

# DIAGNOS

Interim Condensed Consolidated Financial Statements – Unaudited

Three-month Period ended June 30, 2020

DIAGNOS Inc.

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

DIAGNOS Inc.

Interim Condensed Consolidated Statements of Financial Position

(amounts in Canadian dollars)

	Note	As at	
		June 30, 2020	March 31, 2020
		\$	
<b>ASSETS</b>			
<b>Current</b>			
Cash		224,720	570,442
Short-term investments	6	1,251,665	1,301,665
Accounts receivable	7	274,714	343,682
Prepaid expenses		111,180	122,285
		<u>1,862,279</u>	<u>2,338,074</u>
<b>Non-current</b>			
Investments	8	31,120	31,120
Capital assets		56,739	64,753
		<u>87,859</u>	<u>95,873</u>
<b>Total assets</b>		<b><u>1,950,138</u></b>	<b><u>2,433,947</u></b>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	9	229,965	273,057
Deferred revenue		-	4,167
Loans	10	125,000	125,000
Convertible notes	11	146,657	143,497
Leases	12	29,025	35,313
		<u>530,647</u>	<u>581,034</u>
<b>Non-current</b>			
Leases	12	30,881	33,742
Loans	10	40,000	-
		<u>70,881</u>	<u>33,742</u>
<b>Total liabilities</b>		<b><u>601,528</u></b>	<b><u>614,776</u></b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	13	33,666,631	33,666,631
Reserve	14	8,493,729	8,468,301
Deficit		(40,829,260)	(40,332,941)
Investments revaluation reserve		(53,082)	(53,082)
Foreign exchange differences		70,592	70,262
		<u>1,348,610</u>	<u>1,819,171</u>
<b>Total liabilities and shareholders' equity</b>		<b><u>1,950,138</u></b>	<b><u>2,433,947</u></b>

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

DIAGNOS Inc.

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

	Note	Three-month period ended June 30,	
		2020	2019
		\$	
<b>Revenue</b>	16	<b>47,690</b>	<b>81,434</b>
<b>Expenses</b>			
Costs of services and research and development		162,308	249,645
Selling and administrative		512,589	496,588
		<b>674,897</b>	<b>746,233</b>
<b>Loss before other items</b>		<b>(627,207)</b>	<b>(664,799)</b>
Other income	18	141,563	17,056
Interest expense		(10,675)	(185,075)
Gain on disposal of capital assets		-	3,283
Loss on settlement of convertible notes and debentures, including redemption expenses of \$55,592		-	(175,722)
<b>Net loss</b>		<b>(496,319)</b>	<b>(1,005,257)</b>
Other comprehensive (loss) income items			
Net change in foreign exchange translation		330	(3,690)
Net change in fair value of financial assets at fair value through other comprehensive income		-	450
		<b>330</b>	<b>(3,240)</b>
<b>Comprehensive loss</b>		<b>(495,989)</b>	<b>(1,008,497)</b>
<b>Basic and diluted net loss per share</b>		<b>(0.01)</b>	<b>(0.03)</b>
Weighted-average number of common shares outstanding		61,366,004	30,721,385

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

DIAGNOS Inc.

Interim Condensed Consolidated Statements of Changes in Equity

(amounts in Canadian dollars)

Three-month period ended June 30, 2020						
Note	Share capital	Reserve	Deficit	Investments revaluation reserve	Foreign exchange differences	Total shareholders' equity
	\$					
<b>Balance, beginning of period</b>	<b>33,666,631</b>	<b>8,468,301</b>	<b>(40,332,941)</b>	<b>(53,082)</b>	<b>70,262</b>	<b>1,819,171</b>
Net loss	-	-	(496,319)	-	-	(496,319)
Other comprehensive loss items	-	-	-	-	330	330
Stock-based compensation expense	-	25,428	-	-	-	25,428
<b>Balance, end of period</b>	<b>33,666,631</b>	<b>8,493,729</b>	<b>(40,829,260)</b>	<b>(53,082)</b>	<b>70,592</b>	<b>1,348,610</b>
Three-month period ended June 30, 2019						
Note	Share capital	Reserve	Deficit	Investments revaluation reserve	Foreign exchange differences	Total shareholders' deficiency
	\$					
<b>Balance, beginning of period</b>	<b>23,698,314</b>	<b>8,169,228</b>	<b>(36,950,068)</b>	<b>(53,532)</b>	<b>53,459</b>	<b>(5,082,599)</b>
Net loss	-	-	(1,005,257)	-	-	(1,005,257)
Other comprehensive loss items	-	-	-	450	(3,690)	(3,240)
Issuance of common shares	6,061,758	-	-	-	-	6,061,758
Issuance of warrants	-	21,938	-	-	-	21,938
Issue expenses	(15,050)	(700)	-	-	-	(15,750)
Stock-based compensation expense	-	19,626	-	-	-	19,626
<b>Balance, end of period</b>	<b>29,745,022</b>	<b>8,210,092</b>	<b>(37,955,325)</b>	<b>(53,082)</b>	<b>49,769</b>	<b>(3,524)</b>

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

DIAGNOS Inc.

Interim Condensed Consolidated Statements of Cash Flows

(amounts in Canadian dollars)

	Note	Three-month period ended June 30,	
		2020	2019
		\$	
<b>Cash flows from operating activities</b>			
Net loss		(496,319)	(1,005,257)
Items not affecting cash			
Depreciation of capital assets		12,511	40,721
Accretion on leases		141	1,237
Accretion on convertible notes		3,160	10,383
Accretion on convertible debentures		-	78,471
Interest on short-term investments		-	(249)
Loss on disposal of capital assets		-	(3,283)
Stock-based compensation expense		25,428	19,626
Loss on settlement of debt, net of redemption expenses of \$55,592		-	120,130
		(455,079)	(738,221)
Payment of interest		7,375	(15,000)
Net change in operating working capital items		32,813	120,947
		<b>(414,891)</b>	<b>(632,274)</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of short-term investments		50,000	504,776
Proceeds from disposal of investments		-	10,450
Additions to capital assets		(4,497)	(12,872)
Proceeds from disposal of capital assets		-	3,283
Other		331	(3,690)
		<b>45,834</b>	<b>501,947</b>
<b>Cash flows from financing activities</b>			
Issue expenses		-	(15,050)
Issuance of loans and warrants		-	49,300
Loan	10	40,000	-
Leases		-	47,063
Lease payments		(9,290)	(57,915)
Payment of interest		(7,375)	15,000
		<b>23,335</b>	<b>38,398</b>
<b>Net change in cash</b>		<b>(345,722)</b>	<b>(91,929)</b>
Cash, beginning of period		570,442	138,242
<b>Cash, end of period</b>		<b>224,720</b>	<b>46,313</b>
Non-cash transactions			
Payment of interest in shares		-	501,915
Redemption in shares of Convertible Notes		-	789,286
Redemption in shares of Convertible Debentures		-	4,770,557
Value of warrants		-	21,938

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

## Notes to the interim condensed consolidated financial statements

June 30, 2020, March 31, 2020 and June 30, 2019

(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.

The Corporation has not realized an annual profit since its inception.

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 filing by the Board of Directors of the Corporation on August 26, 2020.

### 3. Basis of consolidation, statement of compliance with IFRS and summary of 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 interim condensed 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.

Percentage of interest in the Corporation's subsidiaries and associates are as follows:

Name of entity	Location of entity	Type of entity	Percentage of ownership
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%

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

# DIAGNOS Inc.

## *Summary of 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, 2020.

The accounting policies used to prepare these interim 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.

#### **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. 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.

#### **5. Significant event during the period covered by these interim condensed consolidated financial statements**

##### *Impact of the COVID-19 pandemic*

On March 11, 2020, the World Health Organization declared to be a pandemic the recent outbreak of a novel and highly contagious form of coronavirus known as COVID-19. Since then, the Corporation's sales process has been somewhat impacted and screening activities have slowed down. It is currently impossible for the Corporation to clearly assess the full impact of this pandemic on the results for the current fiscal year, however, it should not significantly impact 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. The Corporation is monitoring the situation closely and may take additional measures to reduce its costs and preserve its liquidities.

#### **6. Short-term investments**

Short-term investments consist of guaranteed investment certificates bearing interest at annual rates between 1.2% and 2%.

#### **7. Accounts receivable**

	<b>As at</b>	
	<b>June 30, 2020</b>	<b>March 31, 2020</b>
	<b>\$</b>	
Customers	29,487	64,627
Tax credits on research and development expenses	120,310	110,310
Government grant	28,800	28,800
Demand loan bearing annual interest rate of 4%	42,384	42,854
Sales commissions advance, no interest bearing	19,919	20,841
Sales taxes	32,364	74,800
Deposits	1,450	1,450
	<b>274,714</b>	<b>343,682</b>

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

# DIAGNOS Inc.

## 8. Investments

	As at	
	June 30, 2020	March 31, 2020
	\$	
Guaranteed investment certificate, bearing interest at 2.22% and maturing on July 15, 2021	31,120	31,120
	31,120	31,120

Guaranteed investment certificate is pledged as security for an account payable of \$6,957 (March 31, 2020 - \$14,800).

## 9. Accounts payable and accrued liabilities

	As at	
	June 30, 2020	March 31, 2020
	\$	
Accounts payable and accrued liabilities	98,650	67,813
Interests payable and accrued	3,498	7,303
Salaries and benefits	113,094	192,001
Sales and withholding taxes	14,723	5,940
	229,965	273,057

## 10. Loans

	As at	
	June 30, 2020	March 31, 2020
	\$	
Unsecured non-convertible loans	125,000	125,000
Bank loan	24,492	-
Fair value discount	15,508	-
	165,000	125,000
Short-term portion	125,000	125,000
Long-term portion	40,000	-

Unsecured non-convertible loans bear interest at the annual rate of 8% and will mature on December 16, 2020.

During the quarter ended June 30, 2020, the Corporation received a bank loan of \$40,000 under the Canada Emergency Business Account (CEBA) program. The main terms of the loan under the CEBA program are as follows:

- 0% interest until December 31, 2022.
- No principal payments until December 31, 2022.
- \$10,000 loan forgiveness provided \$30,000 is paid back prior to December 31, 2022.
- If the balance is not paid by December 31, 2022, the remaining balance will be converted to a 3-year term loan at 5% annual interest, paid monthly, effective January 1, 2023.
- The full balance must be repaid by no later than December 31, 2025.

The fair value of the loan has been established at \$18,369 using the discounted cash flows valuation method with the following weighted average assumptions:

Maturity:	2.69 years	Nominal interest rate:	0%
Interest payment frequency:	0 per year	Effective interest rate:	18.65%



## DIAGNOS Inc.

### 11. Convertible notes

	As at	
	June 30, 2020	March 31, 2020
	\$	
Unsecured convertible promissory notes	150,000	150,000
Fair value discount	(2,714)	(5,874)
Issue expenses	(629)	(629)
	<u>146,657</u>	<u>143,497</u>

Convertible notes bear interest at the annual rate of 10% and will mature during October 2020.

### 12. Leases

	As at	
	June 30, 2020	March 31, 2020
	\$	
Finance leases	29,402	35,485
Finance lease fair value discount	(102)	(243)
Lease liabilities related to right-of-use assets	<u>30,606</u>	<u>33,813</u>
	<u>59,906</u>	<u>69,055</u>
Leases - short term	<u>29,025</u>	<u>35,313</u>
Leases - long term	<u>30,881</u>	<u>33,742</u>

### 13. Share capital

Share capital is composed of common shares without par value of which 61,366,004 are issued and outstanding as at June 30, 2020 and March 31, 2020. 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. Stock option grants vest at 50% per year, commencing with the first anniversary of the grant and can be exercised over five years. The conditions of exercise are determined by the Board of Directors in accordance with the policies of the TSX Venture Exchange. The stock options are granted at or above 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.

As at June 30, 2020 and March 31, 2020, the outstanding number of stock options is 4,396,000.

As at June 30, 2020 and March 31, 2020, the number of stock options available for issuance is 1,291,909.

# DIAGNOS Inc.

## 14. Reserve

<b>Three-month period ended June 30, 2020</b>				
	Stock warrants	Conversion options	Stock options	Total
	\$			
<b>Balance, beginning of period</b>	<b>4,375,037</b>	<b>1,227,456</b>	<b>2,865,808</b>	<b>8,468,301</b>
Stock-based compensation	-	-	25,428	25,428
<b>Balance, end of period</b>	<b>4,375,037</b>	<b>1,227,456</b>	<b>2,891,236</b>	<b>8,493,729</b>

  

<b>Three-month period ended June 30, 2019</b>				
	Stock warrants	Conversion options	Stock options	Total
	\$			
<b>Balance, beginning of period</b>	<b>4,203,995</b>	<b>1,227,456</b>	<b>2,737,777</b>	<b>8,169,228</b>
Loans	21,938	-	-	21,938
Issue expenses	(700)	-	-	(700)
Stock-based compensation	-	-	19,626	19,626
<b>Balance, end of period</b>	<b>4,225,233</b>	<b>1,227,456</b>	<b>2,757,403</b>	<b>8,210,092</b>

## 15. Financial instruments and risk management

### Financial instruments

Financial instruments recorded at fair value in the Interim Condensed 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.

## DIAGNOS Inc.

The following tables present fair value hierarchy described above:

<b>As at June 30, 2020</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total financial assets at fair value</b>
			\$	
Financial assets				
Short-term investments	1,251,665	-	-	1,251,665
Investments	31,120	-	-	31,120
<b>Total financial assets</b>	<b>1,282,785</b>	<b>-</b>	<b>-</b>	<b>1,282,785</b>

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total financial liabilities</b>
			\$	
Financial liabilities				
Convertible notes	-	146,657	-	146,657
<b>Total financial liabilities</b>	<b>-</b>	<b>146,657</b>	<b>-</b>	<b>146,657</b>

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

<b>As at March 31, 2020</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total financial assets at fair value</b>
			\$	
Financial assets				
Short-term investments	1,301,665	-	-	1,301,665
Investments	31,120	-	-	31,120
<b>Total financial assets</b>	<b>1,332,785</b>	<b>-</b>	<b>-</b>	<b>1,332,785</b>

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total financial liabilities</b>
			\$	
Financial liabilities				
Convertible notes	-	143,497	-	143,497
<b>Total financial liabilities</b>	<b>-</b>	<b>143,497</b>	<b>-</b>	<b>143,497</b>

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 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.

## 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*

Unchanged from the last reporting period, management considers the credit risk related to cash and short-term investments to be low as at June 30, 2020.

#### *Customers*

Unchanged from the last reporting period, despite the concentration of its customers, 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, 2020.

### ii. Liquidity Risks

Liquidity risk is the risk that the Corporation cannot meet its obligations as they come due. Unchanged from the last reporting period, the Corporation's exposure to liquidity risk as at June 30, 2020 is high and is dependent 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. 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. Unchanged from the last reporting period, management considers the exchange rate fluctuations risk to be low as at June 30, 2020.

# DIAGNOS Inc.

## 16. 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.

Revenue by country:

	<b>Three-month period ended June 30,</b>	
	<b>2020</b>	<b>2019</b>
	\$	
Canada	39,275	31,337
United States of America	8,415	23,571
Bangladesh	-	13,048
United Arab Emirates	-	12,019
Saudi Arabia	-	1,459
	<u>47,690</u>	<u>81,434</u>

70% of revenues from Canada, for the three-month period ended June 30, 2020, were attributable to data interpretation consulting services rendered to one company active in the mining sector (three-month period ended June 30, 2019 - 52%). 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.

## 17. 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 includes directors and officers.

The following table presents the transactions with key management personnel:

	<b>Three-month period ended June 30,</b>	
	<b>2020</b>	<b>2019</b>
	\$	
Base salary	118,125	130,000
Stock-based compensation	20,182	13,326
Incentives	50,000	10,000
Interest on demand loan	485	485
Payment of interest on demand loan	(485)	(485)
	<u>188,307</u>	<u>153,326</u>

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

	<b>As at</b>	
	<b>June 30, 2020</b>	<b>March 31, 2020</b>
	\$	
Demand loan receivable, annual interest rate of 4%	42,384	42,854
Cash advance, no interest	20,841	20,841

## DIAGNOS Inc.

### **18. Other income**

#### Government grants

In accordance with the Canada Emergency Wage Subsidy relief program for the COVID-19 pandemic, the Corporation recognized an amount of \$141,563 during the quarter ended June 30, 2020.

The Corporation received the support of the Quebec government through the Créativité Québec program, administered by Investissement Québec (IQ), to presents a technological showcase at the Centre Hospitalier de l'Université de Montréal (CHUM). During the three-month period ended June 30, 2019, a grant in the amount of \$24,616 was recognized as follows: \$17,056 in "Other income" and \$7,560 by deducting the grant in arriving at the carrying amount of the asset.

**Head Office**

DIAGNOS Inc.  
7005 Taschereau Blvd.  
Suite 340  
Brossard, Quebec J4Z 1A7  
450 678-8882 or 877 678-8882

**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