DIAGNOS Inc.

2022 Management Discussion & Analysis

Description and objective

This Management Discussion and Analysis ("MD&A") analyses the consolidated financial position of DIAGNOS Inc. and its subsidiaries ("DIAGNOS", the "Corporation" or "We") as at March 31, 2022 and for the three-month period and year ended March 31, 2022 and should be read in conjunction with the March 31, 2022 consolidated financial statements and accompanying notes.

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.

The currency used is the Canadian dollar unless otherwise stated.

Date of information

This MD&A is dated July 13, 2022 and was approved by the Board of Directors of the Corporation on the same date.

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 measure (continued)

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, 2022 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. Until it is able to generate positive cash flows from its operating activities, the Corporation will need, from time to time, to raise funds through financing activities.

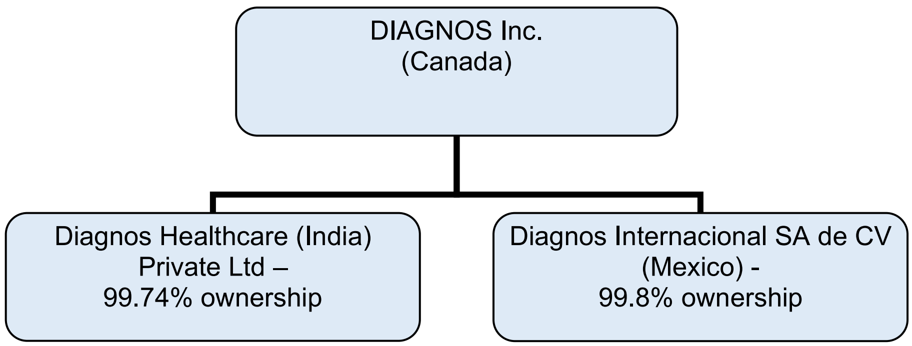
Since inception, the Corporation has been able to finance its activities and operate on a going concern basis through issuances of common shares, stock warrants, convertible notes, convertible debentures and demand loans. While the Corporation has been successful in securing financing in the past, there 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 in the near-term, it may be unable to continue its operations, and amounts from the sale of assets might be less than the amounts reflected in the interim consolidated financial statements.

The March 31, 2022 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.

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, 2022, is organized as follows:



Diagnos Poland sp. Z.o.o. was liquidated on July 9, 2021. Diagnos Healthcare (India) Private Limited and Diagnos Internacional SA de CV are currently inactive.

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.

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.

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 main 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.

Business model and main risks (continued)

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.

Significant events during the period

Pandemic

The Corporation's sales process continues to be somewhat impacted by the COVID-19 pandemic. 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.

Financing activities

In the month of March 2022, the Corporation proceeded with a private placement of convertible debentures and stock warrants for gross proceeds of $930,000.

In the month of February 2022, the Corporation received an aggregate amount of $70,834 from the exercise of stock warrants.

During the quarter ended December 31, 2021, the Corporation received a first disbursement of $119,465 under a financing agreement in the form of an interest-free loan of up to $2,000,000 from the government of Québec via the Economic Development Fund to support the commercialization of its healthcare services globally. The disbursements are in the form of installments corresponding to 49% of the eligible expenses incurred up to June 30, 2022 for which the Corporation is requesting disbursement. The interest-free loan has a term of 10 years and principal repayment will start after the 24th month following the first disbursement.

During the six-month period ended September 30, 2021, the Corporation received an aggregate amount of $653,000 resulting from the exercises of stock warrants and stock options.

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.

	2022				2021			
	Q4	***Q3***	***Q2***	***Q1***	***Q4***	***Q3***	***Q2***	***Q1***
	March 31, 2022	**Dec. 31, 2021**	**Sept. 30, 2021**	**June 30, 2021**	**March 31, 2021**	**Dec. 31, 2020**	**Sept. 30, 2020**	**June 30, 2020**
	$				$			
Revenue	152,103	129,836	80,933	75,961	61,719	77,877	79,787	47,690
Net loss	(725,395)	(605,093)	(557,705)	(720,023)	(630,024)	(572,779)	(352,181)	(496,319)
Comprehensive loss	(726,010)	(605,095)	(556,521)	(719,333)	(616,495)	(557,204)	(376,507)	(495,989)

Overall performance

The comparative financial information for the three-month and twelve-month periods ended March 31, 2022, contained in this section, is derived from the Corporation's consolidated financial statements for the same periods.

Comparative results

	Three-month period ended March 31,		Twelve-month period ended March 31,	
	2022	2021	2022	2021
	$		$	
Revenue	152,103	61,719	438,833	267,073
Operating expenses	(864,273)	(702,861)	(3,098,792)	(2,550,494)
Other income	7,312	5,098	100,141	264,277
Interest income (expense)	(20,537)	6,020	(48,400)	(32,159)
	(877,498)	(691,743)	(3,047,051)	(2,318,376)
Net Loss	**(725,395)**	**(630,024)**	**(2,608,218)**	**(2,051,303)**
Increases in net loss	(95,371)		(556,915)	

The increases in net loss are attributable to:

	Three-month	Twelve-month
	$	$
Increase in revenue	90,384	171,760
Increase in operating expenses	(161,412)	(548,298)
Increase (decrease) in other income	2,214	(164,136)
Increase in interest expense	(26,557)	(16,241)
	(95,371)	(556,915)

Overall performance (continued)

Detailed analysis of the variations in net loss:

Revenue

	Three-month period ended March 31,			Twelve-month period ended March 31,		
	2022	2021	Variance	2022	2021	Variance
		$			$	
Canada	143,676	53,736	89,940	407,807	222,314	185,493
United States of America	7,942	7,983	(41)	27,630	41,952	(14,322)
Other countries	485	-	485	3,396	2,807	589
	152,103	61,719	90,384	438,833	267,073	171,760

Canada
The increases for the three-month period and the twelve-month period ended March 31, 2022 are mainly attributable to the signing of one agreement, in June 2021, for the deployment and enhancement of Artificial Intelligence based tests with a company active in eye care.

United States of America
The decreases for the twelve-month period ended March 31, 2022 are mainly attributable to the decrease in the volume of screenings mainly due to the impact of the Covid-19 pandemic.

Overall performance (continued)

Operating expenses

The following table presents the main variations in operating expenses.

Expense	Variation	Three-month period ended March 31, 2022 $	Twelve-month period ended March 31, 2022 $	Note
Remuneration	Increase	65,985	451,079	a)
Travel and living	Increase	11,278	42,385	b)
Consulting fees	Increase	183,065	136,555	c)
Legal fees	(Decrease) increase	(19,474)	32,791	d)
Leasing	Increase (Decrease)	3,896	(39,823)	e)
Tax credits	Increase	(58,458)	(73,458)	f)
Others	Decrease	(24,880)	(1,231)	
	Net increase	161,412	548,298	

a) increases in (i) the number of stock option grants, (ii) the value per stock option grant and iii) overall headcount.
b) increase in travel expenses to meet with potential clients
c) increases in (i) professional fees related to the improvement of deep learning algorithms for the analysis of retinal images and (ii) professional fees related to company awareness services
d) increase in litigation defense fees
e) increase in cameras storage fees (three-month period ended March 31, 2022) and overall decrease in office lease (twelve-month period ended March 31, 2022)
f) Decrease in governmental assistance

Other income

The decrease for the twelve-month period ended March 31, 2022 is mainly attributable to a decrease in the value of claims filed under the Canada Emergency Wage Subsidy program (“wage subsidy”). The wage subsidy is available for eligible employers that experience a decline in revenue during pre-defined periods. Due to the overall increase in revenue, the Corporation’s eligibility to this relief program has been negatively affected.

Interest

The increase for the twelve-month period ended March 31, 2022 is mainly attributable to a decrease in the value of investments in cash.

Financial condition

Working Capital

Working capital is a non-GAAP financial measure of the Corporation's liquidity and an indicator for assessing short-term solvency.

		As at	
		March 31, 2022	March 31, 2021
		$	
Cash and short-term investments		920,914	1,360,857
Accounts receivable		346,229	203,992
Other current assets		21,659	26,115
	A	1,288,802	1,590,964
Accounts payable and accrued liabilities		462,646	342,340
Other current liabilities		196,722	207,723
	B	659,368	550,063
Working capital	A - B	**629,434**	**1,040,901**
Decrease in working capital		**(411,467)**	

The decrease in working capital is attributable to:

	$
Cash used for operating activities	(2,037,943)
Proceeds from issuance of convertible debentures and stock warrants, net of issue expenses	881,276
Proceeds from exercices of stock warrants and stock options	723,834
Proceeds from loans	119,465
Lease payments	(105,828)
Others	7,729
	(411,467)

Financial condition (continued)

The following table presents the contractual maturities of liabilities and commitments:

	As at March 31, 2022			
	Less than one year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Accounts payable and accrued liabilities	282,941	-	-	-
Loans	125,000	50,312	35,840	71,858
Leases	65,055	60,984	103,164	-
Convertible debentures	-	-	930,000	-
Interests	83,775	74,400	74,400	-
	556,771	185,696	1,143,404	71,858

The Corporation's current level of revenue is not sufficient to cover its ongoing commitments (refer to going concern assumption paragraph above).

Capital resources

Capital resources are financing resources available to the Corporation and include debt, equity and any other financing arrangements.

Capital resources available to the Corporation are mainly comprised of:

Government assistance
During the quarter ended September 30, 2020, the Corporation entered into a financing agreement in the form of an interest-free loan of up to $2,000,000 from the government of Québec via the Economic Development Fund to support the commercialization of its healthcare services globally. Under the financing agreement, loan disbursement are in the form of installments corresponding to 49% of the eligible expenses incurred up to June 30, 2022 for which the Corporation is requesting disbursement. The interest-free loan has a term of 10 years and principal repayment will start after the 24th month following the first disbursement. On October 19, 2021, the Corporation received a first disbursement of $119,465. As at the date of this MD&A, the Corporation is unable to forecast the amount of the next installment.

Stock options and stock warrants exercisable
As at March 31, 2022, 2,100,000 stock options exercisable at a weighted-average price ("WAP") of $0.21 / common share, for a value of $441,000, are "in-the-money" considering that the closing price of the common shares of the Corporation on the TSX Venture exchange was $0.25 as at March 31, 2022. "In-the-money" means the stock option holder has the opportunity to subscribe to common shares of the Corporation below its current market price. However, this does not necessarily imply that the holder will exercise all, or any portion, of its stock options.

Financial condition (continued)

Capacity to innovate

To enhance its current products offering 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 is eligible for a full refundable tax credit by the Government of Quebec.

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

	Year ended March 31,	
	2022	**2021**
R&D expenses ($)	740,811	624,349
R&D tax credit provision ($)	149,007	75,549
R&D tax credit provision in proportion to R&D expenses	20%	12%

Based on current activities and current legislation, the R&D tax credit percentage in proportion to R&D expenses is expected to be approximately 13% for the foreseeable future.

Capital structure

As at March 31, 2022, the number of common shares and outstanding equity instruments is as follows:

	Number
Common shares	69,474,151
Stock warrants	343,025
Stock options	6,177,000
	75,994,176

Transactions between related parties

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

	Three-month period ended March 31,			Twelve-month period ended March 31,		
	2022	2021	Δ	2022	2021	Δ
	$			$		
Base Salary	82,500	98,750	(16%)	379,583	422,668	(10%)
Stock-based compensation	72,007	68,463	5%	317,691	149,428	113%
Incentives	22,373	-	n/a	32,373	-	n/a
Interest on demand loan	435	485	(10%)	1,740	1,940	(10%)
Payment of interest on demand loan	(435)	(485)	(10%)	(1,740)	(1,940)	(10%)
	176,880	167,213	6%	729,648	572,096	28%

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 present the outstanding balances with key management personnel:

	As at March 31,	
	2022	2021
	$	
Demand loan receivable, annual interest rate of 4%	43,500	43,500
Sales commission advance, no interest	20,704	20,841

During the quarter ended June 30, 2022, on key management employee proceeded with a partial reimbursement of $23,500 on the demand loan receivable.

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.

Critical accounting judgments and key sources of estimation uncertainty (continued)

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, some 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.

Critical accounting judgments and key sources of estimation uncertainty (continued)

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.

Risk management (continued)

- 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. This could adversely impact the Corporation's ability to operate in certain regions for a period of time until it regains compliance with local regulations.

- 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.

Risk management (continued)

- 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.

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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