DIAGNOS Inc.

2020 Management Discussion and Analysis

DIAGNOS Inc.

Management Discussion and Analysis

This Management Discussion and Analysis ("MD&A"), dated June 5, 2020, analyses the consolidated financial position of DIAGNOS Inc. and its subsidiaries ("DIAGNOS", "the Corporation" or "We") as at March 31, 2020 and for the three-month period and year ended March 31, 2020 and should be read in conjunction with the March 31, 2020 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 5, 2020 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 measures

This MD&A may contain certain 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 overall 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.

Going concern assumption

The March 31, 2020 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. On June 17, 2019, the Corporation entered into three unsecured non-convertible loan agreements for an amount of $250,000. On September 16, 2019, the Corporation closed a private placement of units for gross proceeds of $550,000 through the issuance of common shares and stock warrants. On November 26, 2019, the Corporation entered into one unsecured non-convertible loan agreement for an amount of $400,000. On February 14, 2020, the Corporation proceeded with the repayment of the November 26, 2019 unsecured non-convertible loan agreement for an amount of $400,000 through a shares for debt transaction. On February 11, 2020, the Corporation closed a private placement for gross proceeds of $818,480. On March 9, 2020, the Corporation closed a private placement for gross proceeds of $2,142,360 through the issuance of common shares. In the near term, the Corporation intends to continue seeking additional financing through the issuance of debt and equity instruments to meet its operating and financial obligations. 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, 2020 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

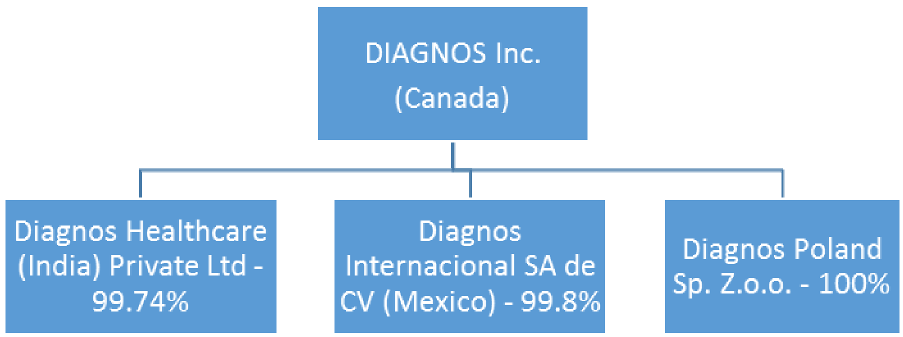
On March 11, 2020, the World Health Organization declared to be a pandemic the recent outbreak of a novel and highly contagious form of coronavirus known as COVID-19. Since then, the Corporation's sales process has been somewhat impacted and screening activities have slowed down. It is currently impossible for the Corporation to clearly assess the full impact of this pandemic on the results for the coming year, however, it should not significantly impact 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. 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

DIAGNOS has built an Artificial Intelligence ("AI") platform called *FLAIRE* to provide assistance to general practitioners in interpreting medical imaging at the primary care facilities. The Corporation operates in Healthcare and offers image analysis services through Computer Assisted Retinal Analysis (CARA), a software tool, 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.

DIAGNOS is currently listed on (i) the TSX Venture Exchange of the Toronto Stock Exchange where it trades under the stock symbol "ADK" and (ii) the OTCQB under the symbol "DGNOF".

DIAGNOS group of entities, as at March 31, 2020, is organized as follows:



During the quarter ended December 31, 2019, SARL Diagnos Medical, an associate, was dissolved. The dissolution did not have an impact on the consolidated financial statements.

AI market in Healthcare and trends

The AI market in healthcare has high growth opportunities due to rising needs of self-care monitoring in real-time. Globally, AI in healthcare market is driven by the ability to improve patient outcomes, increase in need for coordination between healthcare workforce & patients, rise in adoption of precision medicine, significant use of big data in the healthcare sector, and remarkable rise in venture capital investments. Key healthcare applications using AI at present include – Intelligent Diagnostics, Patient and Provider Data Management, Drug Discovery Process, and Medical Devices and Robotics. According to Allied Market Research, the global AI in healthcare market was valued at $1,441 million in 2016, and is estimated to reach at $22,790 million by 2023. With its established CARA technology and worldwide presence, we believe DIAGNOS is well positioned to capture a sizeable portion of the AI market in healthcare.

The management believes that, over the next decade, AI based technologies will fundamentally transform the diagnostic imaging market where the focus would be towards meeting the rising demand for imaging examinations, prevent diagnostic errors, and enable sustained productivity increases rather than replacing the need for radiologists.

It is estimated that medical images account for 90% of the medical data which makes it the largest data source in healthcare industry. Nowadays, healthcare algorithms are created to get more accurate and quicker assessments. Presently, medical imaging is applied in many healthcare sectors such as tumour detection, tracking tumour development, blood flow visualization, medical interpretation and diabetic retinopathy detection.

CARA

The Corporation has developed a proprietary set of algorithms and associated software platforms to assist eye specialists in the detection of diabetic retinopathy. According to the Canadian Diabetes Association, diabetic retinopathy is the most common cause of blindness in people under age 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, the number of people with diabetes worldwide has risen from 108 million in 1980 to 422 million in 2014.

The application is named CARA, which stands for “Computer Assisted Retinal Analysis”. The Corporation’s management view is that this application will contribute to the increase in revenue streams based on the fact that automating the screening process for diabetic retinopathy will benefit the healthcare system.

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 vary from image enhancement only, to turn-key solutions including deploying imaging equipment on a mobile basis using the Corporation’s staff.

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 CARDIO, a software tool being tested by DIAGNOS to detect patients at risk of developing cardiovascular disease. CARDIO is a by-product of the work we are doing in the field of stroke prevention based on the human vascular system. This new application is currently in clinical trial in the US, Canada, Algeria and Mexico.

Unchanged from the last reporting period, for the commercialization of CARA, we currently have a presence either directly or through resellers in North America (Canada, USA and Mexico), Europe (Poland) and Middle-East (UAE). CARA is currently being showcased at the CHUM, a key hospital in Montreal, Canada. Our focus going forward is to leverage that proven ability to (i) continue to build revenue and sales in emerging markets and (ii) to substantially grow our sales and marketing successes in the US and Canada, where we believe CARA offers a unique value proposition to payers and patients.

Development of the Business

Here are the main events which contributed to the development of the business during the year ended March 31, 2020:

- April 2019: The common shares of the Corporation began trading on a one for ten post-consolidation basis.
- May 2019: Redemption of convertible debt through the issuance of common shares.
- June 2019: Unsecured non-convertible loan agreements for an aggregate amount of $250,000 to finance the operations and the on-going development of software tools intended to help healthcare specialists.
- September 2019: DIAGNOS received SFDA authorization to commercialize CARA in Saudi Arabia.
- September 2019: Private placement of common shares and stock warrants for gross proceeds of $550,000 to finance the operations and the on-going development of software tools intended to help healthcare specialists.
- September 2019: Appointment of new chairman of the board of directors.
- November 2019: Unsecured non-convertible loan agreement for an amount of $400,000 to finance the operations and the on-going development of software tools intended to help healthcare specialists.
- February 2020: Private placement of common shares for gross proceeds of $818,480 to finance the operations and the on-going development of software tools intended to help healthcare specialists.
- February 2020: Repayment of the November 2019 $400,000 unsecured non-convertible loan through a shares for debt transaction.
- March 2020: Private placement of common shares for gross proceeds of $2,142,360 to finance the operations and the on-going development of software tools intended to help healthcare specialists.

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.

	2020				2019			
	Q4	***Q3***	***Q2***	***Q1***	***Q4***	***Q3***	***Q2***	***Q1***
	March 31, 2020	**Dec. 31, 2019**	**Sept. 30, 2019**	**June 30, 2019**	**March 31, 2019**	**Dec. 31, 2018**	**Sept. 30, 2018**	**June 30, 2018**
	$							
Revenue	77,675	90,351	82,057	81,434	91,147	94,511	47,687	93,124
Net loss	(1,263,656)	(567,489)	(546,471)	(1,005,257)	(747,453)	(1,033,666)	(1,100,708)	(957,229)
Comprehensive loss	(1,242,741)	(567,428)	(546,954)	(1,008,497)	(771,131)	(1,021,927)	(1,133,488)	(973,112)

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, 2020	March 31, 2019
	$	
Cash and short-term unrestricted investments	1,872,107	138,242
Accounts receivable	343,682	390,537
Other current assets	122,285	564,143
Non-current assets	95,873	114,219
Total assets	**2,433,947**	**1,207,141**
Accounts payable and accrued liabilities	273,057	766,840
Other current liabilities	307,977	1,713,756
Non-current liabilities	33,742	3,809,144
Shareholders' equity (deficiency)	1,819,171	(5,082,599)
Total liabilities and shareholders' equity (deficiency)	**2,433,947**	**1,207,141**
Working capital (deficiency)	**1,757,040**	**(1,387,674)**
Increase in working capital	3,144,714	

The working capital varied as follows:

		$
Working capital deficiency at the beginning of the year		**(1,387,674)**
Net proceeds from private placements of common shares and share warrants	3,401,541	
Cash flows used in operating activities	(2,640,705)	
Redemption of convertible debts	2,118,489	
Shares for debt transaction	400,000	
Payment of interests	(34,302)	
Others	(100,309)	3,144,714
Working capital at the end of the year		**1,757,040**

Financial performance

The comparative financial information for the comparative three-month period and year ended March 31, 2020, contained in this section, is derived from the Corporation's consolidated financial statements.

Comparative results

	Three-month period ended March 31,		Year ended March 31,	
	2020	2019	2020	2019
	$		$	
Revenue	77,675	91,147	331,517	326,469
Operating expenses	1,163,157	675,794	3,127,865	3,256,441
Other income	(68,748)	(36,451)	(85,804)	(52,308)
Interest expense	91,366	263,910	343,884	1,025,431
Loss (gain) on disposal of capital assets	-	13	(2,833)	627
Loss on shares for debt transaction	155,556	-	155,556	-
Loss on settlement of debt, including redemption expenses of $55,592	-	-	175,722	-
	1,341,331	903,266	3,714,390	4,230,191
Loss before income taxes	**(1,263,656)**	**(812,119)**	**(3,382,873)**	**(3,903,722)**
Decrease (increase) in loss before income taxes	(451,537)		520,849	

The variations in loss before income taxes are attributable to:

	Three-month period ended	Year ended
	March 31, 2020	
	$	
Increase (decrease) in revenue	(13,472)	5,048
Decreases in costs of services and research and development	7,531	280,869
Increases in selling and administrative expenses	(494,894)	(152,293)
Increases in other income	32,297	33,496
Decreases in interest expense	172,544	681,547
Gain on disposal of capital assets	13	3,460
Loss on shares for debt transaction	(155,556)	(155,556)
Loss on settlement of debt	-	(175,722)
	(451,537)	520,849

Analysis of variations in net loss

Revenue

The following table presents the comparative revenues by country. It is followed by an analysis of the major variations.

	Three-month period ended March 31,			Year ended March 31,		
	2020	**2019**	**Variance**	**2020**	**2019**	**Variance**
		$			$	
Canada	41,069	12,026	29,043	180,434	169,641	10,793
United States of America	23,476	21,583	1,893	83,001	74,990	8,011
United Arab Emirates	12,244	-	12,244	48,004	18,638	29,366
Bangladesh	123	-	123	13,249	-	13,249
Saudi Arabia	763	1,467	(704)	4,182	5,243	(1,061)
Costa Rica	-	-	-	2,647	-	2,647
Kenya	-	56,201	(56,201)	-	56,201	(56,201)
Others	-	(130)	130	-	1,756	(1,756)
	77,675	91,147	(13,472)	331,517	326,469	5,048

Canada
For the year ended March 31, 2020, 68% of revenues were derived from data interpretation consulting services and 32% of revenues were derived from the healthcare sector (CARA). For the same period, the increase in revenue is due to the increase in consulting services.

United States of America and Saudi Arabia
The revenues from those countries were derived from the healthcare sector (CARA) and are attributable to clients with activities in the primary care sector. The increase of $8,011 for the United States of America, for the year ended March 31, 2020, is attributable to the increase in the number of screenings.

United Arab Emirates
The revenues from this country were derived from the healthcare sector (CARA) and are attributable to one global client with activities in the pharmaceutical industry. The increase in revenue in this country, for the year ended March 31, 2020, is mainly due to the increase in the number of screenings.

Bangladesh
The revenues from this country were derived from the healthcare sector (CARA) and are attributable to one contract with the local government through a partner.

Mexico and Others
The Corporation has places of business in Mexico and Poland which are responsible for operations in these respective countries. During the year ended March 31, 2020, no revenue was derived from those countries.

Cost of services and research and development

The overall decrease in costs of services and research and development is mainly due to the decrease in the delivery of services costs from the Mexican subsidiary and the decrease in the R&D salary expenses.

Selling and administrative expenses

The increase in selling and administrative expenses, for the year ended March 31, 2020, is mainly attributable to the increase in consulting fees during the quarter ended March 31, 2020

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 $400,000 unsecured non-convertible loan. 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 part of the outstanding notes in the aggregate principal amount of $5,790,000, plus unpaid and accrued interest owing, for an aggregate amount of $6,528,047. 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

The following table contains information taken from the Corporation's consolidated financial statements:

	Year ended March 31,		
	2020	**2019**	**Variance**
		$	
Cash flows from:			
operating activities	(2,640,705)	(2,319,721)	(320,984)
investing activities	(759,983)	(96,473)	(663,510)
financing activities	3,832,888	2,404,145	1,428,743
Net change in cash	**432,200**	**(12,049)**	**444,249**

Cash flows analysis

For the year ended March 31, 2020, the Corporation was able to finance its cash flows used in operating activities mainly from (i) the proceeds from the disposal of short-term investments in the aggregate amount of $500,000, (ii) the net proceeds from two short-term loans in the aggregate amount of $125,000, (iii) the proceeds from private placements in the aggregate amount of $3,510,840, (iv) the net proceeds from a short-term loan in the amount of $400,000 and (v) the receipt of the March 31, 2019 income tax credits refund in the amount of $135,000.

Until it is able to generate a level of sales sufficient to finance its operations and financial obligations, the Corporation will need to rely on further financing. Since inception, the Corporation has been able to finance its activities and operate on a going concern basis through issuances of debt and equity instruments.

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 following table contains information taken from the Corporation's consolidated financial statements and details the cash flows derived from operating activities:

	Year ended March 31,		
	2020	**2019**	**Variance**
		$	
Net loss	(3,382,873)	(3,839,056)	456,183
Items not affecting cash	728,124	846,329	(118,205)
Payment of interest	34,302	324,156	(289,854)
Net change in non-cash operating working capital items	(20,258)	348,850	(369,108)
Cash flows from operating activities	**(2,640,705)**	**(2,319,721)**	**(320,984)**

Despite a decrease in net loss of $456,183, the negative variance in cash flows from operating activities of $320,984 is mainly attributable to:

	$
Increase in other income	33,496
Decrease in accounts receivable from customers	46,855
Decrease in accounts payable and accrued liabilities	(493,783)
Others	92,448
	(320,984)

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 • Reduce operating costs • Continue to seek debt financing • Continue to seek equity financing • 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 existing 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.

For the comparative years ended March 31, 2020, refundable tax credit provisions in proportion to the overall R&D expenses represent:

	Year ended March 31,	
	2020	**2019**
R&D expenses ($)	793,532	922,493
R&D tax credit provisions ($)	110,311	135,559
R&D tax credit in proportion to R&D expenses	14%	15%

Based on current activities and current legislation, the R&D tax credit percentage in proportion to R&D expenses is expected to be approximately 14% for the foreseeable future.

Commitments and off-balance sheet arrangements

On September 30, 2019, the operating lease agreement for the Corporation's main office expired. The Corporation is currently using the same office space on a month-to-month rent basis.

Issued Common shares and Debt

As at March 31, 2020, the number of common shares and convertible securities outstanding is:

Common shares	61,366,004
Stock warrants	10,200,090
Conversion options	937,500
Stock options	4,396,000
	76,899,594

Transactions between related parties

The Corporation's related parties include its subsidiaries and associate entities as well as the Corporation's key management personnel. Key management personnel includes directors and officers.

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

	Three-month period ended March 31,			Year ended March 31,		
	2020	2019	Δ	2020	2019	Δ
	$			$		
Base Salary	130,000	130,000	0%	520,000	520,000	0%
Stock based compensation	10,789	10,323	5%	90,005	115,372	(22%)
Incentives	50,000	-	n/a	60,000	70,000	(14%)
Sales commissions	-	-	n/a	-	1,380	(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%
	190,789	140,323	36%	670,005	706,752	(5%)

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

	As at	
	March 31, 2020	March 31, 2019
	$	
Demand loan receivable, annual interest rate of 4%	42,854	44,809
Sales commissions advance, no interest	20,841	20,841
Convertible debentures, annual nominal interest rate of 10%	-	(30,000)
Convertible notes, annual nominal interest rate of 10%	-	(500,000)

The outstanding balances with key management personnel varied as follows:

	Year ended March 31, 2020			
	Demand loan receivable, annual interest of 4%	Sales commissions advance, no interest	Convertible debentures, annual interest of 10%	Convertible notes, annual interest of 10%
		$		
Balance, beginning of year	**44,809**	**20,841**	**(30,000)**	**(500,000)**
Repayment	(1,955)	-	-	-
Redemption in shares	-	-	30,000	500,000
Balance, end of year	**42,854**	**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.

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 necessary 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
DIAGNOS Inc.
7005 Taschereau Blvd.
Suite 340
Brossard, Quebec J4Z 1A7
450 678-8882 or 877 678-8882

Stock Exchange Listing
DIAGNOS Inc. shares 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