DIAGNOS

Interim Management Discussion & Analysis – Quarterly Highlights

Three-month Period ended June 30, 2019

DIAGNOS Inc.

# Interim Management Discussion and Analysis – Quarterly Highlights

This Interim Management Discussion and Analysis – Quarterly Highlights ("MD&A") of DIAGNOS Inc. and its subsidiaries ("DIAGNOS", "the Corporation" or "We"), dated August 28, 2019 and approved by the board of directors on the same date, provides an update, as at June 30, 2019 and for the three-month period ended June 30, 2019, to the last Corporation's annual MD&A dated March 31, 2019. It should be read in conjunction with the June 30, 2019 interim condensed consolidated financial statements and accompanying notes. The currency used is the Canadian dollar, unless otherwise stated.

## 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 measure

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.

The working capital is the only Non-GAAP financial measure which is presented in this document. The working capital amount is obtained by subtracting accounts payable and accrued liabilities and other current liabilities from cash, non-restricted short-term investments, accounts receivable and other current assets. This is an indicator for assessing short-term solvency.

## Going concern assumption

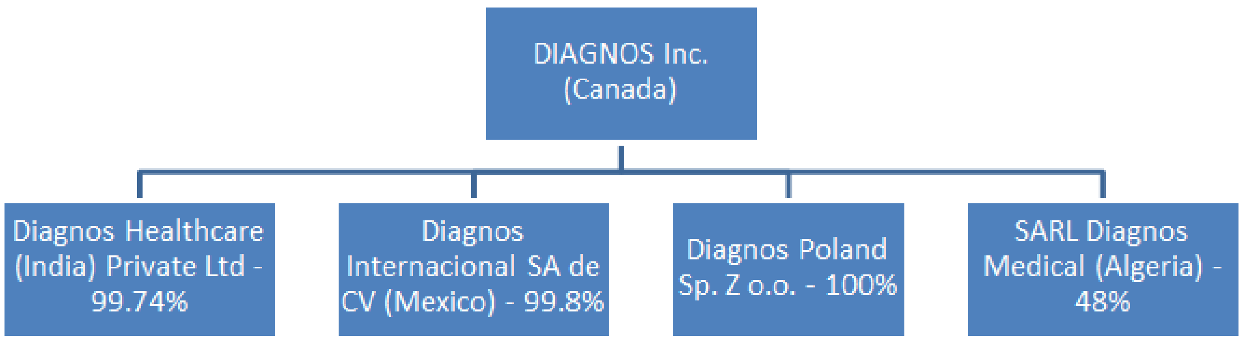
The Corporation's current level of revenue is not sufficient to cover its expenses and ongoing commitments. The Corporation's ability to generate positive cash flows from its operating activities is dependent on achieving and maintaining profitable operations. Since inception, the Corporation has been able to finance its activities and operate on a going concern basis through issuances of debt and equity instruments. 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 continue doing so, 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 the financial statements.

## 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' geographical footprint spans across fifteen countries. 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 June 30, 2019, is organized as follows:




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 all 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 Health Canada, the US Food and Drug Administration in the United States of America and CE in the European Union.

## Business model and main risks

Healthcare remains the focused segment and the only revenue contributor following the divesture of the Natural Resources segment in May 2017. Presently, the Corporation’s main source of revenue is derived from screening of diabetic patients for diabetic retinopathy.

Screening projects are classified into two 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 to acquire images.

Revenue arises from fees charged to analyse the retina of the eye image through the CARA web platform, usually on a per-transaction basis. The per-transaction fee varies based on the degree of deployment; managed or standalone. Revenue may also arise from fixed-amount subscription to the CARA platform. The Corporation also earns revenue from consulting services in the field of Artificial Intelligence.

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, screening of diabetic patients for diabetic retinopathy, and (ii) product acceptance, since the CARA technology is (a) based on Artificial Intelligence, which is in development, and (b) not intended to make any diagnosis but rather to help the healthcare professional in making diabetic retinopathy diagnosis assessments.

## Significant events during the period

On April 24, 2019, the common shares of the Corporation began trading on a one for ten post-consolidation basis. As such, the number of outstanding common shares was divided by ten and the price of the common shares was multiplied by ten (the “Share consolidation”). The Share consolidation only impacted the calculation of the basic and diluted comprehensive loss per share presented in the interim condensed consolidated statements of loss and comprehensive loss.

On May 15, 2019, the Corporation proceeded with the redemption of the outstanding convertible debentures and part of the outstanding convertible notes in the aggregate principal amount of $5,790,000, plus unpaid and accrued interest owing, for a total amount of $6,528,047, and in payment thereof, 18,651,547 common shares of the Corporation were issued at the deemed price of $0.35 per share (the “Redemption”). The Redemption resulted in a loss on settlement of debt of $175,722 which is presented in the interim condensed consolidated statements of loss and comprehensive loss. As at June 30, 2019, convertible debt is solely composed of two unsecured convertible notes for an aggregate nominal value of $150,000.

On June 19, 2019, the Corporation entered into three unsecured non-convertible loan agreements for an aggregate nominal value of $250,000. As part of the agreements, the Corporation issued 250,000 stock warrants entitling the holders to purchase 250,000 common shares (each a “Share”) of the Corporation at a price of $0.35 per Share for a period of twelve months. As at June 30, 2019, only the proceeds from one loan in the amount of $50,000 were received. The outstanding amount of $200,000 as at June 30, 2019 was received in July of 2019.

## Quarterly Highlights

This section provides a short discussion of all material information about the Corporation’s operations, liquidity and capital resources.

### Financial condition

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

| | As at | |
|---|---|---|
| | **June 30, 2019** | **March 31, 2019** |
| | $ | |
| Cash and short-term unrestricted investments | 97,498 | 138,242 |
| Accounts receivable | 355,196 | 390,537 |
| Other current assets | 37,777 | 564,143 |
| Non-current assets | 76,370 | 114,219 |
| **Total assets** | **566,841** | **1,207,141** |
| Accounts payable and accrued liabilities | 344,393 | 766,840 |
| Other current liabilities | 69,160 | 1,713,756 |
| Non-current liabilities | 156,812 | 3,809,144 |
| Shareholders' deficiency | (3,524) | (5,082,599) |
| **Total liabilities and shareholders’ deficiency** | **566,841** | **1,207,141** |
| **Working capital (deficiency)** | **76,918** | **(1,387,674)** |
| Increase in working capital | 1,464,592 | |

*Analysis of the variation in working capital*
The increase in working capital is mainly due to the May 15, 2019 redemption of the outstanding convertible debentures and part of the outstanding notes plus unpaid and accrued interest owing (the “Redemption”). The Redemption had a positive impact on the working capital of $2,118,489. Despite the positive impact of the Redemption on the working capital, the cash flows used for operating activities had a negative impact of $632,274 on the working capital. To improve its working capital in the near term, the intention of the Corporation is discussed in the below section “Cash flows”.

## Financial performance

The comparative financial information for the three-month period ended June 30, 2019, contained in this section, is derived from the Corporation's interim condensed consolidated financial statements.

*Comparative results*

| | Three-month period ended June 30, 2019 | Three-month period ended June 30, 2018 |
|---|---|---|
| | $ | $ |
| Revenue | 81,434 | 93,124 |
| Operating expenses | 746,233 | 816,548 |
| Other income | (17,056) | - |
| Interest expense | 185,075 | 233,805 |
| Gain on disposal of capital assets | (3,283) | - |
| Loss on settlement of debt | 175,722 | - |
| | 1,086,691 | 1,050,353 |
| **Net loss** | **(1,005,257)** | **(957,229)** |
| Increase in net loss | (48,028) | |

The increase in net loss is attributable to:

| | $ |
|---|---|
| Decrease in revenue | (11,690) |
| Decreases in costs of services and research and development | 42,160 |
| Decrease in selling and administrative expenses | 28,155 |
| Increase in other income | 17,056 |
| Decrease in interest expense | 48,730 |
| Gain on disposal of capital assets | 3,283 |
| Loss on settlement of debt | (175,722) |
| | (48,028) |

*Analysis of net loss*

Although the operating and interest expenses have decreased for the three-month period ended June 30, 2019 compared to the three-month period ended June 30, 2018, the current level of revenue is not sufficient to cover the Corporation's expenses and ongoing commitments. 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.

Revenue

The following table presents the comparative revenues by country:

| | Three-month period ended June 30, | | |
|---|---|---|---|
| | 2019 | 2018 | Variance |
| | | $ | |
| Canada | 31,337 | 73,840 | (42,503) |
| United States of America | 23,571 | 10,715 | 12,856 |
| Bangladesh | 13,048 | - | 13,048 |
| United Arab Emirates | 12,019 | 6,140 | 5,879 |
| Saudi Arabia | 1,459 | 2,479 | (1,020) |
| Others | - | (50) | 50 |
| | 81,434 | 93,124 | (11,690) |

*Canada*

For the three-month period ended June 30, 2019, 52% of revenues were derived from data interpretation consulting services (June 30, 2018 – 100%) and 48% of revenues were derived from the healthcare sector (CARA). The decrease in revenues for the three-month period ended June 30, 2019 is attributable to the decrease in revenues derived from data interpretation consulting services.

*United States of America*

Revenues are derived from the healthcare sector (CARA). The increase of $12,856 for the period ended June 30, 2019 is attributable to the increase in the number of clients.

*Bangladesh*

Revenues are derived from the healthcare sector (CARA) from one client.

*United Arab Emirates*

Revenues are derived from the healthcare sector (CARA) and are attributable to one global client with activities in the pharmaceutical industry. The increase of $5,879 for the period ended June 30, 2019 is attributable to the increase in the volume of transactions.

*Saudi Arabia*

Revenues are derived from the healthcare sector (CARA) from one client.

Unchanged from the last reporting period, the commercialization of CARA is done by our internal sales team or through our network of resellers in North America (Canada, USA and Mexico), Africa (Algeria), Middle-East (some countries of the Gulf Cooperation Council) and India. For the upcoming months we intend to continue increasing our presence in Canada and in the USA. Our solution CARA is currently being showcased at the CHUM, an important hospital in Montreal, Canada. Our focus is to (i) continue to build revenue and sales in emerging markets and (ii) substantially grow sales in Canada and in the USA, where we believe CARA offers a unique value proposition to payers and patients.

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 delivery of services costs attributable to the global decrease in revenues derived from CARA.

Unchanged from the last reporting period, the Corporation is actively developing CARDIO, a software tool 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. As of the date of this report, the commercialization date of the CARDIO has not been determined.

Selling and administrative expenses

The decrease in selling and administrative expenses, for the period ended June 30, 2019, is mainly attributable to decreases in (i) incentives paid to officers of the Corporation and (ii) consulting fees related to tax credit.

Interest expense

The overall decrease in interest expense is mainly attributable to the May 15, 2019 redemption of the convertible debt.

Loss on settlement of debt

The amount of $175,722, for the three-month period ended June 30, 2019, 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 interim condensed consolidated financial statements:

| | Three-month period ended June 30, | | |
|---|---|---|---|
| | **2019** | **2018** | **Variance** |
| | | $ | |
| Cash flows from: | | | |
| operating activities | (632,274) | (144,789) | (487,485) |
| investing activities | 501,947 | 426,274 | 75,673 |
| financing activities | 38,398 | (227,471) | 265,869 |
| Net change in cash | **(91,929)** | **54,014** | **(145,943)** |

*Cash flows analysis*

For the three-month period ended June 30, 2019, 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 and (ii) the net proceeds from one short-term loan in the nominal amount of $50,000. Since June 30, 2019, the Corporation has been able to finance its cash flows used in operating activities mainly from (i) the proceeds of two loans in the aggregate amount of $200,000 and (ii) 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.

## Commitments and off-balance sheet arrangements

As at June 30, 2019, under the terms of an operating lease agreement in Canada which will expire September 30, 2019, the Corporation is committed to making minimum lease payments of $28,500. The Corporation is currently in negotiations for a renewal of the same lease.

## Capital resources

| | As at | |
|---|---|---|
| | June 30, 2019 | March 31, 2019 |
| | Number of | |
| Common shares | 39,944,677 | 21,293,127 |
| Stock warrants | 4,531,000 | 4,381,000 |
| Conversion options | 937,500 | 4,695,000 |
| Stock options | 1,525,268 | 1,635,268 |
| | 46,938,445 | 32,004,395 |

The increase in the number of common shares and the decrease in the number of conversion options are attributable to the May 15, 2019 redemption of the outstanding convertible debentures and part of the outstanding convertible notes including unpaid and accrued interest owing.

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**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