

# DIAGNOS

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DIAGNOS Inc.

Interim Management Discussion & Analysis – Quarterly Highlights

Three-month period ended June 30, 2022

## Description and objective

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 June 30, 2022 and for the three-month period ended June 30, 2022. It should be read in conjunction with the June 30, 2022 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 August 25, 2022 and was approved by the Board of Directors of the Corporation 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

This MD&A contains 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.

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.

## Going concern assumption

The June 30, 2022 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.

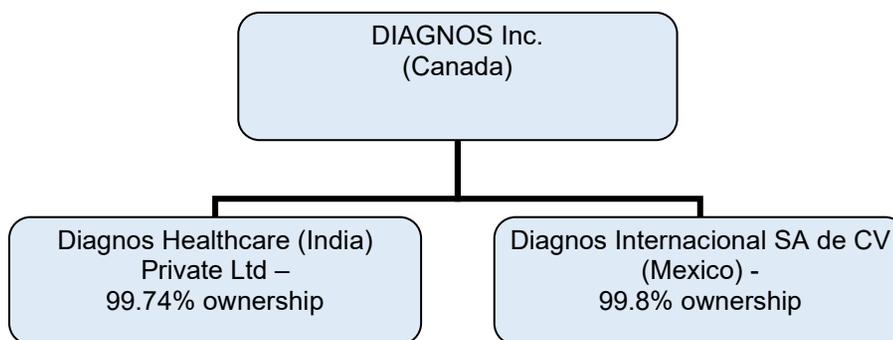
Since its inception, the Corporation has been able to finance its activities and operate on a going concern basis through issuances of common shares, stock warrants, convertible notes, convertible debentures and loans. While the Corporation has been successful in securing financing in the past, there can be no assurance it will be able to do so in the future, and 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 June 30, 2022 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, 2022, is organized as follows:



DIAGNOS markets CARA (Computer Assisted Retinal Analysis), a software platform that 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, hemorrhages, 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 main 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 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 not intended to make any diagnosis but rather to help 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. 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.

## Quarterly Highlights

### *Analysis of the Corporation's financial condition*

The comparative financial information contained in this section is derived from the Corporation's June 30, 2022 interim condensed consolidated financial statements.

### *Comparative results*

	Three-month period ended June 30,	
	2022	2021
	\$	
Revenue	149,014	75,961
Operating expenses	(826,577)	(802,030)
Other income	6,221	16,911
Interest expense	(45,816)	(10,865)
	(866,172)	(795,984)
<b>Net Loss</b>	<b>(717,158)</b>	<b>(720,023)</b>
Decrease in net loss	2,865	

The decrease in net loss is attributable to:

	\$
Increase in revenue	73,053
Increase in operating expenses	(24,547)
Decrease in other income	(10,690)
Increase in interest expense	(34,951)
	2,865

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*Analysis of the Corporation's financial condition (continued)*

Detailed analysis of the significant variations in net loss:

Revenue

	Three-month period ended		
	June 30,		
	2022	2021	Variance
	\$		
Canada	142,899	68,025	74,874
United States of America	5,591	7,820	(2,229)
Saudi Arabia	99	-	99
Mexico	385	-	385
Costa Rica	40	116	(76)
	<u>149,014</u>	<u>75,961</u>	<u>73,053</u>

*Canada*

The increase for the three-month period ended June 30, 2022 is mainly attributable to the signing of one sales agreement, in June 2021, for the deployment and enhancement of Artificial Intelligence based tests with a company active in eye care.

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*Analysis of the Corporation's financial condition (continued)*

Operating expenses

The following table presents the main variations in operating expenses:

Expense	Variation	Three-month period ended June 30, 2022 \$	Note
Remuneration	Increase	55,460	a)
Stock-based compensation	Decrease	(70,661)	b)
Consulting fees	Increase	68,615	c)
Legal fees	Decrease	(54,668)	d)
Travel and living	Increase	21,507	e)
Other	Increase	4,294	
	Net increase	24,547	

- a) increases in overall headcount.
- b) decreases in (i) the number of stock option grants and (ii) the value per stock option grant.
- c) increases in (i) fees related to the improvement of algorithms for the analysis of retinal images and (ii) fees related to company awareness services
- d) decrease in litigation defense fees
- e) increase in travel and meal expenses to meet with potential clients and investors

Other income

The decrease of \$10,690 is mainly attributable to a decrease in the value of claims filed under the Canada Emergency Wage Subsidy program which was available for eligible employers that experienced a decline in revenue between March 15, 2020, and October 23, 2021.

Interest

The increase of \$34,951 is mainly attributable to the issuance, during the month of March 2022, of unsecured convertible debentures amounting to \$930,000.

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*Working Capital*

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

	<b>As at</b>	
	<b>June 30, 2022</b>	<b>March 31, 2022</b>
	\$	
Cash and short-term investments	250,791	920,914
Accounts receivable	337,737	346,229
Other current assets	91,822	21,659
A	<u>680,350</u>	<u>1,288,802</u>
Accounts payable and accrued liabilities	516,720	462,646
Other current liabilities	191,722	196,722
B	<u>708,442</u>	<u>659,368</u>
<b>Working capital</b>	A - B <b>(28,092)</b>	<b>629,434</b>
<b>Decrease in working capital</b>	<u><b>(657,526)</b></u>	

The decrease in working capital is attributable to:

	\$
Cash used for operating activities	(643,987)
Others	(13,539)
	<u><b>(657,526)</b></u>

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

*Capital resources*

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

Capital resources currently available to the Corporation are mainly comprised of:

*Government financing agreement*

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 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 24<sup>th</sup> month following the first disbursement. On October 19, 2021, the Corporation received the first installment 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*

Exercise price range (\$)	Stock options exercisable as at June 30, 2022			Stock warrants exercisable as at June 30, 2022		
	Number of options exercisable	Weighted-average exercise price (\$)	Value (\$)	Number of warrants exercisable	Weighted-average exercise price (\$)	Value (\$)
0.18 - 0.25	2,400,000	0.20	489,000	-	-	-
0.26 - 0.45	1,100,000	0.29	313,500	343,025	0.33	113,198
0.46 - 0.60	2,105,000	0.55	1,163,250	-	-	-
0.61 - 1.30	426,000	1.01	429,500	-	-	-
	<u>6,031,000</u>	0.40	<u>2,395,250</u>	<u>343,025</u>	0.33	<u>113,198</u>

Considering that the closing price of the common shares of the Corporation on the TSX Venture Exchange was \$0.20 as at June 30, 2022, it is unlikely that the holders of the stock options and stock warrants will exercise all, or any portion, of the stock options and stock warrants.

**Head Office**

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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