

DIAGNOS

DIAGNOS Inc.

Interim Condensed Consolidated Financial Statements - Unaudited
Three-month and Six-month Periods ended September 30, 2022

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

DIAGNOS Inc.
Interim Consolidated Statements of Financial Position
(amounts in Canadian dollars)

	Note	As at	
		September 30, 2022	March 31, 2022
		\$	
ASSETS			
Current			
Cash		193,652	420,914
Short-term investments		-	500,000
Accounts receivable	6	352,314	346,229
Prepaid expenses		56,014	21,659
		<u>601,980</u>	<u>1,288,802</u>
Non-current			
Capital assets		203,969	252,779
Total assets		<u>805,949</u>	<u>1,541,581</u>
LIABILITIES			
Current			
Accounts payable and accrued liabilities	7	530,947	462,646
Deferred revenue		17,422	6,667
Loans	8	125,000	125,000
Leases	9	65,055	65,055
		<u>738,424</u>	<u>659,368</u>
Non-current			
Loans	8	158,765	158,010
Leases	9	132,067	164,148
Convertible debentures	10	986,386	673,565
		<u>1,277,218</u>	<u>995,723</u>
Total liabilities		<u>2,015,642</u>	<u>1,655,091</u>
SHAREHOLDERS' DEFICIENCY			
Share capital	11	35,679,831	35,679,831
Reserve	12	9,317,259	9,175,574
Deficit		(46,230,330)	(44,992,462)
Investments revaluation reserve		(53,082)	(53,082)
Foreign exchange differences		76,629	76,629
		<u>(1,209,693)</u>	<u>(113,510)</u>
Total liabilities and shareholders' deficiency		<u>805,949</u>	<u>1,541,581</u>

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

Approved by the Board of Directors:

(signed) Vincent Duhamel
Acting chairman

(signed) André Larente
Director

DIAGNOS Inc.
Interim Consolidated Statements of Loss and Comprehensive Loss
(amounts in Canadian dollars)

	Note	Three-month period ended September 30,		Six-month period ended September 30,	
		2022	2021	2022	2021
		\$		\$	
Revenue	14	146,533	80,933	295,547	156,894
Expenses					
Costs of services and research and development		192,406	228,822	437,326	429,236
Selling and administrative		428,486	474,210	1,010,143	1,075,826
		<u>620,892</u>	<u>703,032</u>	<u>1,447,469</u>	<u>1,505,062</u>
Loss before other items		(474,359)	(622,099)	(1,151,922)	(1,348,168)
Other income		6,257	72,918	12,478	89,829
Interest expense		(52,608)	(8,525)	(98,424)	(19,390)
Net loss		(520,710)	(557,706)	(1,237,868)	(1,277,729)
Other comprehensive income items					
Net change in foreign exchange translation		-	1,185	-	1,875
Comprehensive loss		(520,710)	(556,521)	(1,237,868)	(1,275,854)
Basic and diluted net loss per share		(0.01)	(0.01)	(0.02)	(0.02)
Weighted-average number of common shares outstanding		69,474,151	68,567,808	69,474,151	68,240,394

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

DIAGNOS Inc.
Consolidated Statements of Changes in Equity
(amounts in Canadian dollars)

Six-month period ended September 30, 2022

	Note	Share capital	Reserve	Deficit	Investments revaluation reserve	Foreign exchange differences	Total shareholders' deficiency
		\$					
Balance, beginning of period		35,679,831	9,175,574	(44,992,462)	(53,082)	76,629	(113,510)
Net loss		-	-	(1,237,868)	-	-	(1,237,868)
Issuance of warrants	10, 12	-	52,500	-	-	-	52,500
Conversion options	10, 12	-	17,803	-	-	-	17,803
Issue expenses	10, 12	-	(502)	-	-	-	(502)
Stock-based compensation expense	12	-	71,884	-	-	-	71,884
Balance, end of period		35,679,831	9,317,259	(46,230,330)	(53,082)	76,629	(1,209,693)

Six-month period ended September 30, 2021

	Note	Share capital	Reserve	Deficit	Investments revaluation reserve	Foreign exchange differences	Total shareholders' equity
		\$					
Balance, beginning of period		34,756,759	8,737,350	(42,384,244)	(53,082)	75,370	1,132,153
Net loss		-	-	(1,277,729)	-	-	(1,277,729)
Other comprehensive loss items		-	-	-	-	1,875	1,875
Issuance of common shares		819,016	(166,016)	-	-	-	653,000
Stock-based compensation expense		-	208,056	-	-	-	208,056
Balance, end of period		35,575,775	8,779,390	(43,661,973)	(53,082)	77,245	717,355

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

DIAGNOS Inc.
Consolidated Statements of Cash Flows
(amounts in Canadian dollars)

	Six-month period ended September 30,		
	Note	2022	2021
		\$	
Cash flows from operating activities			
Net loss		(1,237,868)	(1,277,729)
Items not affecting cash			
Depreciation of capital assets		53,622	51,814
Accretion on leases		11,131	14,704
Accretion on convertible debentures		35,122	-
Accretion on governmental loan		7,233	2,781
Governmental grant amortization		(6,478)	(2,890)
Stock-based compensation expense		71,884	208,056
		(1,065,354)	(1,003,264)
Payment of interest		43,529	5,397
Net change in operating working capital items		38,616	(29,119)
		(983,209)	(1,026,986)
Cash flows from investing activities			
Proceeds from disposal of short-term investments		500,000	700,000
Acquisition of short term investments		-	(200,000)
Additions to capital assets		(4,812)	(7,312)
Foreign exchange translation		-	1,875
		495,188	494,563
Cash flows from financing activities			
Issuance of convertible debentures and warrants, net of issue expenses	10	347,500	-
Issuance of common shares, net of issue expenses		-	653,000
Lease payments		(43,212)	(55,119)
Payment of interest		(43,529)	(5,397)
		260,759	592,484
Net change in cash		(227,262)	60,061
Cash, beginning of period		420,914	359,390
Cash, end of period		193,652	419,451

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

DIAGNOS Inc.

Notes to Consolidated Financial Statements

September 30, 2022, March 31, 2022 and September 30, 2021

(amounts in Canadian dollars)

1. Going concern assumption

These 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.

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

- Reduce operating costs
- Continue to seek debt financing
- Continue to seek equity financing
- 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 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 265, Brossard, Quebec, Canada. The shares of the Corporation are listed on the TSX Venture Exchange and the OTCQB Exchange.

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

These interim consolidated financial statements have been approved and authorized for filing by the Board of Directors of the Corporation on November 29, 2022.

3. Basis of consolidation and summary of accounting policies

Basis of consolidation

These interim 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.

Percentage of interest in the Corporation's subsidiaries is as follows:

Name of entity	Location of entity	Percentage of ownership
Diagnos Internacional SA de CV	Mexico	99.8%
Diagnos Healthcare (India) Private Limited	India	99.74%

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

DIAGNOS Inc.

Notes to Consolidated Financial Statements

September 30, 2022, March 31, 2022 and September 30, 2021

(amounts in Canadian dollars)

3. Basis of consolidation and summary of accounting policies (continued)

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, 2022.

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 events during the period covered by these interim condensed consolidated financial statements

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.

6. Accounts receivable

	As at	
	September 30, 2022	March 31, 2022
	\$	
Customers	109,123	122,848
Tax credits on research and development expenses	204,007	149,007
Demand loan bearing annual interest rate of 4%	20,000	43,433
Sales commissions advance, no interest bearing	20,796	20,704
Sales taxes	(3,069)	8,779
Deposits	1,350	1,350
Others	107	108
	<u>352,314</u>	<u>346,229</u>

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

DIAGNOS Inc.

Notes to Consolidated Financial Statements

September 30, 2022, March 31, 2022 and September 30, 2021

(amounts in Canadian dollars)

7. Accounts payable and accrued liabilities

	As at	
	September 30, 2022	March 31, 2022
	\$	
Accounts payable and accrued liabilities	391,211	278,486
Interests payable and accrued	7,434	4,455
Salaries and benefits	132,302	179,705
	530,947	462,646

8. Loans

	As at	
	September 30, 2022	March 31, 2022
	\$	
Unsecured non-convertible demand loans	125,000	125,000
Interest-free loan	119,465	119,465
fair value discount	(68,118)	(72,571)
deferred grant	68,933	72,750
Interest-free bank loan	40,000	40,000
fair value discount	(8,162)	(10,942)
deferred grant	6,647	9,308
	283,765	283,010
Short-term portion	125,000	125,000
Long-term portion	158,765	158,010

The unsecured non-convertible loans bear interest at the annual rate of 10% and will mature on December 16, 2022.

The interest-free loan has a term of 10 years and monthly principal repayment will start in October 2023.

The interest-free bank loan was received under the Canada Emergency Business Account (CEBA) program. The main terms of the CEBA program are as follows;

- 0% interest until December 31, 2023.
- no principal payments until December 31, 2023.
- \$10,000 loan forgiveness provided \$30,000 is paid back prior to December 31, 2023.
- if the balance is not paid by December 31, 2023, the remaining balance will be converted to a 2-year term loan at 5% annual interest, paid monthly, effective January 1, 2024. The full balance must be repaid by no later than December 31, 2025.

DIAGNOS Inc.

Notes to Consolidated Financial Statements

September 30, 2022, March 31, 2022 and September 30, 2021

(amounts in Canadian dollars)

9. Leases

	As at	
	September 30, 2022	March 31, 2022
	\$	
Finance leases	197,122	229,203
Leases - short term	65,055	65,055
Leases - long term	132,067	164,148

During the quarter ended September 30, 2020, the Corporation signed a new lease for its head office. The minimum monthly payment amounts to \$6,135 for a term of 60 months ending August 31, 2025.

During the quarter ended June 30, 2020, the Corporation entered into one computer equipment lease agreement. The minimum monthly payment amounts to \$353 for a term of 36 months ending August 31, 2023.

The Corporation has entered into one lease related to web hosting facility used to render services. Minimum monthly payments amount to \$773 for a term of 36 months ending in January 2023.

10. Convertible debentures

	As at	
	September 30, 2022	March 31, 2022
	\$	
Unsecured convertible debentures	1,280,000	930,000
Fair value discount	(265,814)	(225,223)
Issue expenses	(27,800)	(31,212)
	986,386	673,565

During the quarter ended September 30, 2022, as part of a private placement, the Corporation issued \$350,000 worth of unsecured convertible debentures (each a "Q2-Debenture"). The Q2-Debentures bear interest at an annual rate of 10%, and will mature on August 31, 2025. At the sole option of the Q2-Debenture holders, the principal amount of the Q2-Debentures may be converted at any time into common shares of the Corporation (each a "Share") at a price of \$0.22 per Share. Any accrued interest on the principal, at the time of conversion, will be immediately payable in cash. As part of the private placement, 350,000 stock warrants (each a "Warrant") were issued to the Q2-Debenture holders entitling the holder to purchase one Share of the Corporation per Warrant at a price of \$0.26 per Share for a period of 18 months from the date of issuance.

The fair value of the Q2-Debentures has been established at \$279,697 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:	18.84%

DIAGNOS Inc.

Notes to Consolidated Financial Statements

September 30, 2022, March 31, 2022 and September 30, 2021

(amounts in Canadian dollars)

10. Convertible debentures (continued)

Of the difference of \$70,303 between the nominal value of the Q2-Debentures, \$350,000, and its fair value of \$279,697, an amount of \$17,803 has been allocated to the conversion options and an amount of \$52,500 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:	3%
Liquidity discount:	25%	Volatility:	66.98%

Conversion options:

Expected life:	3 years	Risk-free interest rate:	3%
Liquidity discount:	25%	Volatility:	66.98%

During the quarter ended March 31, 2022, as part of a private placement, the Corporation issued \$930,000 worth of unsecured convertible debentures (each a "Debenture"). The Debentures bear interest at an annual rate of 8%, and will mature on March 1 & 25, 2025. At the sole option of the Debenture holders, the principal amount of the Debentures may be converted at any time into common shares of the Corporation (each a "Share") at a price of \$0.38 per Share. Any accrued interest on the principal, at the time of conversion, will be immediately payable in cash. As part of the private placement, 343,025 stock warrants (each a "Warrant") were issued to the Debenture holders and finders entitling the holder to purchase one Share of the Corporation per Warrant at a price of \$0.33 per Share for a period of 18 months from the date of issuance.

11. Share capital

Share capital is composed of common shares without par value of which 69,474,151 are issued and outstanding as at September 30, 2022 and March 31, 2022. 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.

DIAGNOS Inc.

Notes to Consolidated Financial Statements

September 30, 2022, March 31, 2022 and September 30, 2021

(amounts in Canadian dollars)

12. Reserve

	Six-month period ended September 30, 2022				
	Broker warrants	Stock warrants	Conversion options	Stock options	Total
	\$				
Balance, beginning of period	3,284	4,264,352	1,371,901	3,536,037	9,175,574
Stock-based compensation	-	-	-	71,884	71,884
Private placement	-	52,500	17,803	-	70,303
Issue expenses	-	(375)	(127)	-	(502)
Balance, end of period	3,284	4,316,477	1,389,577	3,607,921	9,317,259

	Six-month period ended September 30, 2021				
	Broker warrants	Stock warrants	Conversion options	Stock options	Total
	\$				
Balance, beginning of period	-	4,399,999	1,227,456	3,109,895	8,737,350
Stock-based compensation	-	-	-	208,056	208,056
Exercises	-	(115,016)	-	(51,000)	(166,016)
Balance, end of period	-	4,284,983	1,227,456	3,266,951	8,779,390

13. Financial instruments and risk management

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. Consequently, management considers the credit risk related to cash and short-term investments to be low as at September 30, 2022 and March 31, 2022.

Clients, advances and demand loan

The Corporation determines whether the credit risk of a financial asset has increased significantly since initial recognition considering reasonable and supportable information that is relevant and available without undue cost or effort, this includes both quantitative and qualitative information and analysis, based on the historical experience and informed assessment and including forward-looking information.

13. Financial instruments and risk management (continued)

As at September 30, 2022, 94% of accounts receivable from clients were attributable to one client (93% as at March 31, 2022). 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 clients make up this concentration.

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 September 30, 2022 and March 31, 2022.

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.

Considering the available liquidities to meet its current obligations, the Corporation's exposure to liquidity risk as at September 30, 2022 is high (March 31, 2022 – low). The available liquidity to meet near term obligations is dependent on the Corporation's ability in securing additional financing and achieving and maintaining profitable operations. Refer to note 1 - going concern assumption.

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. During the year, revenues and expenses arose from transactions occurring mainly in Canadian dollars.

The Corporation is exposed to fluctuations in the currency rates of four currencies; USD, MXN, INR and EUR. 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 and equity for the six-month period ended September 30, 2022 and September 30, 2021.

DIAGNOS Inc.

Notes to Consolidated Financial Statements

September 30, 2022, March 31, 2022 and September 30, 2021

(amounts in Canadian dollars)

14. Segment information

The Corporation is active in one reportable segment, healthcare services.

Revenue by country:

	Three-month period ended September 30,		Six-month period ended September 30,	
	2022	2021	2022	2021
	\$		\$	
Canada	141,477	72,498	284,376	140,523
United States of America	4,097	7,063	9,688	14,883
Saudi Arabia	-	747	99	747
Mexico	950	351	1,335	351
Costa Rica	9	132	49	248
Colombia	-	84	-	84
Spain	-	58	-	58
	146,533	80,933	295,547	156,894

For the six-month period ended September 30, 2022, 86% of revenue was attributable to one client (six-month period ended September 30, 2021 - 25%).

15. Related party transactions

The Corporation's related parties include its subsidiaries 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:

	Three-month period ended September 30,		Six-month period ended September 30,	
	2022	2021	2022	2021
	\$		\$	
Base salary	82,500	103,750	165,000	207,500
Stock-based compensation	23,050	81,895	46,099	163,790
Incentives	-	10,000	10,000	10,000
Interest on demand loan	200	435	400	870
Payment of interest on demand loan	(200)	(435)	(400)	(870)
	105,550	195,645	221,099	381,290

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

	As at	
	September 30, 2022	March 31, 2022
	\$	
Demand loan receivable, annual interest rate of 4%	20,000	43,500
Sales commission advance, no interest	20,704	20,704

DIAGNOS Inc.

Notes to Consolidated Financial Statements

September 30, 2022, March 31, 2022 and September 30, 2021

(amounts in Canadian dollars)

15. Related party transactions (continued)

The outstanding balances with key management personnel varied as follows:

	Six-month period ended September 30, 2022	
	Demand loan receivable, annual interest of 4%	Sales commissions advance, no interest
	\$	
Balance, beginning of period	43,500	20,704
Reimbursement	(23,500)	-
Balance, end of period	20,000	20,704

Head Office

DIAGNOS Inc.
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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