DIAGNOS

DIAGNOS Inc.

2023 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, 2023 and for the quarter and year ended March 31, 2023 and should be read in conjunction with the March 31, 2023 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, 2023 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 in proportion to the overall research and development expenses.

- 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.

Going concern assumption

The March 31, 2023 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.

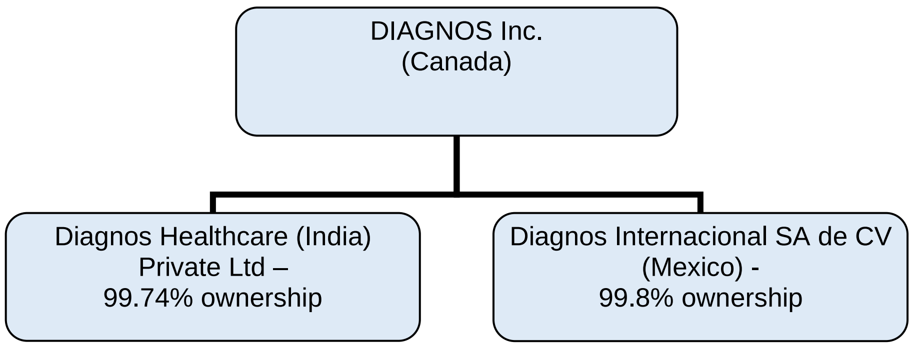
As at March 31, 2023, the Corporation is current in its payroll taxes and is not in default with regards to its debt.

The March 31, 2023 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, 2023, is organized as follows:



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

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 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.

Main risks

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

Financing activities

During the period covered by this MD&A;

- the Corporation raised $2,315,000 from the issuance of unsecured convertible debentures. The breakdown per quarter is as follows:

Quarter ended	Gross proceeds
September 30th, 2022	$350,000
December 31st, 2022	$850,000
March 31st, 2023	$250,000
June 30th, 2023	$865,000
	$2,315,000

- the Corporation received an aggregate amount of $257,000 from the exercise of stock warrants and stock options during the month of May 2023.

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.

	2023				**2022**			
	Q4	***Q3***	***Q2***	***Q1***	***Q4***	***Q3***	***Q2***	***Q1***
	March 31, 2023	**Dec. 31, 2022**	**Sept. 30, 2022**	**June 30, 2022**	**March 31, 2022**	**Dec. 31, 2021**	**Sept. 30, 2021**	**June 30, 2021**
	$				$			
Revenue	68,285	121,917	146,533	149,014	152,103	129,836	80,933	75,961
Net loss	(728,967)	(513,981)	(520,710)	(717,158)	(725,395)	(605,093)	(557,705)	(720,023)
Comprehensive loss	(730,016)	(513,981)	(520,710)	(717,158)	(726,010)	(605,095)	(556,521)	(719,333)

Overall performance

The comparative financial information for the quarter and year ended March 31, 2023, contained in this section, is derived from the Corporation's consolidated financial statements for the same periods.

Comparative results

	Quarter ended March 31,		Year ended March 31,	
	2023	**2022**	**2023**	**2022**
	$		$	
Revenue	68,285	152,103	485,749	438,833
Operating expenses	(706,175)	(864,273)	(2,722,761)	(3,098,792)
Other income	7,522	7,312	27,340	100,141
Interest expense	(98,599)	(20,537)	(271,144)	(48,400)
	(797,252)	(877,498)	(2,966,565)	(3,047,051)
Net Loss	**(728,967)**	**(725,395)**	**(2,480,816)**	**(2,608,218)**
(Increase) decrease in net loss	(3,572)		127,402	

The variations in net loss are attributable to:

	Quarter	Year
	$	$
(Decrease) increase in revenue	(83,818)	46,916
Decrease in operating expenses	158,098	376,031
Increase (decrease) in other income	210	(72,801)
Increase in interest expense	(78,062)	(222,744)
	(3,572)	127,402

Overall performance (continued)

Detailed analysis of the variations in net loss:

Revenue

	Quarter ended March 31,			Year ended March 31,		
	2023	2022	Variance	2023	2022	Variance
		$			$	
Canada	55,490	143,676	(88,186)	455,891	407,807	48,084
United States of America	8,477	7,942	535	21,464	27,630	(6,166)
Other countries	4,318	485	3,833	8,394	3,396	4,998
	68,285	152,103	(83,818)	485,749	438,833	46,916

Canada

The decrease of $88,186 for the quarter ended March 31, 2023 is mainly attributable to a decrease in customization consulting fees rendred as part of 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. The increase of $48,084 for the year ended March 31, 2023 is mainly attributable to the execution of the same agreement.

United States of America

The decrease of $6,166 for the year ended March 31, 2023 is mainly attributable to the decrease in the volume of screenings.

Overall performance (continued)

Operating expenses

The following table presents the main variations in operating expenses.

Expense	Variation	Quarter ended March 31, 2023 $	Year ended March 31, 2023 $	Note
Remuneration	Increase	41,559	102,273	a)
Stock-based compensation	Decrease	(54,560)	(258,818)	b)
Consulting fees	Decrease	(204,155)	(199,738)	c)
Legal fees	Decrease	(10,855)	(66,928)	d)
Insurance	Increase	4,669	28,108	e)
Tax credits	Increase	70,412	412	f)
Others	(Decrease) increase	(5,168)	18,660	
	Net decrease	(158,098)	(376,031)	

a) increase in headcount
b) decrease in the number of stock options vested
c) decrease in fees mainly related to company awareness services
d) decrease in litigation defense fees
e) increase in Directors and Officers Liability insurance premiums
f) increase in eligible research and development activities during the quarter ended March 31, 2023

Other income

The decrease of $72,801 for the year ended March 31, 2023 is mainly attributable to the termination of the Canada Emergency Wage Subsidy program which was available to the Corporation for the period of March 15, 2020 and October 23, 2021.

Interest

The increases of $78,062 for the quarter ended March 31, 2023 and of $222,744 for the year ended March 31, 2023 are mainly attributable to the issuance, during the period of March 2022 to January 2023, of unsecured convertible debentures amounting to $2,380,000 and bearing interest at the yearly rates of 8% and 10%.

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, 2023	March 31, 2022
		$	
Cash and short-term investments		296,639	920,914
Accounts receivable		263,269	346,229
Other current assets		14,892	21,659
	A	574,800	1,288,802
Accounts payable and accrued liabilities		460,014	462,646
Other current liabilities		258,757	196,722
	B	718,771	659,368
Working capital	A - B	**(143,971)**	**629,434**

The Corporation's working capital deficit of $143,971, as at March 31, 2023, is not sufficient to meet yearly commitments as detailed in the following table which presents the contractual maturities of liabilities and commitments:

	As at March 31, 2023			
	Less than one year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Accounts payable and accrued liabilities	320,141	-	-	-
Loans	174,586	25,724	77,173	94,782
Leases	104,651	103,238	64,323	-
Convertible debentures	-	930,000	1,200,000	-
Interests	194,400	194,400	102,500	-
	793,778	1,253,362	1,443,996	94,782

During the month of May 2023, the Corporation raised an aggregate amount of $1,122,000 from (i) the issuance of unsecured convertible debentures ($865,000), (ii) the exercise of stock warrants ($247,000) and (iii) the exercise of stock options ($10,000).

Financial condition (continued)

Capital resources

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

Capital resources currently available to the Corporation are mainly composed of stock options and stock warrants which can be exercised to purchase common shares of the Corporation.

	Stock options exercisable as at March 31, 2023			Stock warrants exercisable as at March 31, 2023		
Exercise price range ($)	Number of options exercisable	Weighted-average exercise price ($)	Value ($)	Number of warrants exercisable	Weighted-average exercise price ($)	Value ($)
0.01 - 0.50	3,705,000	0.24	897,500	1,902,115	0.27	518,562
0.51 - 1.00	2,151,000	0.58	1,242,750	-	-	-
	5,856,000	0.37	2,140,250	1,902,115	0.27	518,562

Considering that the closing price of the common shares of the Corporation on the TSX Venture exchange was $0.35 as at March 31, 2023;

- 3,705,000 stock options exercisable at the weighted-average price of $0.24 / common share, for a value of $897,500, are "in-the-money"[1], and
- 1,905,115 stock warrants exercisable at the weighted-average price of $0.27 / common share, for a value of $518,562, are "in-the-money"[1].

[1] "In-the-money" means the stock option or the stock warrant holder has the opportunity to subscribe for common shares of the Corporation below its current market price. However, this does not necessarily imply that (i) the holder will exercise all, or any portion, of its stock options or stock warrants and (ii) the conditions as at March 31, 2023 will remain favourable in the near-term.

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 software applications based on artificial intelligence. 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 was eligible for a full refundable tax credit by the Government of Quebec.

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

	Year ended March 31,	
	2023	**2022**
R&D expenses ($)	603,347	740,811
R&D tax credit provision ($)	148,595	149,007
R&D tax credit provision in proportion to R&D expenses	25%	20%

Based on current activities and current legislation, the R&D tax credit percentage in proportion to R&D expenses is expected to remain at 25% for the foreseeable future.

Capital structure

As at March 31, 2023, the number of common shares and outstanding equity instruments is as follows:

	Number
Common shares	70,610,514
Stock warrants	1,902,115
Stock options	7,481,000
	79,993,629

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. 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 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, the expected stock price volatility, the expected life of the options, the expected dividend yield on the Corporation’s shares 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 from active markets 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.

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

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 algorithms. 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.

Risk management (continued)

- 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.

- Volatility of markets – The shares of the Corporation are primarily 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 artificial intelligence knowledge to be able to stay ahead of its competitors and up to date with technology changes.

More specifically regarding CARA;

- 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 to insure adaptability.

- Unauthorized access – CARA is a web-based application and as such is at risk of financial loss, operational disruption, or damage from the unauthorized access, use, disclosure of confidential data, disruption, modification, or destruction of the application.

- 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.

Risk management (continued)

- 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.

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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