

# DIAGNOS

DIAGNOS Inc.

Interim Management Discussion & Analysis (MD&A) – Quarterly Highlights

Three-month Period ended June 30, 2021

DIAGNOS Inc.

## June 30, 2021 Interim MD&A – Quarterly Highlights

### Description

This Interim Management Discussion and Analysis – Quarterly Highlights (“MD&A”), dated August 10, 2021, analyses the consolidated financial position of DIAGNOS Inc. and its subsidiaries (“DIAGNOS”, “the Corporation” or “We”) as at June 30, 2021 and for the three-month period ended June 30, 2021 and should be read in conjunction with the June 30, 2021 interim consolidated financial statements and accompanying notes.

This MD&A was approved by the Board of Directors on August 10, 2021 and takes into account information available up to the filing date on SEDAR.

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

### 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

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.

Working capital is the only non-GAAP financial measure presented in this document. It is obtained by subtracting the sum of the amounts for (i) accounts payable and accrued liabilities and (ii) other current liabilities from the sum of the amounts for (i) cash, (ii) non-restricted short-term investments, (iii) accounts receivable and (iv) other current assets. The working capital amount is an indicator for assessing short-term solvency.

### Going concern assumption

The June 30, 2021 interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Corporation will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

The Corporation's current level of revenue is not sufficient to cover its expenses and ongoing commitments. The Corporation's ability to generate positive cash flows from its operating activities is dependent on achieving and maintaining profitable operations. Since inception, the Corporation has been able to finance its activities and operate on a going concern basis through issuances of common shares, stock warrants, convertible notes, convertible debentures and demand loans.

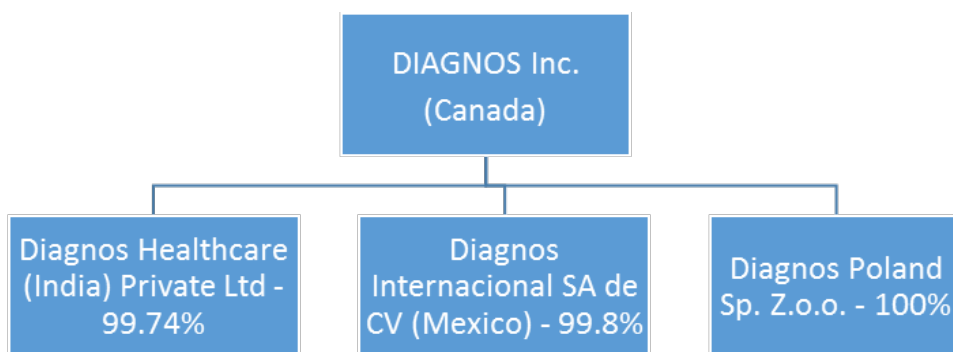
While the Corporation has been successful in securing financing in the past, there can be no assurance it will be able to do so in the future, that such sources of funding or initiatives will be available on terms acceptable to the Corporation. If the Corporation is unable to obtain sufficient additional funding, it may be unable to continue its operations, and amounts from the sale of assets might be less than the amounts reflected in these interim consolidated financial statements.

The June 30, 2021 interim 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 June 30, 2021, is organized as follows:



Diagnos Poland sp. Z.o.o. was liquidated on July 9, 2021. Diagnos Healthcare (India) Private Limited liquidation process is expected to begin during the second quarter of the current financial year.

DIAGNOS Inc.

## June 30, 2021 Interim MD&A – Quarterly Highlights

### CARA

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.

According to the Canadian Diabetes Association, diabetic retinopathy is the most common cause of blindness in people under the age of 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, more than 422 million people worldwide have diabetes, the majority living in low-and middle-income countries, and 1.6 million deaths are directly attributed to diabetes each year.

Both the number of cases and the prevalence of diabetes have been steadily increasing over the past few decades. Also according to the World Health Organization, diabetes can be treated and its consequences avoided or delayed with;

- diet,
- physical activity,
- medication,
- **regular screening**, and
- treatment for complications.

We believe CARA offers a unique value proposition to payers and patients in automating the **screening** process. The Corporation's management view is that CARA will contribute to the increase in revenue streams based on the fact that automating the screening process for diabetic retinopathy can increase the number of screened patients, while being affordable and easy to deploy.

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.

Unchanged from the last reporting period, commercialization is done either directly or through resellers in North America and Europe. Our focus going forward is to (i) continue to build revenue and sales in emerging markets and (ii) to substantially grow our sales in the US and Canada, 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.

During the period covered by this document, the Corporation has actively been developing a software tool to detect patients at risk of developing cardiovascular disease. It is a by-product of the work we are doing in the field of stroke prevention based on the human vascular system.

## **Business model and main risks**

The Corporation's main market 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 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. Revenue may also arise from fixed-amount subscription to the CARA platform. The Corporation also earns revenue from data mining consulting services in the natural resources sector.

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 CARA is an innovative technology which requires adoption by the healthcare professionals in making diabetic retinopathy diagnosis assessments.

## **Significant events during the period**

### **Pandemic**

The Corporation's sales process continues to be somewhat impacted by the COVID-19 pandemic. This situation has not significantly impacted 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. Unchanged from the last reporting period, the Corporation is monitoring the situation closely and may take additional measures to reduce its costs and preserve its cash liquidities.

### **Financing activities**

The Corporation received an aggregate amount of \$493,000 resulting from the exercise of stock warrants and stock options.

**Quarterly Highlights**

Analysis of the Corporation's financial condition

Financial condition reflects the overall health of the Corporation and includes the Corporation's financial position and other factors that may affect the Corporation's liquidity, capital resources and solvency. The comparative financial information contained in this document is derived from the Corporation's interim consolidated financial statements.

*Comparative results*

	Three-month period ended June 30,	
	2021	2020
	\$	
Revenue	75,961	47,690
Operating expenses	802,030	674,897
Other income	(16,911)	(141,563)
Interest expense	10,865	10,675
	795,984	544,009
<b>Net Loss</b>	<b>(720,023)</b>	<b>(496,319)</b>
Increase in net loss	(223,704)	

The variation in net loss is attributable to:

	\$
Increase in revenue	28,271
Increase in operating expenses	(127,133)
Decrease in other income	(124,652)
Increase in interest expense	(190)
	(223,704)

DIAGNOS Inc.  
**June 30, 2021 Interim MD&A – Quarterly Highlights**

Detailed analysis of the variations in net loss

Revenue

	Three-month period ended June 30,					
	2021			2020		
	Healthcare	Consulting	Total	Healthcare	Consulting	Total
	\$					
Canada	40,338	27,687	68,025	11,666	27,609	39,275
United States of America	7,820	-	7,820	8,415	-	8,415
Costa Rica	116	-	116	-	-	-
	48,274	27,687	75,961	20,081	27,609	47,690

The increase in overall revenue of \$28,271 is mainly attributable to the signing of one agreement with a company active in eye care and located in Canada.

Operating expenses

The overall increase in operating expenses of \$127,133 is mainly due to:

	\$	note
Increase in legal fees	60,421	a)
Increase in R&D consultancy fees	34,089	b)
Increase in marketing consultancy fees	27,209	c)
Others	5,414	
	<u>127,133</u>	

- a) defense legal advice fees in connection with a notice of complaint filed by an investor that alleges the Corporation did not fulfill some obligations related to the conversion of one convertible instrument issued in October 2017. Management's assessment, based on its interpretation of the underlying associated documents and independent legal advice, is that the basis for the investor's claim has little merit and it is not probable that an outflow of cash will be required to settle the claim. Management's assessment of the fair value of the range of possible outcomes of the judicial process, including any legal fees, cannot be determined as at June 30, 2021.
- b) improvements of deep learning algorithms for the analysis of retinal images.
- c) activities to promote the Corporation's products and services.

Other income

The overall decrease of \$124,652 is mainly attributable to a decrease in the value of claims filed under the Canada Emergency Wage Subsidy program. Due to the overall increase in revenue, the Corporation's eligibility to this relief program has been affected.

DIAGNOS Inc.  
**June 30, 2021 Interim MD&A – Quarterly Highlights**

*Working Capital*

Working capital is a measure of the Corporation's liquidity and is an indicator for assessing short-term solvency.

	<b>As at</b>	
	<b>June 30, 2021</b>	<b>March 31, 2021</b>
	\$	
Cash and short-term investments	1,237,527	1,360,857
Accounts receivable	216,949	203,992
Other current assets	89,332	26,115
A	<b>1,543,808</b>	<b>1,590,964</b>
Accounts payable and accrued liabilities	417,419	342,340
Other current liabilities	204,598	207,723
B	<b>622,017</b>	<b>550,063</b>
<b>Working capital</b>	<b>921,791</b>	<b>1,040,901</b>
A - B	<b>921,791</b>	<b>1,040,901</b>
<b>Decrease in working capital</b>	<b>(119,110)</b>	

The decrease in working capital is attributable to:

	\$
Cash used for operating activities	(569,743)
Cash received from exercise of stock warrants and stock options	493,000
Cash used for lease payments	(27,494)
Cash used for interest payments	(17,381)
Others	2,508
	<b>(119,110)</b>



DIAGNOS Inc.  
**June 30, 2021 Interim MD&A – Quarterly Highlights**

The following are the contractual maturities of liabilities and commitments as at the end of the reporting date:

	<b>As at June 30, 2021</b>			
	<b>Less than one year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Overs 5 years</b>
Accounts payables and accrued liabilities	278,908	-	-	-
Loans	125,000	40,000	-	-
Leases	99,872	83,200	159,510	-
	503,780	123,200	159,510	-

The Corporation has adequate cash liquidities to meet its short term obligations. The available liquidity to meet long term obligations is dependent on the Corporation's ability in achieving and maintaining profitable operations and securing additional financing.

*Capital resources*

Capital resources are financing resources available to the Corporation and include debt, equity and any other financing arrangements.

Government assistance

During the quarter ended September 30, 2020, the Corporation entered into a financing agreement in the form of an interest-free loan of up to \$2,000,000 from the government of Québec via the Economic Development Fund to support the commercialization of its healthcare services globally. Under the financing agreement, loan disbursement will be made in installments corresponding to 49% of the eligible expenses incurred up to June 30, 2022 for which the Corporation is requesting disbursement, up to \$2,000,000. The interest-free loan has a term of 10 years and principal repayment will start after the 24<sup>th</sup> month following the first disbursement. As at June 30, 2021, the Corporation has not yet submitted any claim for disbursement under the financing agreement. It expects to submit a first claim before the end of 2021.

Stock options exercisable

<b>as at June 30, 2021</b>			
<b>Number</b>	<b>Weighted-average exercise price</b>	<b>Value</b>	<b>Weighted-average remaining contractual life</b>
	<b>(\$)</b>	<b>(\$)</b>	<b>(in years)</b>
1,618,500	0.25	404,625	2.2
561,000	0.73	409,530	0.9
275,000	1.30	357,500	1.0
50,000	1.60	80,000	0.2

DIAGNOS Inc.

June 30, 2021 Interim MD&A – Quarterly Highlights

Stock warrants exercisable

as at June 30, 2021

<b>Number</b>	<b>Weighted-average exercise price</b>	<b>Value</b>	<b>Weighted-average remaining contractual life</b>
	<b>(\$)</b>	<b>(\$)</b>	<b>(in years)</b>
354,169	0.20	70,834	0.6

**Head Office**

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Brossard, Quebec J4Z 1A7  
450 678-8882 or 877 678-8882

**Stock Exchange Listing**

The common shares of DIAGNOS Inc. 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