

DIAGNOS

Interim Condensed Consolidated Financial Statements -
Unaudited

Three-month Period ended June 30, 2018

DIAGNOS Inc.

**Note to reader: These Unaudited Interim Condensed Consolidated Financial
Statements have not been reviewed by our auditor.**

DIAGNOS Inc.

Interim Condensed Consolidated Statements of Financial Position (unaudited)
(amounts in Canadian dollars)

	Note	As at	
		June 30, 2018	March 31, 2018
		\$	
ASSETS			
Current			
Cash		204,305	150,291
Short-term investments	5	86,262	85,984
Accounts receivable	6	286,967	531,132
Prepaid expenses		51,480	22,544
		<u>629,014</u>	<u>789,951</u>
Non-current			
Investments	7	34,646	476,803
Capital assets		194,128	256,734
Intangible assets		359	759
		<u>229,133</u>	<u>734,296</u>
Total assets		<u>858,147</u>	<u>1,524,247</u>
LIABILITIES			
Current			
Accounts payable and accrued liabilities	8	761,108	614,972
Deferred revenue	18	56,201	31,893
Leases	11	18,575	16,238
		<u>835,884</u>	<u>663,103</u>
Non-current			
Convertible notes	9	850,675	829,910
Convertible debentures	10	3,718,514	3,635,330
Leases	11	24,971	32,589
		<u>4,594,160</u>	<u>4,497,829</u>
Total liabilities		<u>5,430,044</u>	<u>5,160,932</u>
Commitments	14		
SHAREHOLDERS' DEFICIENCY			
Share capital	12	21,879,066	21,881,166
Reserve	13	7,572,632	7,532,632
Deficit		(34,068,241)	(33,111,012)
Investments revaluation reserve		(43,146)	(24,573)
Foreign exchange differences		87,792	85,102
		<u>(4,571,897)</u>	<u>(3,636,685)</u>
Total liabilities and shareholders' deficiency		<u>858,147</u>	<u>1,524,247</u>

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

DIAGNOS Inc.

Interim Condensed Consolidated Statements of Earnings and Comprehensive Loss (unaudited)
(amounts in Canadian dollars)

	Note	Three-month period ended June 30,			
		2018	2017		
		Total	From continuing operations	From discontinuing operations (note 20)	Total
Revenue	18	93,124	19,398	320,000	339,398
Expenses					
Costs of services and research and development		291,805	250,062	24,207	274,269
Selling and administrative		524,743	895,055	47,964	943,019
	16	816,548	1,145,117	72,171	1,217,288
Income (loss) before other items		(723,424)	(1,125,719)	247,829	(877,890)
Interest expense	16	(233,805)	(222,440)	-	(222,440)
Gain on disposal of mining division		-	-	623,919	623,919
Net income (loss)		(957,229)	(1,348,159)	871,748	(476,411)
Other comprehensive income items					
Net change in fair value of available-for-sale financial assets		(18,573)	-	-	-
Net change in foreign exchange translation		2,690	65,697	-	65,697
		(15,883)	65,697	-	65,697
Comprehensive (loss) income		(973,112)	(1,282,462)	871,748	(410,714)
Basic and diluted comprehensive (loss) income per share		(0.01)	(0.01)	0.01	(0.00)
Weighted-average number of common shares outstanding		172,421,265			163,606,431

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

DIAGNOS Inc.

Interim Condensed Consolidated Statements of Changes in Equity (unaudited)

(amounts in Canadian dollars)

Three-month period ended June 30, 2018						
Note	Share capital	Reserve	Deficit	Foreign exchange differences	Investments revaluation reserve	Total shareholders' deficiency
\$						
Balance, beginning of period	21,881,166	7,532,632	(33,111,012)	85,102	(24,573)	(3,636,685)
Net loss	-	-	(957,229)	-	-	(957,229)
Other comprehensive loss items	-	-	-	2,690	(18,573)	(15,883)
Issue expenses	(2,100)	-	-	-	-	(2,100)
Stock-based compensation expense	12,13	40,000	-	-	-	40,000
Balance, end of period	21,879,066	7,572,632	(34,068,241)	87,792	(43,146)	(4,571,897)
Three-month period ended June 30, 2017						
Note	Share capital	Reserve	Deficit	Foreign exchange differences	Investments revaluation reserve	Total shareholders' deficiency
\$						
Balance, beginning of period	20,368,019	6,865,731	(30,213,847)	71,825	(6,000)	(2,914,272)
Net loss	-	-	(476,411)	-	-	(476,411)
Other comprehensive loss	-	-	-	65,697	-	65,697
Issuance of common shares	12	1,294,167	-	-	-	1,294,167
Issuance of conversion options	10	-	452,017	-	-	452,017
Issuance of warrants	10,13	-	72,333	-	-	72,333
Issuance expenses	10,13	-	(36,786)	-	-	(36,786)
Stock-based compensation expense	12,13	-	19,590	-	-	19,590
Balance, end of period	21,662,186	7,372,885	(30,690,258)	137,522	(6,000)	(1,523,665)

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

DIAGNOS Inc.

Interim Condensed Consolidated Statements of Cash Flows (unaudited)

(amounts in Canadian dollars)

	Note	Three-month period ended June 30,	
		2018	2017
		\$	
Cash flows from operating activities			
Net loss		(957,229)	(476,411)
Items not affecting cash			
Depreciation of capital assets		62,606	45,548
Amortization of intangible assets		400	3,288
Accretion on leases	11	1,340	1,173
Accretion on convertible notes	9	20,765	-
Accretion on convertible debentures	10	78,976	62,732
Gain on disposal of mining division		-	(623,919)
Compounded interest		4,208	(4,950)
Stock-based compensation expense	12,13	40,000	19,590
Share of loss from equity accounted investment		-	74,076
		(748,934)	(898,873)
Payment of interest		218,750	177,346
Net change in operating working capital items		385,673	(303,300)
		(144,511)	(1,024,827)
Cash flows from investing activities			
Additions to short-term investments		(278)	(700,000)
Proceeds from disposal of investments	7	423,584	-
Other		2,690	65,697
		425,996	(634,303)
Cash flows from financing activities			
Issue expenses		(2,100)	344,167
Repayment of short term loan		-	(533,000)
Lease payments	11	(6,621)	(4,424)
Issuance of convertible debentures, net of issue expenses	10	-	2,276,894
Payment of interest		(218,750)	(177,346)
		(227,471)	1,906,291
Net change in cash		54,014	247,161
Cash, beginning of period		150,291	189,861
Cash, end of period		204,305	437,022
Non-cash transactions			
Value of payment in shares of customer receivables		-	200,000
Payments in shares of mining division	20	-	640,000
Issuance of convertible debentures	10	-	150,000
Conversion of debentures into common shares	10	-	950,000

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

June 30, 2018, March 31, 2018 and June 30, 2017

(amounts in Canadian dollars)

1. **Going concern assumption**

These interim condensed 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.

In order to address these uncertainties, the Corporation is evaluating the implementation of some or all of the following measures:

- Continue the process of renewing contracts
- Reduce operating costs with temporary staff lay-offs, curtail certain consulting and travel costs
- Continue to seek debt financing
- Continue to seek equity financing consisting of common shares and stock purchase warrants
- Continue to evaluate possible M&A opportunities

The Corporation believes that if it were to be successful in implementing some or all of the above risk mitigating measures, it will be able to continue as a going concern. There remains however, significant risk and uncertainty associated with implementing any of these measures which are dependent on a number of factors outside of the Corporation's control. The material uncertainty cast significant doubt regarding the ability to continue as a going concern.

These interim condensed 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.

2. **Statutes of incorporation and nature of activities**

DIAGNOS Inc. ("the Corporation") is incorporated under the Canada Business Corporations Act and the subsidiaries under the applicable regulations in their respective countries. The main office is located at 7005 Taschereau Blvd., Suite 340, Brossard, Quebec, Canada. The shares of the Corporation are listed on the TSX Venture Exchange.

The Corporation provides software-based interpretation services to assist health specialists in the detection of diabetic retinopathy.

These interim condensed consolidated financial statements have been approved and authorized for issue by the Board of Directors of the Corporation on August 28, 2018.

3. **Basis of presentation and changes in significant accounting policies**

Basis of consolidation

These interim condensed consolidated financial statements include the accounts of the Corporation and those of its subsidiaries. Subsidiaries consist of entities over which the Corporation has right, or is exposed, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries' financial statements are included in the consolidated financial statements from the date that control commences until the date that control ceases. Subsidiaries' year end and accounting policies are aligned with those adopted by the Corporation.

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Percentage of interest in the Corporation's subsidiaries and associates, as at June 30, 2018, is as follows:

Name of entity	Location	Type of entity	Percentage of ownership
DMS & Technologies Inc.	Canada	Subsidiary	100%
8913404 Canada Inc.	Canada	Subsidiary	100%
Diagnos (USA) Inc.	United States of America	Subsidiary	100%
Diagnos Poland sp. Z o.o.	Poland	Subsidiary	100%
Diagnos Internacional SA de CV	Mexico	Subsidiary	99.8%
Diagnos Healthcare (India) Private Limited	India	Subsidiary	99.74%
SARL Diagnos Medical	Algeria	Associate	48%

Inter-company transactions and balances and any unrealized revenue and expense are eliminated in preparing the consolidated financial statements.

Investment in associate is accounted for using the equity method. The carrying amount of the investment in associate is increased or decreased to recognize the Corporation's share of the profit or loss and other comprehensive income of the associate, adjusted where necessary to ensure consistency with the accounting policies of the Corporation. Unrealized gains and losses on transactions between the Corporation and its associate are eliminated to the extent of the Corporation's interest in the entity. Where unrealized losses are eliminated, the underlying asset is also tested for impairment.

Changes in significant accounting policies

These interim condensed consolidated financial statements were prepared in accordance with standard IAS 34 – Interim Financial Reporting and do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). They, however, include specific complimentary notes in order to provide information necessary to assess the financial situation of the Corporation at period end since its last annual consolidated financial statements dated March 31, 2018.

Except for the changes below, the accounting policies used to prepare these interim unaudited condensed consolidated financial statements are those described in the last annual consolidated financial statements of the Corporation and have been applied throughout the period unless otherwise stated. This is the first set of the Corporation's financial statements where IFRS 15 and IFRS 9 have been applied. Changes to significant accounting policies are described hereinafter.

a) Revenue

On April 1, 2018, the Corporation adopted IFRS 15 – Revenue from contracts with customers. The adoption of IFRS 15 did not have an impact to the comparative figures presented in these interim condensed consolidated financial statements.

The Corporation operates in one reportable segment, healthcare services. Revenue from healthcare services typically arises from access to CARA, a web-based software tool used by healthcare professionals principally for the detection of diabetic retinopathy. Access to CARA usually includes sales support for the duration of the contract. In some cases, revenue may also arise from added services such as providing workforce to a client for the customization and the deployment of CARA. The Corporation accounts for the different services separately if they are distinct and the selling prices can be reasonably estimated.

The Corporation also renders consulting services to companies active in the healthcare sector and the mining sector. As this line of business is not strategic to the development of the Corporation, revenue amounts derived from consulting services are not presented separately.

Revenue is recognized when there is a transfer of control over a product or service to a customer, usually over the period in which the services are rendered. Revenue is measured based on the consideration specified in a contract with a customer and excludes sales tax amounts and other amounts collected on behalf of third parties. Billing of services is usually done on a monthly basis. Contract assets representing unbilled services rendered are presented under "Accounts receivable" in the consolidated statements of financial position. Contract liabilities representing amounts invoiced before the recognition of services or goods are presented under "Deferred revenue" in the consolidated statements of financial position.

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b) Financial instruments

On April 1, 2018, the Corporation adopted IFRS 9 – Financial instruments. The adoption of IFRS 9 did not have an impact to the comparative figures presented in these interim condensed consolidated financial statements.

The following table below presents the new measurement categories under IFRS 9 compared to the original measurement categories as at March 31, 2018 for each class of the Corporation’s financial assets and financial liabilities.

Description	New classification as of April 1, 2018	Original classification as of March 31, 2018
Cash	Financial assets at amortized cost	Loans and receivables
Short-term investments	Financial assets at Fair Value Through Profit or Loss (“FVTPL”)	Fair Value Through Profit or Loss (“FVTPL”)
Accounts receivable, except tax credits and sales taxes	Financial assets at amortized cost	Loans and receivables
Investments in entities other than subsidiaries and associates	Financial assets at Fair Value through Other Comprehensive Income (“FVOCI”) ¹	Available for sale
Accounts payable and accrued liabilities (except salaries and benefits and sales taxes), convertible notes and convertible debentures	Financial liabilities at amortized cost	Amortized cost

The Corporation aggregates its financial instruments into classes based on their nature and characteristics. Management determines the classification when the instruments are initially recognized, which is normally on the date of the transaction. Transaction costs related to financial instruments are measured initially at fair value except for transaction costs related to FVTPL financial assets which are expensed as incurred and added to the carrying value of the asset or netted against the carrying value of the liability.

The following is a description of the policies for subsequent measurement of financial assets and financial liabilities.

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

Financial assets at amortized cost

These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Financial assets at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. Unlike IAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit and loss.

Financial liabilities at amortized cost

These liabilities are subsequently measured at amortized cost using the effective interest method. Interest expenses, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

¹ The Corporation has irrevocably elected to present subsequent changes in the fair value of investments in entities other than subsidiaries and associates in Other Comprehensive Income.

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Impairment of financial assets

The Corporation uses the expected credit losses impairment model with respect to its financial assets carried at amortized cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since the initial recognition of the respective financial instrument. The Corporation accounts for expected credit losses over the life of financial assets measured at amortized cost. Expected credit losses over the life of the asset are expected credit losses for all of the default events that a financial instrument may experience over its expected life. The assessment of expected credit losses reflects reasonable and justifiable information about past events, current circumstances and forecasts of events and economic conditions and takes into account the factors specific to the accounts receivable, the general condition of the economy and a current as well as expected appreciation of the conditions prevailing at the balance sheet date, including the time value of the money, if any.

4. Critical accounting judgments and key sources of estimation uncertainty

In preparing these interim condensed consolidated financial statements, management has made judgments and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. IAS 34.15, 16A(d), 28 The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for new significant judgments and key sources of estimation uncertainty related to the application of IFRS 15 and IFRS 9, which are described above.

5. Short-term investments

Guaranteed investment certificates are cashable without any penalties and therefore are presented as "current" in the statement of financial position.

Guaranteed investment certificates in the amount of \$80,000 (March 31, 2018 - same) are pledged as security for an account payable of \$25,880 (March 31, 2018 - \$35,921).

6. Accounts receivable

	As at	
	June 30, 208	March 31, 2018
	\$	
Customers	86,798	357,334
Tax credits on research and development expenses	124,541	99,541
Demand loan bearing annual interest rate of 4% (note 19)	46,264	46,749
Sales commissions advance, no interest bearing (note 19)	21,578	21,558
Sales taxes	4,336	1,146
Deposits	3,139	3,089
Others	311	1,715
	<u>286,967</u>	<u>531,132</u>

All amounts are due in the short term. The net carrying amounts are a reasonable approximation of their fair value.

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7. Investments

	Number of companies	As at	
		June 30, 2018	March 31, 2018
		\$	
Shares of publicly traded companies	2 (March 31, 2018 - 2)	34,646	55,719
Shares of private companies	3 (March 31, 2018 - 3)	-	-
Shares of associates	0 (March 31, 2018 - 2)	-	421,084
		34,646	476,803

Investments in publicly traded companies and private companies over which the Corporation does not exercise significant influence are classified as financial assets at FVOCI.

As at June 30, 2018, Shares of associates include 48 common shares, or 48% (March 31, 2018 – same), of SARL Diagnos Medical, an Algerian corporation. Investments in associates are initially recorded at cost and are subsequently adjusted to reflect the Corporation's share in the net profit or loss of the associate and impairment loss. During the period, SARL Diagnos Medical was inactive.

The following table discloses changes in investments:

	Three-month period ended	
	June 30,	
	2018	2017
\$		
Balance, beginning of period	476,803	-
Addition in shares	-	840,000
Share of loss from associate including an impairment loss	-	(74,077)
Proceeds from disposal of shares of an associate	(423,584)	-
Net change in value	(18,573)	-
Balance, end of period	34,646	765,923

8. Accounts payable and accrued liabilities

	As at	
	June 30, 2018	March 31, 2018
\$		
Accounts payable and accrued liabilities	326,535	472,364
Proceeds received as part of a private placement closed after period end	250,000	-
Salaries and benefits	139,215	110,791
Sales and withholding taxes	45,358	31,817
		614,972
		761,108

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9. Convertible notes

	Number	As at	
		June 30, 2018	March 31, 2018
		\$	
Unsecured convertible promissory notes	20 (March 31, 2018 - 20)	1,000,000	1,000,000
Fair value discount		(145,130)	(165,895)
Issue expenses		(4,195)	(4,195)
		<u>850,675</u>	<u>829,910</u>

During the quarter ended December 31, 2017, as part of a private placement, the Corporation issued \$1,000,000 worth of unsecured convertible and redeemable notes (each a "Q3-2018 Note"). The Q3-2018 Notes bear interest at an annual rate of 10%, and will mature on October 13 and 23, 2020 (the "Maturity Date"). At the sole option of the Q3-2018 Note holders, the principal amount of the Q3-2018 Notes may be converted at any time, in whole or in part, into common shares of the Corporation (each a "Share") at a price of \$0.16 per Share. Any accrued interest on the principal, at the time of conversion, will be immediately payable in cash. If, at any time after the first anniversary of the Q3-2018 Note and until maturity, the volume weighted average price of the Shares on the TSX Venture Exchange is equal to or higher than \$0.28 for 20 consecutive trading days, the Q3-2018 Notes shall be redeemable, in whole or in part, at the sole option of the Corporation, into Shares of the Corporation at a price of \$0.16 per Share. Any accrued interest on the principal, at time of redemption, will be immediately payable in cash. As part of the private placement, 1,000,000 stock warrants (each a "Warrant") were issued to the Q3-2018 Note holders entitling the holder to purchase one Share of the Corporation per Warrant at a price of \$0.22 per Share for a period of 18 months from the date of issuance.

The fair value of the Q3-2018 Notes has been established at \$799,100 using the discounted cash flows valuation method with the following weighted average assumptions:

Maturity:	3 years	Nominal interest rate:	10%
Interest payment frequency:	2 per year	Effective interest rate:	20%

Of the difference of \$200,900 between the nominal value of the Notes, \$1,000,000, and its fair value of \$799,100, an amount of \$136,130 (net of deferred tax liability of \$49,081) has been allocated to the conversion options and an amount of \$11,531 (net of deferred tax liability of \$4,158) has been allocated to the stock warrants prorated based on their respective fair values using the Black-Scholes option pricing model with the following weighted average assumptions:

Stock warrants:

Expected life:	18 months	Risk-free interest rate:	1.67%
Liquidity discount:	25%	Volatility:	96.48%

Conversion options:

Expected life:	3 years	Risk-free interest rate:	1.67%
Liquidity discount:	25%	Volatility:	96.48%

During the quarter ended June 30, 2016, in repayment of the Unsecured convertible promissory notes (each a "Note") which became due for repayment between March 31 and May 2, 2016, the Corporation issued \$930,000 worth of senior secured convertible debentures and 4,650,000 stock warrants (see note 10) and paid cash amounts of \$130,000 to some of the holders of the Notes.

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10. Convertible debentures

	As at	
	June 30, 2018	March 31, 2018
	\$	
Secured convertible debentures	4,140,000	4,140,000
Fair value discount	(443,893)	(517,869)
Compounded interest expense	183,728	179,520
Issue expenses	(161,321)	(166,321)
	3,718,514	3,635,330

During the quarter ended June 30, 2017, as part of a private placement, the Corporation issued for \$2.61 million worth of senior secured convertible debentures (each a "Q1-2018 Debenture"). The Q1-2018 Debentures bear interest at an annual rate of 10%, and will mature on April 13, 2020 (the "Maturity Date"). At the sole option of the Q1-2018 Debenture holders, the principal amount of the Q1-2018 Debentures may be converted at any time, in whole or in part, into common shares of the Corporation (each a "Share") at a price of \$0.15 per Share. Any accrued interest on the principal, at the time of conversion, will be immediately payable in cash. If, at any time after the first anniversary of the Q1-2018 Debenture and until maturity, the volume weighted average price of the Shares on the TSX Venture Exchange is equal to or higher than \$0.27 for 20 consecutive trading days, the Q1-2018 Debentures shall be redeemable, in whole or in part, at the sole option of the Corporation, into Shares of the Corporation at a price of \$0.15 per Share. Any accrued interest on the principal, at time of redemption, will be immediately payable in cash. At the sole option of the Corporation, at any time after the first anniversary of the Q1-2018 Debenture and until maturity, it may repay all or part of the outstanding Q1-2018 Debentures by making a cash payment equal to the principal amount of the Q1-2018 Debentures plus a premium of 25% of the principal amount owing. Any accrued interest on the principal, at time of early repayment, will be immediately payable in cash. As part of the private placement, 5,220,000 stock warrants (each a "Warrant") were issued to the Q1-2018 debenture holders entitling the holder to purchase one Share of the Corporation per Warrant at a price of \$0.22 per Share for a period of 18 months from the date of issuance.

The fair value of the Q1-2018 Debentures has been established at \$2,085,650 using the discounted cash flows valuation method with the following weighted average assumptions:

Maturity:	3 years	Nominal interest rate:	10%
Interest payment frequency:	2 per year	Effective interest rate:	20%

Of the difference of \$524,350 between the nominal value of the Debentures, \$2,610,000, and its fair value of \$2,085,650, an amount of \$332,232 (net of deferred tax liability of \$119,785) has been allocated to the conversion options and an amount of \$53,165 (net of deferred tax liability of \$19,168) has been allocated to the stock warrants prorated based on their respective fair values using the Black-Scholes option pricing model with the following weighted average assumptions:

Stock warrants:

Expected life:	18 months	Risk-free interest rate:	0.86%
Liquidity discount:	25%	Volatility:	101.19%

Conversion options:

Expected life:	3 years	Risk-free interest rate:	0.86%
Liquidity discount:	25%	Volatility:	101.19%

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On July 29 and August 7, 2015, as part of a private placement, the Corporation issued \$2.29 million of senior secured convertible debentures (each a "Debenture"). The Debentures bear interest at an annual rate of 10%, and will mature on July 29, 2019 (the "Maturity Date"). Interest on the Debentures is calculated from their date of issue and will be paid quarterly in arrears beginning October 29, 2016. Interest for the first year will be paid at the Maturity Date and will be compounded annually. At the sole option of the Debenture holders, the principal amount of the Debentures may be converted at any time, in whole or in part, into common shares of the Corporation ("Common Shares") at a price of \$0.10 per Common Share. Any accrued interest on the principal, at the time of conversion, will be immediately payable in cash.

The fair value of the Debentures has been established at \$1,743,550 using the discounted cash flows valuation method with the following weighted average assumptions:

Maturity:	4 years	Nominal interest rate:	10%
Interest payment frequency:	4 per year	Effective interest rate:	20.03%

The fair value of the conversion options has been established at \$546,450 resulting from the difference between the nominal value of the Debentures, \$2,290,000 and its fair value of \$1,743,550.

11. Leases

	As at	
	June 30, 2018	March 31, 2018
	\$	
Finance leases	48,686	55,307
Lease fair value discount	(5,140)	(6,480)
	<u>43,546</u>	<u>48,827</u>
Finance leases - short term	<u>18,575</u>	<u>16,238</u>
Finance leases - long term	<u>24,971</u>	<u>32,589</u>

During the quarter ended December 31, 2017, the Corporation entered into one finance lease agreement for the purchase of computer equipment. The minimum monthly payment amount to \$732 for a term of 36 months ending in December 2020. The fair value of the lease has been established at \$22,247 using the discounted cash flows valuation method with the following weighted average assumptions:

Maturity:	3 years	Nominal interest rate:	0%
Payment frequency:	12 per year	Effective interest rate:	12%

During the year ended March 31, 2017, the Corporation entered into two finance lease agreements for the purchase of computer equipment. The minimum monthly payments amount to \$1,475 for a term of 36 months ending in November and December 2019. The fair value of the leases has been established at \$44,792 using the discounted cash flows valuation method with the following weighted average assumptions:

Maturity:	3 years	Nominal interest rate:	0%
Payment frequency:	12 per year	Effective interest rate:	12%

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12. Share capital

As at June 30, 2018 and March 31, 2018, share capital is composed of common shares without par value of which 172,421,265 are issued and outstanding. All the shares have identical rights with respect to the distribution of dividends and the repayment of capital. Each share confers the right to one vote at the annual general meeting of shareholders. The Corporation is authorized to issue an unlimited number of common shares.

Stock option plan

The Corporation maintains a stock option plan for its directors, key employees and consultants for which vested options over three years can be exercised in order to acquire common shares. Effective July 21, 2017, stock option grants vest at 50% per year, commencing with the first anniversary of the grant and can be exercised over five years. Stock options granted before July 21, 2017 vest at 33.33% per year, commencing with the first anniversary of the grant. The conditions of exercise are determined by the Board of Directors in accordance with the rules of the TSX Venture Exchange. The stock options are usually granted at the share price at the close of market on the day preceding the date of grant.

The stock option plan provides that the maximum number of common shares, which may be reserved for issuance to any one participant pursuant to share options, may not exceed 5% of the common shares outstanding. The maximum number of common shares that may be reserved for issuance to insiders of the Corporation may not exceed 10% of the common shares issued and outstanding on the grant date. The maximum number of stock options which the Corporation is authorized to issue is 20,000,000. As at June 30, 2018, the outstanding number of stock options available for issuance was 756,406 (March 31, 2018 – 4,452,406).

During the three-month period ended June 30, 2018, the Corporation granted 4,070,000 stock options. The weighted-average fair value of each stock option grant is estimated at \$0.04 for the three-month period ended June 30, 2018 (year ended March 31, 2018 - \$0.03) and is calculated using the Black - Scholes option pricing model with the following weighted average assumptions:

Expected life:	5 years (year ended March 31, 2018 – 5 years)	Risk-free interest rate:	1.60% (year ended March 31, 2018 – 1.60%)
Dividend yield:	0% (year ended March 31, 2018 – 0%)	Expected Volatility:	96.54% (year ended March 31, 2018 - 95.77% to 99.41%)
Average exercise price at date of grant:	\$0.075 (year ended March 31, 2018 - \$0.13)	Average share price at date of grant:	\$0.075 (year ended March 31, 2018 - \$0.13)

The expected volatility was calculated on the Corporation's share prices over the last 5 years.

The following table presents the changes which have occurred for the comparative three-month period ended June 30, 2018, with respect to stock options.

	Three-month period ended June 30, 2018		Three-month period ended June 30, 2017	
	Number of stock options	Weighted- average exercise price (\$)	Number of stock options	Weighted- average exercise price (\$)
Outstanding, beginning of year	12,426,684	0.10	10,771,349	0.09
Granted	4,070,000	0.08	-	-
Exercised	-	-	(1,433,332)	0.10
Forfeited	-	-	(498,333)	0.24
Expired	(374,000)	0.10	(50,000)	0.10
Outstanding, end of year	16,122,684	0.09	8,789,684	0.14

DIAGNOS Inc.

13. Reserve

Three-month period ended June 30, 2018				
	Stock warrants	Conversion options	Stock options	Total
	\$			
Balance, beginning of year	3,951,170	1,067,893	2,513,569	7,532,632
Stock-based compensation	-	-	40,000	40,000
Balance, end of year	3,951,170	1,067,893	2,553,569	7,572,632

Three-month period ended June 30, 2017				
	Stock warrants	Conversion options	Stock options	Total
	\$			
Balance, beginning of year	3,891,631	632,214	2,341,886	6,865,731
Private placement	72,333	452,017	-	524,350
Issue expenses	(5,074)	(31,712)	-	(36,786)
Stock-based compensation	-	-	19,590	19,590
Balance, end of year	3,958,890	1,052,519	2,361,476	7,372,885

Stock warrants

During the quarter ended June 30, 2017, in connection with the financing described in note 10 above for the same period, the Corporation issued 5,220,000 stock warrants entitling the holders to purchase 5,220,000 common shares (each a "Share") of the Corporation at a price of \$0.22 per Share for a period of eighteen months. The fair value of the warrants has been established at \$72,333 as described in note 10.

14. Commitments

The Corporation rents offices in Canada under a lease that expires on September 2019. As of April 1, 2018, the Corporation is committed to making minimum annual lease payments of \$109,944 for the duration of the lease.

The Corporation rents offices in Mexico under a lease that expires on June 2018. As of April 1, 2018, the Corporation is committed to making minimum annual lease payments of \$4,671 for the duration of the lease.

DIAGNOS Inc.

15. Financial instruments and risk management

a) Presentation

As at June 30, 2018								
	Amortized cost		Fair value through profit or loss		Fair value through other comprehensive income		Total	
	Fair value	Book value	Fair value	Book value	Fair value	Book value	Fair value	Book value
\$								
Financial assets								
Cash	204,305	204,305					204,305	204,305
Short-term investments			86,262	86,262			86,262	86,262
Accounts receivable	158,090	158,090					158,090	158,090
Investments - shares					34,646	34,646	34,646	34,646
Financial liabilities								
Accounts payable and accrued liabilities	576,534	576,534					576,534	576,534
Convertible Notes	850,675	850,675					850,675	850,675
Convertible Debentures	3,718,514	3,718,514					3,718,514	3,718,514
As at March 31, 2018								
	Amortized cost		Fair value through profit or loss		Fair value through other comprehensive income		Total	
	Fair value	Book value	Fair value	Book value	Fair value	Book value	Fair value	Book value
\$								
Financial assets								
Cash	150,291	150,291					150,291	150,291
Short-term investments			85,984	85,984			85,984	85,984
Accounts receivable	430,445	430,445					430,445	430,445
Investments - shares					55,719	55,719	55,719	55,719
Financial liabilities								
Accounts payable and accrued liabilities	472,364	472,364					472,364	472,364
Convertible Notes	829,910	829,910					829,910	829,910
Convertible Debentures	3,635,330	3,635,330					3,635,330	3,635,330

b) Fair value hierarchy

Financial instruments

Financial instruments recorded at fair value in the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified at the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following tables present the financial instruments recorded at fair value in the consolidated statements of financial position classified using the fair value hierarchy described above:

As at June 30, 2018				
	Level 1	Level 2	Level 3	Total financial assets at fair value
			\$	
Financial assets				
Short-term investments	86,262	-	-	86,262
Investments – shares	34,646	-	-	34,646
Total financial assets	120,908	-	-	120,908
			\$	
				Total financial liabilities at fair value
Financial liabilities				
Convertible notes	-	850,675	-	850,675
Convertible debentures	-	3,718,514	-	3,718,514
Total financial liabilities	-	4,569,189	-	4,569,189

During the period, there has been no transfer of amounts between Level 1 and Level 2.

As at March 31, 2018				
	Level 1	Level 2	Level 3	Total financial assets at fair value
			\$	
Financial assets				
Short-term investments	85,984	-	-	85,984
Investments – shares	55,719	-	-	55,719
Total financial assets	141,703	-	-	141,703
			\$	
				Total financial liabilities at fair value
Financial liabilities				
Convertible notes	-	829,910	-	829,910
Convertible debentures	-	3,635,330	-	3,635,330
Total financial liabilities	-	4,465,240	-	4,465,240

The Corporation has determined that the fair value of its current financial assets and liabilities measured at amortized cost approximate their carrying amounts as at the balance sheet dates because of their short-term maturity.

The fair value of short-term investments was based on quoted prices in active markets.

The fair value of loans, convertible notes and convertible debentures was estimated by discounting expected cash flows at rates offered to the Corporation for debts of the same remaining maturities and conditions.

Non-financial instruments

The fair value of leases was \$43,546 as at June 30, 2018 (\$48,827 as at March 31, 2018) and estimated by discounting expected cash flows at rates currently offered to the Corporation for debts of the same remaining maturities and conditions.

c) Risks

The Corporation is exposed to certain risks which could have a material impact on its ability to achieve its strategic growth objectives. The Corporation strives to control and mitigate its business and financial risks through management practices that require the ongoing evaluation, identification and implementation of risk mitigating measures that help reduce or eliminate risks related to its business operations.

The following describes the Corporation's main financial risks:

i. Credit Risks

In the normal course of business, the Corporation's exposure to credit risk results from the possibility that a customer or financial institution may default, in part or in whole, on their financial obligations, as they come due.

Cash and short-term investments

Cash as well as short-term investments are mainly risk-free or low-risk investments, such as cash and guaranteed term deposits held by recognized financial institutions. None of these short-term investments consist of asset-backed commercial paper. Consequently, management considers the credit risk related to cash and short-term investments to be low as at June 30, 2018 and March 31, 2018.

Customers and demand loans

In the normal course of business, the Corporation grants credit terms to its customers. The Corporation reviews and, if required, establishes allowances for doubtful accounts on a regular basis. For other accounts receivable including demand loan, the Corporation determines, on a continuing basis, the probable losses and establishes a provision to account for such losses based on the estimated realizable value.

As at June 30, 2018, 47% of accounts receivable from customers was attributable to six customers active in the healthcare industry (82% as at March 31, 2018). It should be noted that given the specialization of the Corporation's market niche, it is most likely that such concentration risk is expected to continue. However, from one year to the next, it is rare that the same customers make up this concentration. Despite the concentration of its customers, the credit risk is mitigated through monitoring of its customers and the additional measures available to the Corporation, as previously described.

Additionally, as at June 30, 2018:

- 0% of the net accounts receivable are over 90 days old (1% as at March 31, 2018);
- accounts receivable from customers exceeding the normal payment terms of 30 days for which no allowance was applied represented 22% of the net accounts receivable from customers (92% as at March 31, 2018).

Management is reasonably assured that its receivables will be collected, and therefore considers the credit risk related to accounts receivable to be low as at June 30, 2018 and March 31, 2018.

ii. Liquidity Risks

Liquidity risk is the risk that the Corporation cannot meet its obligations as they come due. On an ongoing basis, the Corporation monitors and manages its actual and projected cash flows, with the primary objectives of maintaining liquidity and financial flexibility. In addition, the Corporation's policy is to target contracts that will generate positive cash flows throughout their execution.

As at June 30, 2018, accounts payable and leases that were due in the next 12 months totalled \$867,018 including non-financial instruments (March 31, 2018 - \$1,012,848). Considering the available liquidities to meet its obligations, the Corporation's exposure to liquidity risk as at June 30, 2018 and March 31, 2018 is high and is dependant on the Corporation's ability in securing additional financing and achieving and maintaining profitable operations. Refer to going concern assumptions in note 1.

iii. Interest Rate Risk

Interest rate risk refers to the adverse consequences of interest rate changes on the Corporation's cash flows, financial position and income. Interest rate changes directly impact the fair value of the fixed interest rate accounts of the financial statements.

The Corporation is not exposed to interest risk since its financial instruments bear interest at fixed rate and are presented at amortized cost.

iv. Market Risk

Market risk refers to the adverse consequences of stock price changes on the Corporation's investments in shares. Investments in shares are currently mainly composed of shares of corporations traded on the TSX Venture Exchange. As at June 30, 2018, considering the value of investments in shares of \$34,646 (March 31, 2018 – \$55,719), a change of 50% in the market value of these shares would not have a significant impact on the Corporation's expenses.

v. Exchange Rate Fluctuations Risk

Exchange rate fluctuations risk refers to the adverse consequences of exchange rate changes on the Corporation's cash flows, financial position and income. During the period, revenues and expenses arose from transactions occurring in Canadian dollars and other currencies.

The Corporation is exposed to fluctuations in the currency rates of five currencies (USD, MXN, INR, PLN, AED). Movements in foreign currencies against the Canadian dollar may impact revenues, the nominal amount of certain financial assets and financial liabilities, and negatively affect the Corporation's profit or loss.

Assuming that all other variables remain constant, a 10% increase or decrease in the exchange rate of the Canadian dollar, against other currencies, would not have a significant impact on the Corporation's net loss for the three-month periods ended June 30, 2018 and June 30, 2017.

16. Expenses by nature

	Three-month period ended June 30,	
	2018	2017
	\$	
Depreciation and amortization	62,527	48,836
Audit	-	22,500
Communications	12,222	13,344
Consulting fees	96,838	168,083
Equipment	9,444	1,809
Foreign exchange	29,796	1,158
Leasing	33,425	38,223
Legal fees	2,371	20,630
Loss from associates	-	74,077
Marketing	3,850	31,413
Overhead	58,918	112,054
Remuneration	477,817	662,058
Tax credits	(25,000)	(20,000)
Travel and living	54,340	43,103
	<u>816,548</u>	<u>1,217,288</u>

	Three-month period ended June 30,	
	2018	2017
	\$	
Interest on debentures	187,161	206,124
Interest on notes	45,582	-
Interest on short term loans	-	4,504
Other interest expense	1,062	11,812
	<u>233,805</u>	<u>222,440</u>

17. Income taxes

As at June 30, 2018 and June 30, 2017, income taxes recoverable are composed essentially of non-capital losses. Based on available information, it is not probable that income taxes recoverable on these amounts will be realized in the near future, therefore, no deferred tax asset was recorded in these interim condensed consolidated financial statements.

Operating losses carried forward

As at March 31, 2018, the Corporation had operating tax losses available in Canada and Mexico for which no deferred assets were accounted for. The following table summarizes the expiry of the losses per fiscal jurisdiction:

	Canada	Mexico	Total
	\$		
2026	-	42,317	42,317
2027	-	263,406	263,406
2028	-	628,966	628,966
2029	1,195,772	-	1,195,772
2030	1,557,531	-	1,557,531
2031	854,384	-	854,384
2032	1,491,339	-	1,491,339
2033	1,314,805	-	1,314,805
2034	850,751	-	850,751
2035	1,958,526	-	1,958,526
2036	1,972,657	-	1,972,657
2037	1,496,272	-	1,496,272
2038	1,799,391	-	1,799,391
	<u>14,491,428</u>	<u>934,689</u>	<u>15,426,117</u>

As at March 31, 2018, the Corporation also has investment tax credits totalling \$1,760,351 (March 31, 2017 - \$1,683,281) available to offset future Canadian federal income taxes payable. The potential benefit of the investment tax credits has not been recognized in the accounts.

18. Segment information

The Corporation is active in one reportable segment, healthcare services. It provides image analysis services through CARA (Computer Assisted Retinal Analysis), a software tool which assists health specialists in the detection of diabetic retinopathy. Up to May 25, 2017, the Corporation was also active in the mining sector.

Revenue by country:

	Three-month period ended June 30,			
	2018		2017	
	Total	Healthcare	Mining	Total
	\$			
Canada	73,840	350	320,000	320,350
United Arab Emirates	6,140	13,954	-	13,954
United States of America	10,715	-	-	-
Saudi Arabia	2,479	-	-	-
Slovakia	-	3,525	-	3,525
Poland	-	993	-	993
Nigeria	(50)	576	-	576
	<u>93,124</u>	<u>19,398</u>	<u>320,000</u>	<u>339,398</u>

Revenues from Canada, for the three-month period ended June 30, 2018, were attributable to data interpretation consulting services rendered to one company active in the mining sector (three-month period ended June 30, 2017 - 0%). As this line of business is not strategic to the development of the Corporation, revenue amounts from consulting services are not presented separately from healthcare services.

Contract balances

The following table provides information about receivables and contract liabilities from contracts with customers:

	As at	
	June 30, 2018	March 31, 2018
	\$	
Receivables	86,798	357,334
Contract liabilities	56,201	31,893

The following table discloses changes in contract liabilities:

	Three-month period ended	
	June 30,	
	2018	2017
	\$	
Balance, beginning of period	31,893	78,200
Invoiced before recognition as revenue	24,308	-
Recognized as revenue	-	(78,200)
Balance, end of period	<u>56,201</u>	<u>-</u>

Unchanged from the last reporting period, tangible assets are mainly located in Canada and Mexico.

19. Related party transactions

The Corporation's related parties include its subsidiaries and associate entity as well as the Corporation's key management personnel. Key management personnel include directors and officers.

The following table presents the transactions with key management personnel during the three-month periods ended June 30, 2018 and June 30, 2017:

	Three-month period ended June 30,	
	2018	2017
	\$	
Base salary	122,500	122,500
Stock-based compensation	35,016	15,554
Incentives	25,000	150,000
Sales commissions	-	45,790
Interest on demand loan	485	606
Payment of interest on demand loan	(485)	(606)
	<u>182,516</u>	<u>333,844</u>

The following table present the outstanding balances with key management personnel:

	As at	
	June 30, 2018	March 31, 2018
	\$	
Demand loan receivable, annual interest rate of 4%	46,264	46,749
Cash advance, no interest	20,841	21,558
Convertible debentures, annual nominal interest rate of 10%	(30,000)	(30,000)
Convertible notes, annual nominal interest rate of 10%	(500,000)	(500,000)

20. Discontinued operations

As part of the May 25, 2017 sale of the assets of the mining division to Majescor Resources Inc. (now Albert Mining Inc. or "Albert"), the Corporation's operations related to the mining division were identified as discontinued operations.

The impact on the statements of cash flows is as follows:

	Three-month period ended June 30,	
	2018	2017
	\$	
Net cash flows from operating activities	-	247,829

The Corporation received 8,000,000 common shares of Majescor Resources Inc. valued at \$0.08 per share for an aggregate purchase price of \$640,000 in payment for all of the assets of the mining division. The carrying amount of these assets was \$16,081.

During the quarter ended June 30, 2018, the Corporation proceeded with the disposal of all of the Albert's shares it held as at March 31, 2018 at an average selling price of \$0.04 (see note 7).

21. Subsequent events

On July 5, 2018, the Corporation announced the closing of a non-brokered private placement ("Private Placement") initially announced on May 28, 2018 and June 14, 2018 of 16 units (each a "Unit"), for gross proceeds of \$800,000. As at June 30, 2018, the Corporation had received \$250,000.

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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