

DIAGNOS

Your Knowledge Partner

DIAGNOS Inc.

Management Discussion and Analysis
Three-month and Nine-month Periods ended December 31st, 2017

Management Discussion and Analysis

This Management Discussion and Analysis ("MD&A"), dated February 28, 2018, analyses the consolidated financial position of DIAGNOS Inc. and its subsidiaries ("DIAGNOS", "the Corporation" or "We") as at December 31st, 2017 and for the three-month and nine-month periods ended December 31st, 2017 and should be read in conjunction with the December 31st, 2017 interim unaudited condensed 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 February 28, 2018 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.

Going concern assumptions

The December 31st, 2017 interim unaudited condensed 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 has not realized annual profit since its inception.

In order to address these uncertainties, the Corporation is evaluating the implementation of some or all of the following measures:

- Continue the process of renewing contracts
- Reduce operating costs
- Continue to seek debt financing
- Continue to seek equity financing
- Continue to evaluate possible M&A opportunities

The Corporation believes that if it were to be successful in implementing some or all of the above risk mitigating measures, it will be able to continue as a going concern. There remains however, significant risk and uncertainty associated with implementing any of these measures which are dependent on a number of factors outside of the Corporation's control.

On April 27th, 2017, the Corporation closed a non-brokered private placement for an aggregate value of \$2,610,000 of which gross cash proceeds amounted to \$2,460,000 following the conversion of one outstanding short term loan into 15 units representing \$150,000. On October 13th and 23rd, 2017, the Corporation closed a non-brokered private placement for gross cash proceeds of \$1,000,000.

These interim unaudited condensed consolidated financial statements as at December 31st, 2017 do not reflect any adjustments that would be necessary if the going concern basis was not appropriate. Such adjustments, if required, may be material.

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 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 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:

- Backlog: The backlog amount is composed of sales bookings for services not yet rendered.
- Bookings: Booking amounts represent signed agreements for which a value can be estimated.
- Research and development refundable tax credit provisions in proportion to research and development expenses.
- Working capital: the working capital amount is obtained by subtracting accounts payable and accrued liabilities and other current liabilities from cash, non-restricted short-term investments and accounts receivable.

Restatement of previously issued financial statements

After the initial release of the March 31st, 2017 consolidated financial statements on June 20th, 2017, the Corporation determined that the conversion options embedded in the secured convertible debentures and the stock warrants issued during the fiscal years ended March 31st, 2016 and March 31st, 2017 should have been classified as equity upon initial recognition. The impacts of such adjustments for the year ended March 31st, 2017 were reflected in the restated consolidated financial statements dated August 28th, 2017. The Corporation previously reported a comprehensive loss of \$5,306,378 and a basic diluted comprehensive loss per share of \$0.04 for the year ended March 31st, 2017. The restatement resulted in a comprehensive loss of \$2,815,282 and a basic diluted comprehensive loss per share of \$0.02. The variance in comprehensive loss of \$2,491,096 is detailed as follows:

	Year ended March 31, 2017
	\$
Reversal of change in fair values of conversion options	(2,195,109)
Reversal of change in fair values of warrants	(84,133)
Adjustment to interest expense	(211,854)
	(2,491,096)

The prior period adjustments had no impact on the consolidated statements of loss and comprehensive loss for the year ended March 31st, 2016.

The prior period adjustments had the following impacts on the consolidated statements of financial position for the years ended March 31st, 2017 and March 31st, 2016.

	As at March 31, 2017			
	Loans	Convertible Debentures	Reserve	Deficit
	\$			
As previously reported	767,443	5,132,123	6,695,924	(32,704,943)
Reclassification of 2016 conversion options to equity	-	-	546,450	(546,450)
Reversal of warrants derivatives	(84,443)	(151,460)	150,226	85,677
Reversal of conversion options derivatives	-	(2,425,000)	87,234	2,337,766
Reversal of fair value of conversion options upon conversion	-	-	(615,647)	615,647
Other	-	-	1,544	(1,544)
Restated balance	683,000	2,555,663	6,865,731	(30,213,847)

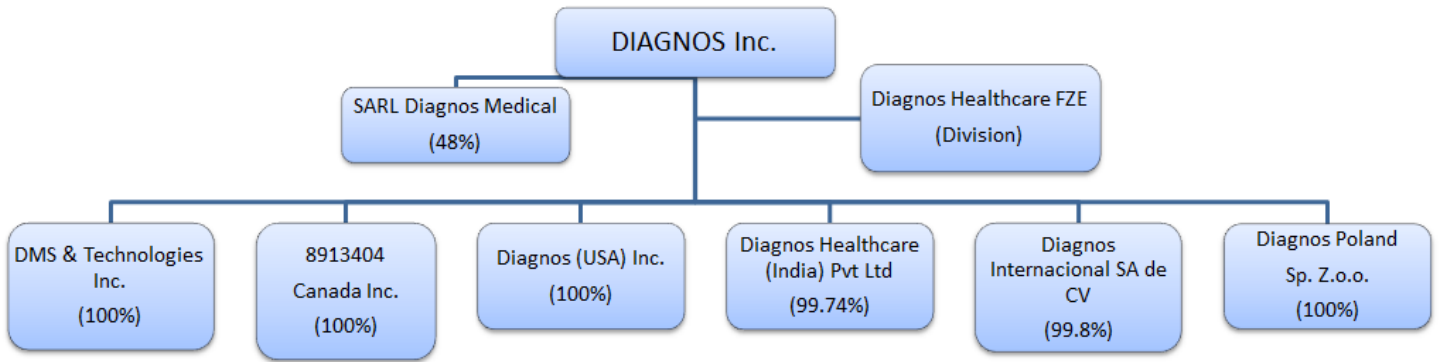
	As at March 31, 2016	
	Convertible Debentures	Reserve
	\$	
As previously reported	2,436,297	6,020,477
Reclassification of conversion options to equity	(546,450)	546,450
Restated balance	1,889,847	6,566,927

DIAGNOS Inc.

Description of the Corporation and activities

DIAGNOS is a Canadian corporation that offers data interpretation services based on its suite of proprietary software products used to extract knowledge from historical data.

DIAGNOS group of entities is organized as follows:



DIAGNOS operates in the following sectors:

Healthcare: Image analysis services through CARA (Computer Assisted Retinal Analysis), 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. CARA has been developed by, and is proprietary to, DIAGNOS.

Natural resources: Data mining consulting services through CARDS (Computer Aided Resource Detection System), a software tool used to assist exploration companies in identifying mining deposits. In combination with modern exploration techniques, CARDS is a useful tool intended to save both money and time by targeting priority (or prioritizing) areas for exploration. In addition to data mining and target generation, DIAGNOS offers project management services. CARDS has been developed by, and is proprietary to, DIAGNOS.

As of May, 25th, 2017, the Corporation operates only one segment, Healthcare, following the sale of the assets of its mining division.

Healthcare (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.

DIAGNOS Inc.

CARA can be deployed in many countries and has received certifications from Health Canada, the US Food and Drug Administration in the United States of America and CE in the European Union.

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

During the period covered by this document, our Healthcare business unit remains focused on continuing its business development efforts internationally, including development of relationships with prospective clients and governments, in addition to attending various medical conferences and industry events that drive awareness of our business platform and program offerings.

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), Africa (Algeria), Middle-East (some countries of the Gulf Cooperation Council) and India. We intend to continue increasing our presence in Europe and the Middle-East. CARA has proven its value to patients in these markets. 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.

Natural resources (CARDS)

DIAGNOS uses its proprietary software application CARDS (Computer Aided Resources Detection System) to help mineral exploration professionals identify areas of similarity to known areas of mineralization with a high statistical probability. In combination with modern exploration techniques, CARDS is a tool intended to save both money and time by generating priority targets for exploration. These target areas are presented in either two dimensional or three dimensional images to help target and prioritize exploration efforts. In addition to target generation, DIAGNOS offers project management services including geological consulting services. Under specific agreements, DIAGNOS is entitled to receive royalty payments arising from economic resource discoveries realized as a result of using CARDS. These royalties are payable in either shares, cash and/or in net smelter returns on revenues derived from mining operations within the limits of the properties as defined in the agreements. So far, no revenues were earned from royalties.

On March 15th, 2017, the Corporation announced the sale of the assets from its mining division to Majescor Resources Inc. ("Majescor"). Under the terms of the agreement, Majescor issued 8,000,000 common shares of its share capital to DIAGNOS, at a deemed price of \$0.10 per share, in payment for the acquired assets. Additionally, Majescor will remit to DIAGNOS (i) 50% of any payment that Majescor receives from the royalty agreements forming part of the acquired assets, and (ii) 5% of revenues generated by the commercialization of the CARDS System. As of May 25th, 2017, the Corporation operates only one segment, healthcare, following the sale of the assets of its mining division.

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.

	2018			2017			2016	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	
	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	March 31, 2017 (restated)	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	March 31, 2016
	\$							
Revenue	937,426	269,404	339,398	357,979	1,403,271	363,261	265,540	240,892
Net profit (loss)	(544,360)	(834,601)	(476,411)	(1,361,591)	62,179	(941,698)	(688,435)	(787,888)
Comprehensive income (loss)	(285,919)	(1,093,621)	(410,714)	(1,299,844)	15,274	(957,614)	(573,098)	(746,082)
Comprehensive income (loss) per share	0.00	(0.01)	0.00	0.00	0.00	(0.01)	(0.01)	(0.01)

Overall performance

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

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Net results

The comparative financial information for the comparative three-month and nine-month periods ended December 31st, 2017 contained in this section is derived from the Corporation's financial statements.

	Three-month period ended December 31,		Nine-month period ended December 31,	
	2017	2016	2017	2016
	\$		\$	
Revenue	937,426	1,403,271	1,546,228	2,032,072
Operating expenses	1,293,233	1,125,267	3,353,726	3,093,438
Interest expense	188,553	215,825	671,793	506,588
Gain on disposal of intangible assets	-	-	(623,919)	-
	1,481,786	1,341,092	3,401,600	3,600,026
Net profit (loss)	(544,360)	62,179	(1,855,372)	(1,567,954)
Increase in net loss	(606,539)		(287,418)	

The decrease in net loss is attributable to:

	Three-month period ended December 31, 2017	Nine-month period ended December 31, 2017
	\$	
Decreases in revenue	(465,845)	(485,844)
Decreases (increases) in costs of services and research and development	(57,425)	223,145
Decreases (increases) in selling and administrative expenses	(110,541)	(483,433)
Decreases (Increases) in interest expense	27,272	(165,205)
Gain on disposal of intangible assets	-	623,919
	(606,539)	(287,418)

- The overall decrease in revenue is attributable to the decrease in the number of signed agreements from the healthcare sector and the sale of the mining division during the quarter ended June 30th, 2017.
- The overall decrease in costs of services and research and development is mainly due to the decrease in delivery of services costs attributable to the global decrease in revenues derived from CARA and the sale of the mining division during the quarter ended June 30th, 2017.
- The increase in selling and administrative expenses, for the nine-month period ended December 31st, 2017, is mainly attributable to increases in (i) sales commissions related to the global increase in revenue for the last two quarters of the fiscal year ended March 31st, 2017, for which receivables as at March 31st, 2017 were collected in the quarter ended June 30th, 2017, (ii) consulting fees related to the new corporate image, (iii) incentives paid to officers of the Corporation and (iv) the net loss of \$142,564 from an associate.
- The increase in interest expense is mainly attributable to the issuance of secured convertible debentures in the last two years.
- The gain on disposal of intangible assets arose from the selling of the mining division during the quarter ended June 30th, 2017.

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When evaluating its overall financial performance, the Corporation's analysis is based on the following key performance indicators:

- capacity to increase revenues
- capacity to generate positive cash flows from operating activities
- capacity to deliver results
- capacity to innovate

Capacity to increase revenues

To increase its revenues, the Corporation strives to generate sales in existing and new geographic markets.

Bookings, Revenues and Backlogs

The Corporation's backlog provides an indicator when forecasting its short term revenues. The backlog is mainly composed of sales bookings for products and services not yet delivered or rendered as of period end.

The following table presents the comparative evolution of the backlog for the comparative three-month and nine-month periods ended December 31st, 2017 and is followed by an analysis of the material variances.

	Three-month period ended December 31, 2017			Nine-month period ended December 31, 2017		
	CARA	CARDS	Total	CARA	CARDS	Total
	\$			\$		
Opening backlog	1,174,500	-	1,174,500	24,600	-	24,600
Bookings	22,665	-	22,665	1,461,367	320,000	1,781,367
Adjustments	(259,739)	-	(259,739)	(259,739)	-	(259,739)
Revenues	(937,426)	-	(937,426)	(1,226,228)	(320,000)	(1,546,228)
Ending backlog	-	-	-	-	-	-

	Three-month period ended December 31, 2016			Nine-month period ended December 31, 2016		
	CARA	CARDS	Total	CARA	CARDS	Total
	\$			\$		
Opening backlog	218,849	83,250	302,099	310,586	78,250	388,836
Bookings	1,174,763	45,752	1,220,515	1,293,602	501,541	1,795,143
Amendments	-	-	-	(32,564)	-	(32,564)
Revenues	(1,302,519)	(100,752)	(1,403,271)	(1,480,531)	(551,541)	(2,032,072)
Ending backlog	91,093	28,250	119,343	91,093	28,250	119,343

	Variations for the three-month period ended December 31, 2017			Variations for the nine-month period ended December 31, 2017		
	CARA	CARDS	Total	CARA	CARDS	Total
	\$			\$		
Bookings	(1,411,837)	(45,752)	(1,457,589)	(59,410)	(181,541)	(240,951)
Revenues	(365,093)	(100,752)	(465,845)	(254,303)	(231,541)	(485,844)

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Analysis of the material variances for the comparative three-month and nine-month periods ended December 31st, 2017:

- The overall decreases in bookings and revenues from CARA are mainly attributable to the decrease in the number of customers during the nine-month period ended December 31st, 2017.
- The overall decreases in bookings and revenues from CARDS are attributable to the sale of the mining division during the quarter ended June 30th, 2017.

The Corporation's backlog provides an indicator when forecasting short term revenues. The backlog is mainly composed of sales bookings for products and services not yet delivered or rendered as of period end. These products and services are expected to be delivered or rendered within 12 months from the ending date of this quarter.

Net profit (loss) per sector:

	Nine-month period ended December 31,			Nine-month period ended December 31,		
	2017			2016		
	Healthcare	Natural resources	Total	Healthcare	Natural resources	Total
	\$			\$		
Revenue	1,226,228	320,000	1,546,228	1,480,531	551,541	2,032,072
Costs of services and research and development	(974,135)	(24,207)	(998,342)	(828,362)	(393,125)	(1,221,487)
Selling and administrative	(2,307,420)	(47,964)	(2,355,384)	(1,796,530)	(75,421)	(1,871,951)
(Loss) profit before other items	(2,055,327)	247,829	(1,807,498)	(1,144,361)	82,995	(1,061,366)
Interest expense	(671,793)	-	(671,793)	(506,588)	-	(506,588)
Gain on disposal of intangible assets	-	623,919	623,919	-	-	-
Net (loss) profit	(2,727,120)	871,748	(1,855,372)	(1,650,949)	82,995	(1,567,954)

- 96% of revenues earned from the healthcare sector for the nine-month period ended December 31st, 2017 were attributable to one governmental organization (December 31st, 2016 - 98%).

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Geographical segments

The following table presents the comparative revenues by country for the three-month and nine-month periods ended December 31st, 2017:

	Three-month period ended December 31,			Nine-month period ended December 31,		
	2017	2016	Variance	2017	2016	Variance
	\$			\$		
Mexico	920,942	1,144,028	(223,086)	1,171,037	1,181,553	(10,516)
Canada	8,385	110,501	(102,116)	328,735	561,415	(232,680)
Bangladesh	-	-	-	5,754	-	5,754
India	-	45,351	(45,351)	-	144,943	(144,943)
Kenya	-	36,297	(36,297)	-	36,297	(36,297)
Nigeria	-	-	-	625	-	625
United Arab Emirates	-	12,000	(12,000)	18,420	48,000	(29,580)
Colombia	-	6,022	(6,022)	-	6,022	(6,022)
Turkey	-	47,525	(47,525)	-	47,525	(47,525)
Saudi Arabia	-	-	-	5,082	-	5,082
Poland	-	2,040	(2,040)	1,985	3,060	(1,075)
United States of America	7,647	(493)	8,140	9,618	3,257	6,361
Slovakia	452	-	452	4,972	-	4,972
	937,426	1,403,271	(465,845)	1,546,228	2,032,072	(485,844)

Mexico

The revenues were derived from the healthcare sector (CARA) and are attributable to one governmental organization.

Canada

Essentially all of the revenues were derived from the natural resources sector (CARDS).

India, Nigeria, United Arab Emirates, Poland

The revenues from those countries were derived from the healthcare sector (CARA) and are attributable to one global client with activities in the pharmaceutical industry.

Bangladesh, Saudi Arabia, United States of America, Slovakia

The revenues were derived from the healthcare sector (CARA) and are attributable to four clients with activities in the primary care sector.

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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:

	Nine-month period ended December 31,		
	2017	2016	Variance
	\$		
Net loss	(1,855,372)	(1,567,954)	(287,418)
Items not affecting cash	104,363	315,601	(211,238)
Payment of interest	583,729	208,059	375,670
Net change in non-cash operating working capital items	29,629	142,194	(112,565)
Cash flows from operating activities	(1,137,651)	(902,100)	(235,551)

The negative variance in cash flows from operating activities of \$235,551 is mainly attributable to the decrease in revenues of \$485,844 for the nine month period ended December 31st, 2017 and the non-cash gain on disposal of the mining division of \$623,919 booked during the quarter ended June 30th, 2017.

Based on the current level of liquidities and sales activities, the capacity to generate positive cash flows from operating activities remains uncertain. In order to address this uncertainty, the Corporation is evaluating the implementation of some or all of the measures described in the following section – Capacity to deliver results.

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 its liabilities in the ordinary course of business remain uncertain. In order to address these uncertainties, the Corporation has implemented some or all of the following measures:

- Reduce operating costs
- Continue to seek debt financing
- Continue to seek equity financing
- Continue to evaluate possible M&A opportunities

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

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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 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 nine-month periods ended December 31st, 2017, refundable tax credit provisions in proportion to the overall R&D expenses represent:

	Nine-month period ended December 31,	
	2017	2016
R&D expenses (\$)	548,868	673,263
R&D tax credit provisions (\$)	60,000	85,000
R&D tax credit in proportion to R&D expenses	11%	13%

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

Expenses analysis

The comparative financial information on expenses, for the comparative three-month and nine-month periods ended December 31st, 2017, contained in this table, is derived from the Corporation's condensed consolidated financial statements and is followed by an analysis of the material variances.

	Three-month period ended		Nine-month period ended	
	December 31,		December 31,	
	2017	2016	2017	2016
	\$		\$	
Costs of services and research and development	429,172	371,747	998,342	1,221,487
Selling and administrative	864,061	753,520	2,355,384	1,871,951
	1,293,233	1,125,267	3,353,726	3,093,438
	Variations for the three-month		Variations for the nine-month	
	period ended		period ended	
	December 31, 2017		December 31, 2017	
	\$	%	\$	%
Costs of services and research and development	(57,425)	(15%)	223,145	18%
Selling and administrative	(110,541)	(15%)	(483,433)	(26%)
	(167,966)	(15%)	(260,288)	(8%)

Costs of services and research and development

The overall decrease for the nine-month period ended December 31st, 2017 is mainly due to the decrease in delivery of services costs attributable to the global decrease in revenues derived from CARA and the sale of the mining division during the quarter ending June 30th, 2017.

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Selling and administrative

The increase of \$483,433, or 26%, for the nine-month period ended December 31st, 2017, is mainly attributable to increases in (i) sales commissions related to the global increase in revenue for the last two quarters of the fiscal year ended March 31, 2017 for which receivables as at March 31st, 2017 were collected in the quarter ended June 30th, 2017, (ii) consulting fees related to the new corporate image, (iii) incentives paid to two officers of the Corporation and (iv) the net loss of \$142,564 from an associate.

Financial position analysis

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

	As at	
	December 31, 2017	March 31, 2017
	\$	
Cash and non-restricted short-term investments	1,354,640	189,861
Accounts receivable	459,192	786,274
Other current assets	100,170	100,294
Non-current assets	1,118,518	232,816
Total assets	3,032,520	1,309,245
Accounts payable and accrued liabilities	899,734	934,383
Other current liabilities	35,237	1,718,075
Non-current liabilities	4,476,602	1,571,059
Shareholders' deficiency	(2,379,053)	(2,914,272)
Total liabilities and shareholders' deficiency	3,032,520	1,309,245
Working capital (deficiency)	878,861	(1,676,323)
Increase in working capital	2,555,184	

The working capital varied as follows:

	\$	
Working capital at the beginning of the year		(1,676,323)
Net proceeds from a private placement of convertible debentures	2,476,739	
Net proceeds from a private placement of convertible notes	794,905	
Exercise of stock warrants and stock options	373,147	
Conversion of debentures	1,140,000	
Conversion of short term loan	150,000	
Cash flows used in operating activities	(1,137,651)	
Repayment of short term loans	(533,000)	
Payment of interests	(583,729)	
Others	(125,227)	2,555,184
Working capital at the end of the period		<u>878,861</u>

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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 and improve its financial position, the Corporation is evaluating the implementation of some or all of the following measures:

Liquidity risk	Risk mitigation measures
Funding of operating and financing expenses	<ul style="list-style-type: none">• Reduce operating costs• Continue to seek debt financing• Continue to seek equity financing• Continue to evaluate possible M&A opportunities

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

Commitments and off-balance sheet arrangements

Under the terms of an operating lease agreement in Canada, which will expire in September 2019, the Corporation is committed to making minimum annual lease payments of \$108,324 for the duration of the lease.

Under the terms of an operating lease agreement in Mexico, which will expire in June 2018, the Corporation is committed to making minimum annual lease payments of \$31,164 for the duration of the lease.

During the year ended March 31st, 2017, the Corporation entered into two finance lease agreements for the purchase of computer equipment. The minimum monthly payments amount to \$1,475 for a term of 36 months ending in November and December 2019.

During the quarter ended December 31, 2017, the Corporation entered into one finance lease agreement for the purchase of computer equipment. The minimum monthly payment amount to \$732 for a term of 36 months ending in December 2020.

Share information

As at December 31st, 2017, the number of common shares and convertible securities outstanding is:

Common shares	172,421,265
Stock warrants	6,220,000
Conversion options	38,950,000
Stock options	12,576,684
	<u>230,167,949</u>

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 include directors and officers.

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

	Three-month period ended			Nine-month period ended		
	December 31,			December 31,		
	2017	2016	Δ	2017	2016	Δ
	\$			\$		
Base Salary	130,000	131,250	(1%)	382,500	405,417	(6%)
Stock based compensation	63,826	5,028	1169%	127,652	12,085	956%
Incentives	-	35,000	(100%)	150,000	35,000	329%
Sales commissions	65,181	63,743	2%	110,971	78,932	41%
Interest on demand loan	606	405	50%	1,819	1,275	43%
Payment of interest on demand loan	(606)	(405)	50%	(1,819)	(1,275)	43%
	259,007	235,021	10%	771,123	531,434	45%

The overall increase in stock based compensation is attributable to an increase in the number of stock options granted during the last 12 months.

The increase in sales commissions is related to the global increase in revenue for the last two quarters of the fiscal year ended March 31st, 2017, for which receivables as at March 31st, 2017 were collected in the quarter ended June 30th, 2017. Sales commissions become payable upon reception of payment from the customer.

Incentives were paid to two officers of the Corporation in the form of cash bonuses.

During the quarter ended September 30th, 2017, the Corporation advanced \$40,000, no interest bearing, to an officer which will be repaid against sales commissions.

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

	As at	
	December 31, 2017	March 31, 2017
	\$	
Demand loan receivable, annual interest rate of 4%	47,234	43,500
Sales commissions advance, no interest	40,000	-
Convertible Debentures, annual interest rate of 10%	(30,000)	(500,000)
Convertible Notes, annual interest rate of 10%	(500,000)	-

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The outstanding balances with key management personnel varied as follows:

	Nine-month period ended December 31, 2017			
	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 period	43,500	-	(500,000)	-
Capitalization of interests	3,734	-	-	-
Loan	-	40,000	-	-
Departure of one director	-	-	500,000	-
Private placement	-	-	(30,000)	(500,000)
Balance, end of period	47,234	40,000	(30,000)	(500,000)

Critical accounting judgements 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.

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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.

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. A detailed description of these risks can be found in the March 31st, 2017 MD&A available on the SEDAR website at www.sedar.com.

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Stock Exchange Listing

DIAGNOS Inc. shares are listed on the TSX Venture Exchange under the symbol ADK.

Transfer Agents and Registrar

Computershare Trust Company of Canada

Auditor

Mazars Harel Drouin, LLP