DIAGNOS Inc.

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

Three-month and Six-month Periods ended September 30, 2021

Description

This Interim Management Discussion and Analysis – Quarterly Highlights ("MD&A"), dated October 27, 2021, analyses the consolidated financial position of DIAGNOS Inc. and its subsidiaries ("DIAGNOS", "the Corporation" or "We") as at September 30, 2021 and for the three-month period and the six-month period ended September 30, 2021, to the last Corporation's annual MD&A dated March 31, 2021. It should be read in conjunction with the September 30, 2021 interim condensed consolidated financial statements and accompanying notes.

This MD&A was approved by the Board of Directors on October 27, 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 September 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.

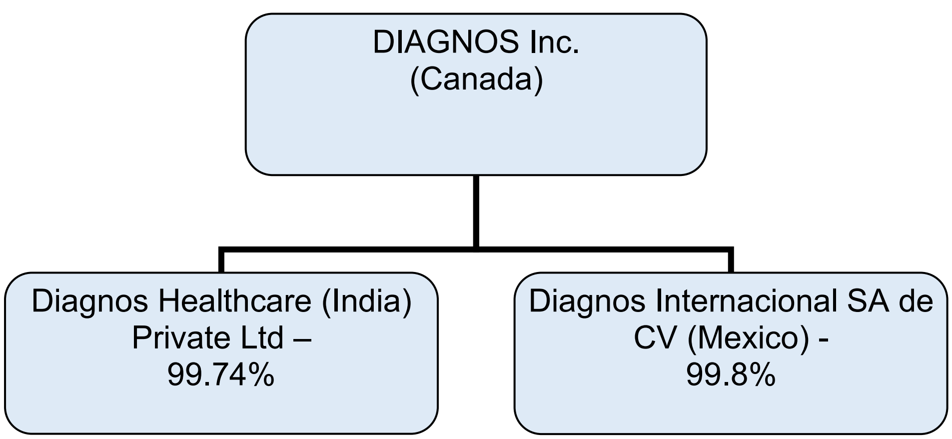
While the Corporation has been successful in securing financing in the past, there can be no assurance it will be able to do so in the future, that such sources of funding or initiatives will be available on terms acceptable to the Corporation. If the Corporation is unable to obtain sufficient additional 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 September 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 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 current financial year.

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 continued 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. However, it 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 $653,000 resulting from the exercise of stock warrants and stock options.

Quarterly Highlights

Analysis of the Corporation's financial condition

The comparative financial information for the three-month and six-month periods ended September 30, 2021, contained in this section, is derived from the Corporation's interim condensed consolidated financial statements.

Results

	Three-month period ended September 30,		Six-month period ended September 30,	
	2021	**2020**	**2021**	**2020**
	$		$	
Revenue	80,933	79,787	156,894	127,477
Operating expenses	(703,032)	(526,105)	(1,505,062)	(1,201,002)
Other income	72,918	105,467	89,829	247,030
Interest expense	(8,525)	(11,330)	(19,390)	(22,005)
	(638,639)	(431,968)	(1,434,623)	(975,977)
Net Loss	**(557,706)**	**(352,181)**	**(1,277,729)**	**(848,500)**
Increases in net loss	(205,525)		(429,229)	

The increases in net loss are attributable to:

	$	$
Increase in revenue	1,146	29,417
Increase in operating expenses	(176,927)	(304,060)
Decrease in other income	(32,549)	(157,201)
Decrease in interest expense	2,805	2,615
	(205,525)	(429,229)

Detailed analysis of the variations in net loss

Revenue

	Three-month period ended September 30,			Six-month period ended September 30,		
	2021	2020	Variance	2021	2020	Variance
		$			$	
Canada	72,498	58,187	14,311	140,523	97,462	43,061
United States of America	7,063	19,723	(12,660)	14,883	28,138	(13,255)
Saudia Arabia	747	-	747	747	-	747
Mexico	351	-	351	351	-	351
Costa Rica	132	-	132	248	-	248
Colombia	84	1,877	(1,793)	84	1,877	(1,793)
Spain	58	-	58	58	-	58
	80,933	79,787	1,146	156,894	127,477	29,417

Canada
The increase in revenue of $43,061, for the six-month period ended September 30, 2021, is mainly attributable to the signing of one agreement, in June 2021, with a company active in eye care.

United States of America
The decrease of $13,255, for the six-month period ended September 30, 2021, is attributable to the decrease in the volume of screenings mainly due to the impact of the Covid-19 pandemic.

Operating expenses

	Note	Three-month period ended September 30, $	Six-month period ended September 30, $
Share-based compensation	a)	(74,528)	(153,128)
Consulting - Administration	b)	78,447	152,364
Cost of goods sold	c)	(35,166)	(58,711)
Consulting - R&D	d)	(44,405)	(78,177)
Salaries - R&D	e)	(42,754)	(31,249)
Legal fees	f)	(5,503)	(57,317)
Consulting - Marketing	g)	(34,845)	(76,608)
Others		(18,173)	(1,234)
		(176,927)	(304,060)

a) increases in (i) the number of stock option grants and (ii) the value per stock option grant
b) decreases due to fewer consultants hired
c) increases in the number of consultants and employees utilized to render services mainly to one company active in eye care
d) increases in consulting fees related to the improvement of deep learning algorithms for the analysis of retinal images
e) increases in headcount and salaries related to the improvement of deep learning algorithms for the analysis of retinal images
f) 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
g) increase in activities to promote the Corporation's products and services

Other income

The decrease of $157,201, for the six-month period ended September 30, 2021, is mainly attributable to a decrease in the value of claims filed under the Canada Emergency Wage Subsidy program ("wage subsidy"). The wage subsidy is available for eligible employers that experience a decline in revenue during pre-defined periods. Due to the overall increase in revenue, the Corporation's eligibility to this relief program has been negatively affected.

Working Capital

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

		As at	
		September 30, 2021	**March 31, 2021**
		$	
Cash and short-term investments		922,669	1,360,857
Accounts receivable		255,627	203,992
Other current assets		74,480	26,115
	A	**1,252,776**	**1,590,964**
Accounts payable and accrued liabilities		403,494	342,340
Other current liabilities		209,646	207,723
	B	**613,140**	**550,063**
Working capital	A - B	**639,636**	**1,040,901**
Decrease in working capital		**(401,265)**	

The decrease in working capital is attributable to:

	$
Cash used for operating activities	(1,026,986)
Cash received from exercices of stock warrants and stock options	653,000
Cash used for lease payments	(55,119)
Others	27,840
	(401,265)

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

	As at September 30, 2021			
	Less than one year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Accounts payable and accrued liabilities	232,064	-	-	-
Loans	125,000	40,000	-	-
Leases	49,936	83,200	159,510	-
	407,000	123,200	159,510	-

The Corporation has adequate cash liquidities to meet its current obligations. However, as stated in the going concern assumption section of this document, the Corporation's current level of revenue is not sufficient to cover its expenses and ongoing commitments. Meeting long term obligations is dependant 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 24th month following the first disbursement. On October 19, 2021, the Corporation received a first disbursement of $119,465.

Stock options exercisable

as at September 30, 2021			
Number	Weighted-average exercise price ($)	Value ($)	Weighted-average remaining contractual life (in years)
2,531,000	0.24	607,440	3.33
246,000	0.76	186,960	1.54
200,000	1.30	260,000	1.03

Stock warrants exercisable

as at September 30, 2021			
Number	Weighted-average exercise price ($)	Value ($)	Expiry date
354,169	0.20	70,834	February 11, 2022

As at September 30, 2021, the closing price of the common shares of the Corporation on the TSX Venture exchange was $0.495. Therefore, 2,531,000 stock options exercisable at a weighted-average price (“WAP”) of $0.24 / common share and 354,169 stock warrants exercisable at a WAP of $0.20 / common share, for an aggregate value of $678,274, are in-the-money. In-the-money option or warrant means the option or warrant holder has the opportunity to subscribe to common shares of the Corporation below its current market price. However, this does not necessarily imply that the holder will exercise all, or any portion, of its options and warrants.

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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