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

Three-month and Nine-month Periods ended December 31, 2021

DIAGNOS Inc.

DIAGNOS Inc.

Interim MD&A – Quarterly Highlights

Description

This Interim Management Discussion and Analysis – Quarterly Highlights ("MD&A") provides a short discussion of all material information about operations, liquidity and capital resources of DIAGNOS Inc. and its subsidiaries ("DIAGNOS", "the Corporation" or "We") as at December 31, 2021 and for the three-month period and the nine-month period ended December 31, 2021. It should be read in conjunction with the December 31, 2021 interim condensed consolidated financial statements and accompanying notes. This MD&A complements and supplements the Corporation's financial statements, but does not form part of the Corporation's financial statements.

The currency used is the Canadian dollar unless otherwise stated.

Date of information

This MD&A is dated February 28, 2022 and was approved by the Board of Directors on the same date.

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 December 31, 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. Until it is able to generate positive cash flows from its operating activities, the Corporation will need, from time to time, to raise funds through financing activities.

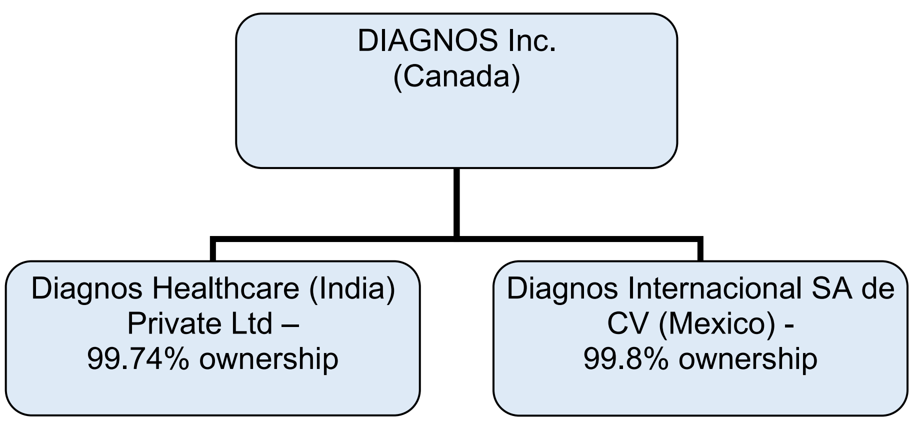
Since inception, the Corporation has been able to finance its activities and operate on a going concern basis through issuances of common shares, stock warrants, convertible notes, convertible debentures and demand loans. While the Corporation has been successful in securing financing in the past, there 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 in the near-term, it may be unable to continue its operations, and amounts from the sale of assets might be less than the amounts reflected in the interim consolidated financial statements.

The December 31, 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 fourth quarter of the current financial year.

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.

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.

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 analysis consulting services.

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 and stakeholders in the field of 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 liquidities.

Financing activities

During the quarter ended December 31, 2021, the Corporation received a first disbursement of $119,465 under 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. The disbursements are in the form of installments corresponding to 49% of the eligible expenses incurred up to June 30, 2022 for which the Corporation is requesting disbursement. The interest-free loan has a term of 10 years and principal repayment will start after the 24th month following the first disbursement.

In the month of February 2022, the Corporation received an aggregate amount of $70,834 from the exercise of stock warrants.

During the six-month period ended September 30, 2021, the Corporation received an aggregate amount of $653,000 resulting from the exercises of stock warrants and stock options.

Quarterly Highlights

Analysis of the Corporation's financial condition

The comparative financial information for the three-month and nine-month periods ended December 31, 2021, contained in this section, is derived from the Corporation's interim condensed consolidated financial statements.

Comparative results

	Three-month period ended December 31,		**Nine-month period ended December 31,**	
	2021	**2020**	**2021**	**2020**
	$		$	
Revenue	129,836	77,877	286,730	205,354
Operating expenses	(729,457)	(646,631)	(2,234,519)	(1,847,633)
Other income	3,000	12,149	92,829	259,179
Interest expense	(8,473)	(16,174)	(27,863)	(38,179)
	(734,930)	(650,656)	(2,169,553)	(1,626,633)
Net Loss	**(605,094)**	**(572,779)**	**(1,882,823)**	**(1,421,279)**
Increases in net loss	(32,315)		(461,544)	

The increases in net loss are attributable to:

	$	$
Increase in revenue	51,959	81,376
Increase in operating expenses	(82,826)	(386,886)
Decrease in other income	(9,149)	(166,350)
Decrease in interest expense	7,701	10,316
	(32,315)	(461,544)

Detailed analysis of the variations in net loss:

Revenue

	Three-month period ended December 31,			Nine-month period ended December 31,		
	2021	2020	Variance	2021	2020	Variance
		$			$	
Canada	123,608	71,116	52,492	264,131	168,578	95,553
United States of America	4,805	5,831	(1,026)	19,688	33,969	(14,281)
Other countries	1,423	930	493	2,911	2,807	104
	129,836	77,877	51,959	286,730	205,354	81,376

Canada
The increases for the three-month period and the nine-month period ended December 31, 2021 are mainly attributable to the signing of one agreement, in June 2021, for the deployment and enhancement of Artificial Intelligence based tests with a company active in eye care.

United States of America
The decreases for the three-month period and the nine-month period ended December 31, 2021 are mainly attributable to the decrease in the volume of screenings mainly due to the impact of the Covid-19 pandemic.

Operating expenses

The following table presents the main variations in operating expenses for the periods covered by this document.

	Three-month period ended December 31, 2021	**Nine-month period ended December 31, 2021**	
	$	$	Note
Share-based compensation	69,028	222,156	a)
Consulting - Administration	(75,312)	(227,676)	b)
Cost of goods sold	40,716	99,427	c)
Consulting - R&D	31,759	109,936	d)
Salaries - R&D	9,499	40,747	e)
Legal fees	(5,053)	52,264	f)
Consulting - Marketing	(33,847)	42,761	g)
Travel & living - Sales	16,909	31,107	h)
Others	29,127	16,164	
Net increase	82,826	386,886	

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
h) increase in travel expenses to meet with potential clients

Other income

The decreases for the three-month period and the nine-month period ended December 31, 2021 are 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 an indicator for assessing short-term solvency.

		As at	
		December 31, 2021	**March 31, 2021**
		$	
Cash and short-term investments		503,329	1,360,857
Accounts receivable		266,374	203,992
Other current assets		43,183	26,115
	A	812,886	1,590,964
Accounts payable and accrued liabilities		329,975	342,340
Other current liabilities		202,163	207,723
	B	532,138	550,063
Working capital	A - B	**280,748**	**1,040,901**
Decrease in working capital		**(760,153)**	

The decrease in working capital is attributable to:

	$
Cash used for operating activities	(1,550,127)
Cash received from exercices of stock warrants and stock options	653,000
Cash received from loans	119,465
Others	17,509
	(760,153)

The following table presents the contractual maturities of liabilities and commitments:

	As at December 31, 2021			
	Less than one year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Accounts payable and accrued liabilities	193,193	-	-	-
Loans	125,000	51,947	35,840	71,679
Leases	88,542	76,444	122,700	-
	406,735	128,391	158,540	71,679

The Corporation's current level of revenue is not sufficient to cover its ongoing commitments (refer to going concern assumption paragraph on page 2).

Capital resources

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

Capital resources available to the Corporation are mainly comprised of:

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 are in the form of installments corresponding to 49% of the eligible expenses incurred up to June 30, 2022 for which the Corporation is requesting disbursement. 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. As at the date of this MD&A, the Corporation is unable to forecast the amount of the next installment.

Stock options and stock warrants exercisable
As at December 31, 2021, 2,531,000 stock options exercisable at a weighted-average price ("WAP") of $0.24 / common share and 392,168 stock warrants exercisable at a WAP of $0.20 / common share, for an aggregate value of $685,874, are "in-the-money" considering that the closing price of the common shares of the Corporation on the TSX Venture exchange was $0.35 as at December 31, 2021. "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.

In the month of February 2022, the Corporation received an aggregate amount of $70,834 from the exercise of stock 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