DIAGNOS", "the Corporation" or "We") as at March 31, 2021 and for the three-month period and year ended March 31, 2021 and should be read in conjunction with the March 31, 2021 consolidated financial statements and accompanying notes.

The currency used is the Canadian dollar unless otherwise stated.

This MD&A was approved by the Board of Directors on June 8, 2021 and takes into account information available up to the filing date on SEDAR.

## Description and Objective

This MD&A is a narrative explanation, through the eyes of management, of the Corporation's performance during the periods covered by the financial statements, and of the Corporation's financial condition and future prospects. This MD&A complements and supplements the Corporation's financial statements, but does not form part of the Corporation's financial statements.

The objective of this MD&A is to improve the Corporation's overall financial disclosures by providing a balanced discussion of the Corporation's financial performance and financial condition.

## Forward-looking statements

This MD&A contains certain forward-looking statements with respect to the Corporation. By their nature, these forward-looking statements necessarily imply risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. These risks and uncertainties include risks associated with the going concern assumption, market acceptance, competitive developments, the world economic situation and other factors. Except for ongoing obligations under securities laws to disclose all material information to investors, we disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## Non-GAAP financial measure

This MD&A contains non-GAAP financial measures. A non-GAAP financial measure is a numerical measure of an issuer's historical or future financial performance, financial position or cash flow that is not specified, defined or determined under the Corporation's GAAP (as that term is defined in *Regulation 52-107 respecting Acceptable Accounting Principles and Auditing Standards*) and is not presented in the Corporation's financial statements.

Non-GAAP financial measures presented in this document are:

- Research and development refundable tax credit provisions in proportion to research and development expenses. This is an indicator of the scientific research and experimental development activities.
- Working capital; the working capital amount is obtained by subtracting the sum of the amounts for (i) accounts payable and accrued liabilities and (ii) other current liabilities from the sum of the amounts for (i) cash, (ii) non-restricted short-term investments, (iii) accounts receivable and (iv) other current assets. The working capital amount is an indicator for assessing short-term solvency.
- Cash liquidities; cash liquidities consist of cash and short-term investments.

## Going concern assumption

The March 31, 2021 consolidated financial statements have been prepared on a going concern basis, which assumes that the Corporation will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

The Corporation's current level of revenue is not sufficient to cover its expenses and ongoing commitments. The Corporation's ability to generate positive cash flows from its operating activities is dependent on achieving and maintaining profitable operations. Since inception, the Corporation has been able to finance its activities and operate on a going concern basis through issuances of common shares, stock warrants, convertible notes, convertible debentures and demand loans.

While the Corporation has been successful in securing financing in the past, there can be no assurance it will be able to do so in the future, that such sources of funding or initiatives will be available on terms acceptable to the Corporation. If the Corporation is unable to obtain sufficient additional funding, it may be unable to continue its operations, and amounts from the sale of assets might be less than the amounts reflected in these consolidated financial statements.

The March 31, 2021 consolidated financial statements do not reflect any adjustments that would be necessary if the going concern basis was not appropriate. Such adjustments, if required, may be material.

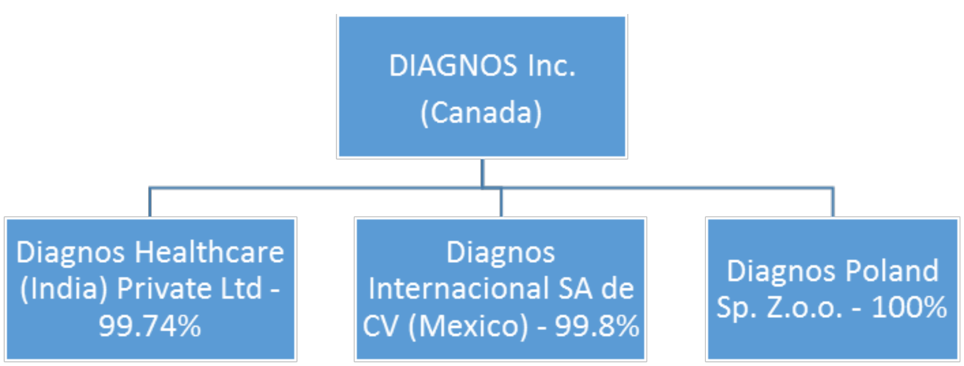
## COVID-19 pandemic

On March 11, 2020, the World Health Organization declared the recent outbreak of a novel and highly contagious form of coronavirus known as COVID-19 to be a pandemic. Since then, the Corporation's sales process has been somewhat impacted and screening activities have slowed down. This situation has not significantly impacted our ability to maintain our operations. The Corporation was able to retain all of its key employees and to qualify for various federal financial relief programs. Unchanged from the last reporting period, the Corporation is monitoring the situation closely and may take additional measures to reduce its costs and preserve its liquidities.

## Description of the Corporation and activities

The common shares of DIAGNOS are currently listed on (i) the TSX Venture Exchange of the Toronto Stock Exchange under the symbol "ADK" and (ii) the OTCQB, under the symbol "DGNOF".

DIAGNOS group of entities, as at March 31, 2021, is organized as follows:



DIAGNOS markets CARA (Computer Assisted Retinal Analysis), a software platform which assists health specialists in the detection of diabetic retinopathy. CARA is an in-house hosted web-based application that integrates fundus cameras with an image processing engine over a secure internet connection and has been developed by, and is proprietary to, DIAGNOS.

According to the Canadian Diabetes Association, diabetic retinopathy is the most common cause of blindness in people under the age of 65 and the most common cause of new blindness in North America. Also according to the Canadian Diabetes Association, it is estimated that approximately 2 million individuals in Canada (i.e. almost all people with diagnosed diabetes) have some form of diabetic retinopathy. According to the World Health Organization, more than 422 million people worldwide have diabetes, the majority living in low-and middle-income countries, and 1.6 million deaths are directly attributed to diabetes each year. Both the number of cases and the prevalence of diabetes have been steadily increasing over the past few decades. Also according to the World Health Organization, diabetes can be treated and its consequences avoided or delayed with;

- diet,
- physical activity,
- medication,
- **regular screening**, and
- treatment for complications.

We believe CARA offers a unique value proposition to payers and patients in automating the screening process. The Corporation's management view is that CARA will contribute to the increase in revenue streams based on the fact that automating the screening process for diabetic retinopathy can increase the number of screened patients, while being affordable and easy to deploy.

The CARA suite of applications allows an eye care specialist to more clearly visualize both normal retinal landmarks (optic nerve, vascular system, macula, fovea), as well as pathological changes (exudates, haemorrhages, micro-aneurisms, neo-vascularisation).

Services rendered by the Corporation vary from image enhancement only, to turn-key screening solutions.

Unchanged from the last reporting period, commercialization is done either directly or through resellers in North America and Europe. Our focus going forward is to (i) continue to build revenue and sales in emerging markets and (ii) to substantially grow our sales in the US and Canada, where we believe CARA offers a unique value proposition to payers and patients. CARA can be deployed in many countries and has received certifications from regulatory bodies in Canada, the United States of America, the countries of the European Union, Mexico, the United Arab Emirates and Saudi Arabia.

During the period covered by this document, the Corporation has actively been developing a software tool to detect patients at risk of developing cardiovascular disease. It is a by-product of the work we are doing in the field of stroke prevention based on the human vascular system. As such, in January of 2021, we announced a three-year framework partnership agreement with the CHUM (Center Hospitalier de l'Université de Montréal) on AI projects applied to the early detection of various retinal diseases. The various algorithms developed by DIAGNOS will be used to analyze changes in retinal microcirculation and their impacts on the prevention of complications of cardiovascular disease. This agreement also supports our project to screen diabetic retinopathy with automatic detection assisted by artificial intelligence, launched in June 2018.

## Business model and main risks

The Corporation's main market is the screening of diabetic patients for diabetic retinopathy.

Screening projects are classified into two categories; managed and standalone. Managed projects are those which require a full-time technician for each screening unit to manage the screening unit logistics, whereas standalone projects comprise one part-time technician and/or remote technical support to manage several screening units. In standalone projects, a camera is usually deployed at the screening site for the duration of the contract, after the part-time technician and/or remote technical support has trained site staff on how to acquire and transfer images.

Revenue arises from fees charged to analyse the retina of the eye image through the CARA web platform, usually on a per-transaction basis. The per-transaction fee varies based on the degree of deployment; managed or standalone. Revenue may also arise from fixed-amount subscription to the CARA platform. The Corporation also earns revenue from data mining consulting services in the natural resources sector.

The main risks related to its business model that the Corporation is exposed to include (i) concentration of customers since the Corporation's main source of revenue is derived from only one specific segment of healthcare, diabetic retinopathy, and (ii) product acceptance, since the CARA technology is not intended to make any diagnosis but rather to help the healthcare professionals in making diabetic retinopathy diagnosis assessments.

## Development of the Business

Here are the main events which contributed to the development of the business during the year ended March 31, 2021:

- September 2020; appointment of two members to the Corporation's board of directors
- January 2021; announcement of a 3-year partnership agreement with the University of Montreal Hospital Centre (CHUM)
- February 2021: announcement of stock warrants exercise
- March 2021: announcement of new application CARA-STROKE

## Summary of quarterly results

The following financial information for the eight most recently completed three-month periods is derived from the Corporation's financial statements.

| | **2021** | | | | **2020** | | | |
|---|---|---|---|---|---|---|---|---|
| | ***Q4*** | ***Q3*** | ***Q2*** | ***Q1*** | ***Q4*** | ***Q3*** | ***Q2*** | ***Q1*** |
| | **March 31, 2021** | **Dec. 31, 2020** | **Sept. 30, 2020** | **June 30, 2020** | **March 31, 2020** | **Dec. 31, 2019** | **Sept. 30, 2019** | **June 30, 2019** |
| | $ | | | | | | | |
| Revenue | 61,719 | 77,877 | 79,787 | 47,690 | 77,675 | 90,351 | 82,057 | 81,434 |
| Net loss | (630,024) | (572,779) | (352,181) | (496,319) | (1,263,656) | (567,489) | (546,471) | (1,005,257) |
| Comprehensive loss | (616,495) | (557,204) | (376,507) | (495,989) | (1,242,741) | (567,428) | (546,954) | (1,008,497) |

## Overall performance

This section provides an analysis of the Corporation's financial condition, financial performance and resulting cash flows during the periods covered by this MD&A.

### Financial condition

The comparative financial information contained in this section is derived from the Corporation's consolidated financial statements.

| | | As at March 31, | |
|---|---|---|---|
| | | **2021** | **2020** |
| | | $ | |
| Cash and short-term investments | | 1,360,857 | 1,872,107 |
| Accounts receivable | | 203,992 | 343,682 |
| Other current assets | | 26,115 | 122,285 |
| | A | **1,590,964** | **2,338,074** |
| Accounts payable and accrued liabilities | | 342,340 | 273,057 |
| Other current liabilities | | 207,723 | 307,977 |
| | B | **550,063** | **581,034** |
| **Working capital** | A - B | **1,040,901** | **1,757,040** |
| **Decrease in working capital** | | **(716,139)** | |

The decrease in working capital is attributable to:

| | $ |
|---|---|
| Cash used for operating activities | (1,679,544) |
| Cash received from financing activities | 1,147,254 |
| Cash used for the repayment of convertible notes | (150,000) |
| Others | (33,849) |
| | **(716,139)** |

## Financial performance

*Comparative results*

The comparative financial information contained in this section is derived from the Corporation's consolidated financial statements.

| | Three-month period ended March 31, | | Year ended March 31, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| | $ | | $ | |
| Revenue | 61,719 | 77,675 | 267,073 | 331,517 |
| Operating expenses | 702,861 | 1,163,157 | 2,550,494 | 3,127,865 |
| Other income | (5,098) | (68,748) | (264,277) | (85,804) |
| Interest (income) expense | (6,020) | 91,366 | 32,159 | 343,884 |
| Gain on disposal of capital assets | - | - | - | (2,833) |
| Loss on shares for debt transaction | - | 155,556 | - | 155,556 |
| Loss on settlement of debt | - | - | - | 175,722 |
| | 691,743 | 1,341,331 | 2,318,376 | 3,714,390 |
| **Loss before income taxes** | **(630,024)** | **(1,263,656)** | **(2,051,303)** | **(3,382,873)** |
| Decrease in loss before income taxes | 633,632 | | 1,331,570 | |

The variations in loss before income taxes are attributable to:

| | Three-month period ended | Year ended |
|---|---|---|
| | March 31, 2021 | |
| | $ | |
| Decrease in revenue | (15,956) | (64,444) |
| Decrease in operating expenses | 460,296 | 577,371 |
| (Decrease) increase in other income | (63,650) | 178,473 |
| Decrease in interest expense | 97,386 | 311,725 |
| Gain on disposal of capital assets | - | (2,833) |
| Decrease in loss on shares for debt transaction | 155,556 | 155,556 |
| Decrease in loss on settlement of debt | - | 175,722 |
| | 633,632 | 1,331,570 |

*Detailed analysis of the variations in net loss*

## Revenue

| | Three-month period ended March 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2021 | | | | 2020 | | |
| | Healthcare | Consulting | Total | | Healthcare | Consulting | Total |
| | | | | $ | | | |
| Canada | 10,941 | 42,795 | 53,736 | | 21,618 | 19,451 | 41,069 |
| United States of America | 7,983 | - | 7,983 | | 23,476 | - | 23,476 |
| United Arab Emirates | - | - | - | | 12,244 | - | 12,244 |
| Bangladesh | - | - | - | | 123 | - | 123 |
| Saudia Arabia | - | - | - | | 763 | - | 763 |
| | 18,924 | 42,795 | 61,719 | | 58,224 | 19,451 | 77,675 |

| | Year ended March 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2021 | | | | 2020 | | |
| | Healthcare | Consulting | Total | | Healthcare | Consulting | Total |
| | | | | $ | | | |
| Canada | 43,506 | 178,808 | 222,314 | | 68,014 | 112,420 | 180,434 |
| United States of America | 41,952 | - | 41,952 | | 83,001 | - | 83,001 |
| Colombia | 2,807 | - | 2,807 | | - | - | - |
| United Arab Emirates | - | - | - | | 48,004 | - | 48,004 |
| Bangladesh | - | - | - | | 13,249 | - | 13,249 |
| Saudia Arabia | - | - | - | | 4,182 | - | 4,182 |
| Costa Rica | - | - | - | | 2,647 | - | 2,647 |
| | 88,265 | 178,808 | 267,073 | | 219,097 | 112,420 | 331,517 |

For the three-month period and the year ended March 31, 2021, despite the increase in consulting revenue rendered to one Canadian company active in the natural resources sector, the decrease in overall revenue is mainly due to the decreases in (i) the number of clients and (ii) the volume of screenings for diabetic retinopathy.

## Other income

The increase of $178,473 for the year ended March 31, 2021 is mainly attributable to claims and money received from the Canada Emergency Wage Subsidy program amid the Covid-19 pandemic. For the three-month period ended March 31, 2021, the decrease of $63,650 is maily due to (i) the absence of claims submitted under the Créativité Québec program and (ii) the value of the claims filed under the Canada Emergency Wage Subsidy program were lower than in the quarter ended March 31, 2020.

## Operating expenses

For the three-month period and the year ended March 31, 2021, the overall decrease in operating expenses is mainly due to decreases in (i) salaries, attributable to a lower headcount, (ii) bonuses to executives, (iii) consulting fees and (iv) travel and living expenses amid the Covid-19 pandemic.

## Interest expense

The overall decrease in interest expense is mainly attributable to the May 15, 2019 redemption of the convertible debt.

## Loss on shares for debt transaction

The amount of $155,556, for the year ended March 31, 2020, arose from the repayment, on February 14, 2020, of the November 2019 unsecured non-convertible loan which amounted to $400,000. It represents the difference between the fair value of the common shares at the date of the repayment and the deemed price of the common shares issued.

Loss on settlement of debt

The amount of $175,722, for the year ended March 31, 2020, arose from the redemption, on May 15, 2019, of the outstanding convertible debentures and 85% of the outstanding notes. It is comprised of an amount of $120,130, representing the difference between the fair value of the shares issued and the amortized cost of the debt and interest amounts, as well as an amount of $55,592 representing the fees paid in connection with the redemption.

## Cash flows

Cash liquidities varied as follows:

| | Year ended March 31, | | |
|---|---|---|---|
| | **2021** | **2020** | **Variance** |
| | | $ | |
| Cash liquidities at beginning of year | **1,872,107** | **693,954** | |
| Receipts from: | | | |
| Clients | 304,740 | 308,538 | (3,798) |
| Grants | 303,823 | 103,667 | 200,156 |
| Equity financings | 1,107,254 | 3,399,341 | (2,292,087) |
| Loans | 40,000 | 650,000 | (610,000) |
| | 1,755,817 | 4,461,546 | (2,705,729) |
| Disbursements: | | | |
| Operations | (2,099,465) | (3,124,091) | 1,024,626 |
| Loans | (150,000) | (125,000) | (25,000) |
| Interests | (17,602) | (34,302) | 16,700 |
| | (2,267,067) | (3,283,393) | 1,016,326 |
| Net change in liquidities | (511,250) | 1,178,153 | (1,689,403) |
| Cash liquidities at year end | **1,360,857** | **1,872,107** | |

The increase of $200,156 in grants is mainly attributable to money received under the Canadian Wage Subsidy Program, a federal COVID-19 business assistance program.

The decrease in operations disbursements of $1,024,626 is mainly attributable to decreases in consulting fees and travel & living as well as a lower headcount.

Capacity to generate positive cash flows from operating activities

To generate positive cash flows from its operating activities, the Corporation strives to increase sales receipts and continues to monitor operating costs and related disbursements. The Corporation's current level of revenue is not sufficient to cover its expenses and ongoing commitments.

The Corporation's ability to generate positive cash flows from its operating activities is dependent on achieving and maintaining profitable operations. Since inception, the Corporation has been able to finance its activities and operate on a going concern basis through issuances of common shares, stock warrants, convertible notes, convertible debentures and demand loans.

On May 7, 2021, 966,000 stock warrants were exercised for gross proceeds of $483,000.

Capacity to deliver results

The Corporation's sales agreements usually imply rendering services over a defined period of time. Consequently, sufficient working capital and cash liquidities are required to execute the sales agreements and to continue supporting business development initiatives. The Corporation's current level of revenues is not sufficient to cover its expenses and ongoing commitments, thereby resulting in negative cash flows generated from operating activities. The Corporation's ability to generate positive cash flows from operating activities is dependent on achieving and maintaining profitable operations. Since inception, the Corporation has been able to finance its activities and operate on a going concern basis through issuances of shares, stock warrants and debt. To raise additional funds if and when required, the Corporation's current strategy is expected to be, but not limited, to the issuance of common shares, convertible financial instruments and stock warrants.

Based on the current level of liquidities and sales activities, the realization of assets and the discharge of liabilities in the ordinary course of business remain uncertain. In order to address these uncertainties, the Corporation is evaluating the implementation of some or all of the following measures:

| Liquidity risk | Risk mitigation measures |
|---|---|
| Funding of capital and operating expenses | • Continue the process of renewing contracts<br>• Reduce operating costs<br>• Continue to seek debt financing<br>• Continue to seek equity financing<br>• Continue to evaluate M&A opportunities |

The Corporation believes that with the above measures it will be able to improve its capacity to deliver results. There is, however, significant risk and uncertainty associated with the measures described above.

Capacity to innovate

To improve its current products and continue to innovate, the Corporation has in place a team of scientists dedicated to the development of CARA. The Corporation's research and development activities are performed at the head office in Canada. The Corporation benefits from research and development (R&D) tax credits where, historically, approximately 15% of its overall R&D expenses are refunded by the Government of Quebec.

Refundable tax credit provisions in proportion to the overall R&D expenses represent:

| | Year ended March 31, 2021 | Year ended March 31, 2020 |
|---|---|---|
| R&D expenses ($) | 624,349 | 793,532 |
| R&D tax credit provision ($) | 75,549 | 110,311 |
| R&D tax credit provision in proportion to R&D expenses | 12% | 14% |

Based on current activities and current legislation, the R&D tax credit percentage in proportion to R&D expenses is expected to be approximately 12% for the foreseeable future.

## Commitments

As at March 31, 2021, the Corporation's minimum monthly payments under leases are as follows:

- Head office: $6,135 for a term of 60 months ending August 31, 2025
- Computer equipment: $353 for a term of 36 months ending August 31, 2023 and $1,410 for a term of 36 months ending in December 2021
- Web hosting facility: $574 and $773 for a term of 36 months ending in November 2021 and January 2023 respectively

## Issued Common shares and out standing convertible instruments

As at March 31, 2021, the number of common shares and outstanding convertible instruments is as follows:

| | Number |
|---|---|
| Common shares | 67,366,004 |
| Stock warrants | 2,420,169 |
| Stock options | 7,722,000 |
| | 77,508,173 |

On May 7, 2021, 966,000 stock warrants were exercised for gross proceeds of $483,000.

## Transactions between related parties

Transactions with key management personnel, directors and officers are as follows:

| | Three-month period ended March 31, | | | Year ended March 31, | | |
|---|---|---|---|---|---|---|
| | 2021 | 2020 | Δ | 2021 | 2020 | Δ |
| | $ | | | $ | | |
| Base Salary | 98,750 | 130,000 | (24%) | 422,668 | 520,000 | (19%) |
| Stock-based compensation | 68,463 | 10,789 | 535% | 149,428 | 90,005 | 66% |
| Incentives | - | 50,000 | (100%) | - | 60,000 | (100%) |
| Interest on demand loan | 485 | 485 | 0% | 1,940 | 1,940 | 0% |
| Payment of interest on demand loan | (485) | (485) | 0% | (1,940) | (1,940) | 0% |
| | 167,213 | 190,789 | (12%) | 572,096 | 670,005 | (15%) |

The overall increase in stock-based compensation is mainly attributable to the increase in the number of grants and the increase in the value of each grant during the year ended March 31, 2021.

The following table presents the outstanding balances with key management personnel.

| | As at March 31, | |
|---|---|---|
| | 2021 | 2020 |
| | $ | |
| Demand loan receivable, annual interest rate of 4% | 43,500 | 42,854 |
| Sales commissions advance, no interest | 20,841 | 20,841 |

## Critical accounting judgments and key sources of estimation uncertainty

In the application of the Corporation's significant accounting policies, management is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The following are the key estimates concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

*Going concern assumption*

The Corporation's ability to continue as a going concern is dependent on completing an additional financing, achieving and maintaining profitable operations and other factors, all of which are outside of management's control. Management has to assess the outcome of these matters when preparing the Corporation's consolidated financial statements. The Corporation's current level of revenues is not sufficient to cover its expenses and ongoing commitments, resulting in the negative cash flows generated from operating activities. The Corporation's ability to generate positive cash flows from operating activities is dependent on achieving and maintaining profitable operations. The Corporation believes that it will be able to continue as a going concern basis through issuances of shares, stock warrants, convertible notes, convertible debentures and debt. Therefore, the financial statements do not reflect any adjustments that would be necessary if the going concern basis was not appropriate.

*Tax credits on research and development expenses*

The Corporation receivables include refundable tax credits on R&D expenses. Management has to make certain careful judgments related to the eligibility of R&D expenses with regards to the provisions of the current tax credit programs.

*Stock-based compensation*

Stock-based compensation involves the valuation of grants of stock options. The Corporation relies on the fair value obtained by applying the Black - Scholes option pricing model. This model requires making assumptions related to the risk-free interest rate (with a term that matches the expected life of the options), the expected stock price volatility, the expected life of the options and the expected dividend yield on the Corporation's shares. Management also has to estimate the number of options that will eventually vest.

*Fair value of financial instruments*

Financial instruments are presented at fair value. In the absence of active markets in the evaluation of financial assets and financial liabilities, the Corporation relies on evaluation techniques based on inputs that are not based on observable market data which could cause the actual results to differ from the estimates.

*Recognition of deferred tax assets*

The extent to which deferred tax assets can be recognized is based on an assessment of the probability that future taxable income will be available against which the deductible temporary differences and tax loss carry-forwards can be utilised. In addition, significant judgment is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

*Leases*

Recognising leases requires judgment and use of estimates and assumptions. Judgment is used to determine whether there is reasonable certainty that a lease extension or cancellation option will be exercised. Furthermore, management estimates are used to determine the lease terms and the appropriate interest rate to establish the lease liability.

*Provisions*

Recognising provisions requires judgment and use of estimates and assumptions. Judgment is required in assessing the likelihood and magnitude of an outflow of cash to settle provisions and other contingencies. Furthermore, management estimates are used to measure the amount of outflow of cash or resources that may be required to settle any contingent liabilities.

## Risk management

The Corporation is exposed to risks which could have an impact on its capacity to reach its strategic growth objectives. The Corporation strives to control and mitigate the risks through management practices that require the identification and analysis of the risks related to its operations.

The following describes the main risks that the Corporation faces:

With regards to the Corporation's general activities:

- Nature of services – The Corporation offers interpretation services based on proprietary data mining software applications. As with many software applications, the results have to be reviewed and validated by the customer's staff. When rendering interpretation services to its customers, the Corporation mitigates the perception of risk by including disclaimer clauses and warranty limitations to indicate clearly the customer's responsibility towards the results.

- Intellectual Property – The market in which the Corporation competes may include new or existing entrants that own, or claim to own, intellectual property, and the Corporation may have to defend itself which can be time-consuming and costly. In some cases, DIAGNOS may be unable to protect its proprietary technology adequately against unauthorized third-party use or copying through reverse-engineering processes which could adversely affect its competitive position. Additionally, DIAGNOS may be faced with individuals and groups who have purchased intellectual property assets for the sole purpose of making claims of infringement and attempting to extract substantive settlements from established companies.

- Litigation and disputes – In the normal course of its activities, the Corporation may be party to various legal proceedings and disputes with customers and suppliers. Legal proceedings may include undetected errors or malfunctions of the services and products, or claims relating to applicable securities laws. A product liability or securities class action could negatively impact the business because of the costs of defending the lawsuit, diversion of employees' time and attention, and potential damage to our reputation. The Corporation's insurance policy may not cover all potential claims, or may not be adequate to cover all costs incurred in defense of potential claims or to indemnify us for all liability that may be imposed.

- Tax credits programs – DIAGNOS benefits from R&D tax credits where a portion of its R&D expenses are refunded under a specific program sponsored by the Quebec government. Amendments to this program which would reduce the scope of expenses eligible for refund, or its termination, will result in net increases in R&D expenses. Additionally, audits by tax authorities are performed from time to time and may result in negative impacts on our financial position.

- Investing activities – From time to time, the Corporation may accept payment in the form of common shares from customers for services rendered. Shares traded on a public or private market are subject to market volatility. The Corporation's policy regarding investments in shares is to benefit from increases in their market value. The Corporation sells shares when there are clear indications that any decrease in value may be permanent. The Corporation may also sell or liquidate those investments to fund its operating activities.

- Volatility of markets – The shares of the Corporation are traded on the TSX Venture market and, as with any shares traded on a public market, they are subject to market volatility.

- Profitability - The Corporation has not realized any profits from its operations since its inception. However, the Corporation has been able to operate on a continuous basis. The Corporation's ability to continue as a going concern is dependent on further financings and on achieving and maintaining profitable operations.

- Human resources – The Corporation must attract and retain highly skilled employees and partners with software development and data mining knowledge to be able to stay ahead of its competitors and up to date with technology changes.

More specifically regarding healthcare:

- Market acceptance – CARA's success depends upon achieving market acceptance in a changing healthcare environment. There can be no assurance that CARA will be accepted and that DIAGNOS will be able to respond effectively to changes in technology or customers' demands.

- Regulatory approvals – Numerous statutes and regulations govern the manufacture and sale of medical or healthcare products in Canada, the United States and other countries. The process of obtaining and maintaining applicable regulatory approvals can be lengthy, expensive, and uncertain.

- Product interaction and product support – CARA is an in-house hosted web-based application that integrates fundus cameras from leading camera suppliers with an image processing engine over a secure connection. New camera products or new features of existing products may affect compatibility of CARA and may require additional development work or support to insure adaptability. Lack of support or termination of relationships with the leading fundus camera manufacturers could negatively impact the business.

- Sales strategy – The Corporation marketing plan is to market services from CARA worldwide. If the Corporation is unable to build and support effective distribution channels, either directly or through resellers, sales could be negatively impacted or delayed and the Corporation may have to review its sales strategy.

- Foreign market environment – International operations carry certain risks and associated costs in managing a business abroad, such as complications in compliance with, and unexpected changes in legal and regulatory restrictions or requirements, matters governing privacy of personal information, foreign currency fluctuations, difficulties in collecting accounts receivable, withholding taxes regulations, uncertainties of laws and enforcement relating to intellectual property and privacy rights and unauthorized copying of software.

- Reimbursement of healthcare costs – Depending on the country's regulations with regard to the reimbursement of healthcare costs by public or private organizations, services from CARA might not be approved for reimbursement or be subject to specific limits.

- Budgets and forecasts – Sales forecasts are currently prepared, for the most part, from the appreciation and interpretation of the addressable screening markets for retinopathy and are not based on firm orders. Additionally, the Corporation is assuming that it will benefit from repetitive revenues based on the fact that patients screened for retinopathy need to be followed up on a regular basis. Actual results and renewal rates may differ from anticipated levels and any decline may negatively impact the business.

**Head Office**

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**Stock Exchange Listing**

The common shares of DIAGNOS Inc. are listed on the TSX Venture Exchange under the symbol ADK and on the OTCQB under the symbol DGNOF.

**Transfer Agents and Registrar**

Computershare Trust Company of Canada

**Auditor**

Raymond Chabot Grant Thornton LLP