DIAGNOS Inc.

2024 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, 2024 and for the quarter and year ended March 31, 2024 and should be read in conjunction with the March 31, 2024 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 17, 2024 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 measures

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

Non-GAAP financial measures presented in this document are:

- Research and development refundable tax credit provisions in proportion to research and development expenses. This is an indicator of the scientific research and experimental development activities in proportion to the overall research and development expenses.
- Working capital. It is obtained by subtracting the sum of the amounts for accounts payable and accrued liabilities and other current liabilities from the sum of the amounts for cash, non-restricted short-term investments, accounts receivable and other current assets.

Going concern assumption

The March 31, 2024 consolidated financial statements and this MD&A 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 its 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 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, and 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 condensed consolidated financial statements.

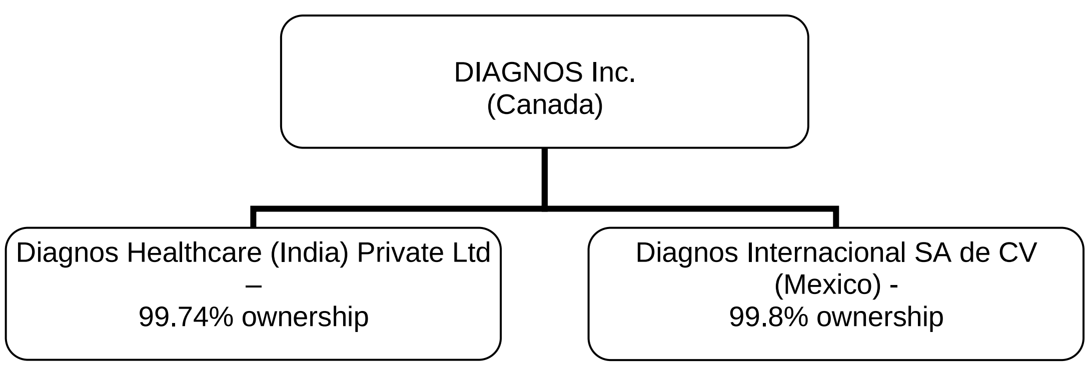
As of the date of this MD&A, the Corporation is current in its payroll taxes and is not in default with regards to its debt.

The March 31, 2024 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, 2024, is organized as follows:



Diagnos Healthcare (India) Private Limited and Diagnos Internacional SA de CV are currently inactive.

Description of the Corporation and activities (continued)

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 patients for diabetic retinopathy. DIAGNOS is also focusing its efforts on developing new features of CARA for the early detection of:

- Age-related macular degeneration (ARMD), the leading cause of blindness among the elderly,
- Diabetic macular edema (DME), one of the main causes of visual impairment among diabetics, and
- Hypertensive retinopathy (HR) which can cause damage to the heart, kidneys and eyes

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.

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

For the period of April 1, 2024 to July 17, 2024:

	Gross proceeds
Issuance of common shares and stock warrants	$1,295,821
Exercises of stock warrants	$41,363
	$1,337,184

For the year ended March 31, 2024:

	Gross proceeds
Issuance of convertible debentures and stock warrants	$865,000
Issuance of common shares and stock warrants	$1,218,051
Exercises of stock warrants and stock options	$460,373
	$2,543,424

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.

	2024				**2023**			
	Q4	***Q3***	***Q2***	***Q1***	***Q4***	***Q3***	***Q2***	***Q1***
	March 31, 2024	**Dec. 31, 2023**	**Sept. 30, 2023**	**June 30, 2023**	**March 31, 2023**	**Dec. 31, 2022**	**Sept. 30, 2022**	**June 30, 2022**
	$				$			
Revenue	41,998	52,130	32,707	43,323	68,285	121,917	146,533	149,014
Net loss	(808,778)	(810,042)	(749,590)	(752,172)	(728,967)	(513,981)	(520,710)	(717,158)
Comprehensive loss	(811,948)	(810,042)	(749,590)	(752,172)	(730,016)	(513,981)	(520,710)	(717,158)

Overall performance

The comparative financial information for the quarter and year ended March 31, 2024, 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,			**Year ended March 31,**		
	2024	**2023**	**Var.**	**2024**	**2023**	**Var.**
		$			$	
Revenue	41,998	68,285	(26,287)	170,158	485,749	(315,591)
Operating expenses	(712,179)	(706,175)	(6,004)	(2,777,467)	(2,722,761)	(54,706)
Other income	6,249	7,522	(1,273)	30,009	27,340	2,669
Interest expense	(144,846)	(98,599)	(46,247)	(543,282)	(271,144)	(272,138)
	(850,776)	(797,252)	(53,524)	(3,290,740)	(2,966,565)	(324,175)
Net Loss	**(808,778)**	**(728,967)**	**(79,811)**	**(3,120,582)**	**(2,480,816)**	**(639,766)**

Analysis of the significant variation items in net loss:

Revenue

The decreases of $26,287 for the quarter ended March 31, 2024 and of $315,591 for the year ended March 31, 2024 are mainly attributable to a decrease in consulting services.

Operating expenses

The increase of $54,706 for the year ended March 31, 2024 is mainly attributable to an overall increase in consulting fees related to product development.

Interest expense

The increases of $46,247 for the quarter ended March 31, 2024 and of $272,138 for the year ended March 31, 2024 are mainly attributable to the increase in debt financing in the form of convertible debentures.

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, 2024	**March 31, 2023**
		$	
Cash and short-term investments		219,015	296,639
Accounts receivable		166,576	263,269
Other current assets		21,285	14,892
	A	406,876	574,800
Accounts payable and accrued liabilities		521,671	460,014
Debt		975,932	168,888
Other current liabilities		124,326	89,869
	B	1,621,929	718,771
Working capital	A - B	**(1,215,053)**	**(143,971)**
Variation in working capital		**(1,071,082)**	

The variation in working capital is mainly attributable to:

	$	Note
Convertible debentures payable within one year	830,925	a)
Decrease in receivables from customers	31,594	b)
Decrease in receivables from R&D tax credits	64,317	c)
Increase in payables to suppliers	42,203	d)
Increase in interest payable	29,700	e)
Increase in leases payable within one year	32,774	
Others	39,569	
	1,071,082	

a) to be paid in March 2025
b) due to the overall decrease in revenue
c) due to a decrease in eligible work for scientific research and experimental development
d) due to the increase in payment delay
e) due to the overall debt increase

As of the date of this MD&A, the Corporation's working capital is not sufficient to cover upcoming expenses and commitments (refer to going concern assumption section on page 2).

Financial condition (continued)

Capital resources

Capital resources are financing resources available to the Corporation such as debt and equity instruments.

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

Number exercisable	Weighted-average price ($)	Value ($)
3,750,000	0.26	975,000
2,025,000	0.56	1,134,000
5,775,000	0.37	2,109,000

Stock warrants

Number exercisable	Weighted-average price ($)	Value ($)
2,300,376	0.39	897,147
1,779,356	0.45	800,710
4,079,732	0.42	1,697,857

As at March 31, 2024, the closing price of the common shares of the Corporation on the TSX Venture was $0.235. As long as the closing price of the common shares remains below the weighted-average prices, it is unlikely that the Corporation will receive additional funds from the exercice of stock options and stock warrants.

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,	
	2024	**2023**
R&D expenses ($)	1,082,223	603,347
R&D tax credit provision ($)	84,278	148,595
R&D tax credit provision in proportion to R&D expenses	8%	25%

Based on current activities and current legislation, the R&D tax credit percentage in proportion to R&D expenses is expected to remain at 10% for the foreseeable future.

Capital structure

As at March 31, 2024, the number of outstanding common shares and the number of outstanding equity instruments are as follows:

Common shares	76,648,586
Stock warrants	4,079,732
Stock options	6,800,000
	87,528,318

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 revenue 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.

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 algorithms. As with many software applications, the results have to be reviewed and validated by a third party. 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.

- Governmental financial assistance 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.

Risk management (continued)

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 landscape – Numerous statutes and regulations govern medical devices around the globe. The process of obtaining and maintaining applicable regulatory approvals can be lengthy, expensive, and uncertain.

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

- Cybersecurity – 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 personal information, 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.

- 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.

DIAGNOS Inc.

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