Interim Management Discussion & Analysis – Quarterly Highlights

Three-month Period ended June 30, 2020

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 26, 2020 and approved by the board of directors on the same date, provides an update, as at June 30, 2020 and for the three-month period ended June 30, 2020, to the last Corporation's annual MD&A dated March 31, 2020. It should be read in conjunction with the June 30, 2020 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. It is an indicator for assessing short-term solvency.

Going concern assumption

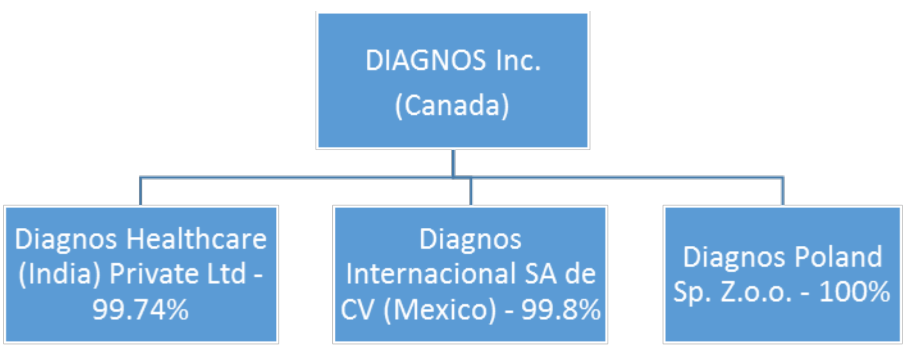
The Corporation's current level of revenue is not sufficient to cover its expenses and ongoing commitments. The Corporation's ability to generate positive cash flows from its operating activities is dependent on achieving and maintaining profitable operations. Since inception, the Corporation has been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

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 June 30, 2020, 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.

Management also believes that, over the next several years, 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 by the Corporation vary from image enhancement only, to turn-key solutions including deploying imaging equipment on a mobile basis using the Corporation’s staff.

The commercialization of CARA is done by our internal sales team and through our network of agents and resellers. Our solution CARA is currently being showcased at the CHUM, a major 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.

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.

Business model and main risks

Healthcare remains the focused segment following the divesture of the Natural Resources segment in May 2017. The Corporation's main line of business is the 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 on how 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, 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 professionals in making diabetic retinopathy diagnosis assessments.

Significant event during the period

Impact of the 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 current fiscal 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.

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, 2020	March 31, 2020
	$	
Cash and short-term investments	1,476,385	1,872,107
Accounts receivable	274,714	343,682
Other current assets	111,180	122,285
Non-current assets	87,859	95,873
Total assets	**1,950,138**	**2,433,947**
Accounts payable and accrued liabilities	229,965	273,057
Other current liabilities	300,682	307,977
Non-current liabilities	70,881	33,742
Shareholders' equity	1,348,610	1,819,171
Total liabilities and shareholders' equity	**1,950,138**	**2,433,947**
Working capital	**1,331,632**	**1,757,040**
Decrease in working capital	(425,408)	

Analysis of the variation in working capital

The decrease in working capital is mainly due to the cash flows used for operating activities of $414,891. To improve its working capital in the near term, the intentions of the Corporation are discussed in the below section "Cash flows".

Financial performance

The comparative financial information for the comparative three-month period ended June 30, 2020, contained in this section, is derived from the Corporation's interim condensed consolidated financial statements.

Comparative results

	Three-month period ended June 30, 2020	Three-month period ended June 30, 2019
	$	$
Revenue	47,690	81,434
Operating expenses	674,897	746,233
Other income	(141,563)	(17,056)
Interest expense	10,675	185,075
Gain on disposal of capital assets	-	(3,283)
Loss on settlement of debt	-	175,722
	544,009	1,086,691
Net loss	(496,319)	(1,005,257)
Decrease in net loss	508,938	

The decrease in net loss is attributable to:

	$
Decrease in revenue	(33,744)
Decreases in costs of services and research and development	87,337
Increase in selling and administrative expenses	(16,001)
Increase in other income	124,507
Decrease in interest expense	174,400
Gain on disposal of capital assets	(3,283)
Loss on settlement of debt	175,722
	508,938

Detailed analysis of the variation in net loss

<u>Revenue</u>

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

	Three-month period ended June 30,		
	2020	**2019**	**Variance**
		$	
Canada	39,275	31,337	7,938
United States of America	8,415	23,571	(15,156)
Bangladesh	-	13,048	(13,048)
United Arab Emirates	-	12,019	(12,019)
Saudi Arabia	-	1,459	(1,459)
	47,690	81,434	(33,744)

Canada
70% of revenues from Canada, for the three-month period ended June 30, 2020, were attributable to data interpretation consulting services rendered to one company active in the mining sector (three-month period ended June 30, 2019 - 52%). The increase of $7,938, for the three-month period ended June 30, 2020, is mainly due to the increase in the level of data interpretation consulting services rendered to the company active in the mining sector.

United States of America
Revenues are derived from the healthcare sector (CARA). The decrease of $15,156 for the three-month period ended June 30, 2020 is attributable to the decrease in the volume of screenings.

Bangladesh
Revenues are derived from the healthcare sector (CARA). The decrease of $13,048 for the three-month period ended June 30, 2020 is attributable to the non-renewal of sales agreements.

United Arab Emirates
Revenues are derived from the healthcare sector (CARA). The decrease of $12,019 for the three-month period ended June 30, 2020 is attributable to the non-renewal of sales agreements.

Saudi Arabia
Revenues are derived from the healthcare sector (CARA). The decrease of $1,459 for the three-month period ended June 30, 2020 is attributable to the absence of screenings.

Cost of services and research and development (R&D)

The overall decrease in costs of services and research and development is mainly due to (i) the decrease in the delivery of services costs attributable to the decrease in revenues and (ii) the decrease in R&D salary expenses.

Selling and administrative expenses

The increase in selling and administrative expenses is mainly attributable to the increase in consulting fees.

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. 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

For the three-month period ended June 30, 2020, cash liquidities[1] varied as follows:

	Three-month period ended June 30,		
	2020	2019	Variance
		$	
Cash liquidities[1] at beginning of period	**1,872,107**	**693,954**	
Receipts from:			
Clients	83,830	28,307	55,523
Grants	141,563	17,056	124,507
Loans	40,000	49,300	(9,300)
	265,393	94,663	170,730
Disbursements:			
Payroll, suppliers and others	(653,740)	(676,119)	22,379
Interest	(7,375)	(15,000)	7,625
	(661,115)	(691,119)	30,004
Net change in liquidities	(395,722)	(596,456)	200,734
Cash liquidities[1] at period end	**1,476,385**	**97,498**	

note 1: Cash liquidities consist of cash and short-term investments

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 operations through issuances of debt and equity instruments as well as governemental assistance programs.

Capital structure

	As at		
	June 30, 2020	March 31, 2020	Variance
	Number		
Common shares	61,366,004	61,366,004	-
Stock warrants	8,285,090	10,200,090	(1,915,000)
Conversion options	937,500	937,500	-
Stock options	4,396,000	4,396,000	-
	74,984,594	76,899,594	(1,915,000)

The decrease in the number of stock warrants is mainly attributable to expiries.

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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