

DIAGNOS

Interim Condensed Consolidated Financial Statements – Unaudited
Three-month and Nine-month Periods ended December 31, 2020

DIAGNOS Inc.

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

Interim Condensed Consolidated Statements of Financial Position

(amounts in Canadian dollars)

	Note	As at	
		December 31, 2020	March 31, 2020
		\$	
ASSETS			
Current			
Cash		958,429	570,442
Short-term investments	6	501,665	1,301,665
Accounts receivable	7	155,697	343,682
Prepaid expenses		28,617	122,285
		<u>1,644,408</u>	<u>2,338,074</u>
Non-current			
Investments	8	31,120	31,120
Capital assets	9	352,955	64,753
		<u>384,075</u>	<u>95,873</u>
Total assets		<u>2,028,483</u>	<u>2,433,947</u>
LIABILITIES			
Current			
Accounts payable and accrued liabilities	10	358,476	273,057
Deferred revenue		10,065	4,167
Loans	11	125,000	125,000
Convertible notes	12	-	143,497
Leases	13	89,939	35,313
		<u>583,480</u>	<u>581,034</u>
Non-current			
Leases	13	238,555	33,742
Loans	11	39,309	-
		<u>277,864</u>	<u>33,742</u>
Total liabilities		<u>861,344</u>	<u>614,776</u>
SHAREHOLDERS' EQUITY			
Share capital	14	34,354,371	33,666,631
Reserve	15	8,558,229	8,468,301
Deficit		(41,754,220)	(40,332,941)
Investments revaluation reserve		(53,082)	(53,082)
Foreign exchange differences		61,841	70,262
		<u>1,167,139</u>	<u>1,819,171</u>
Total liabilities and shareholders' equity		<u>2,028,483</u>	<u>2,433,947</u>

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

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

(amounts in Canadian dollars)

	Note	Three-month period ended December 31,		Nine-month period ended December 31,	
		2020	2019	2020	2019
		\$		\$	
Revenue	17	77,877	90,351	205,354	253,842
Expenses					
Costs of services and research and development		164,042	178,286	428,528	603,725
Selling and administrative		482,589	436,026	1,419,105	1,360,983
		<u>646,631</u>	<u>614,312</u>	<u>1,847,633</u>	<u>1,964,708</u>
Loss before other items		(568,754)	(523,961)	(1,642,279)	(1,710,866)
Other income	19	12,149	-	259,179	17,056
Interest expense		(16,174)	(43,528)	(38,179)	(252,518)
(Loss) gain on disposal of capital assets		-	-	-	2,833
Loss on settlement of convertible notes and debentures, including redemption expenses of \$55,592		-	-	-	(175,722)
Net loss		(572,779)	(567,489)	(1,421,279)	(2,119,217)
Other comprehensive (loss) income items					
Net change in foreign exchange translation		15,575	61	(8,421)	(4,112)
Net change in fair value of financial assets at fair value through other comprehensive income		-	-	-	450
		<u>15,575</u>	<u>61</u>	<u>(8,421)</u>	<u>(3,662)</u>
Comprehensive loss		(557,204)	(567,428)	(1,429,700)	(2,122,879)
Basic and diluted net loss per share		(0.01)	(0.01)	(0.02)	(0.06)
Weighted-average number of common shares outstanding		<u>63,590,672</u>	<u>42,694,677</u>	<u>62,112,973</u>	<u>37,952,606</u>

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

Interim Condensed Consolidated Statements of Changes in Equity

(amounts in Canadian dollars)

Nine-month period ended December 31, 2020

	Note	Share capital	Reserve	Deficit	Investments revaluation reserve	Foreign exchange differences	Total shareholders' equity
		\$					
Balance, beginning of period	14	33,666,631	8,468,301	(40,332,941)	(53,082)	70,262	1,819,171
Net loss		-	-	(1,421,279)	-	-	(1,421,279)
Other comprehensive loss items		-	-	-	-	(8,421)	(8,421)
Issuance of common shares	14	687,740	-	-	-	-	687,740
Stock-based compensation expense		-	89,928	-	-	-	89,928
Balance, end of period		34,354,371	8,558,229	(41,754,220)	(53,082)	61,841	1,167,139

Nine-month period ended December 31, 2019

	Note	Share capital	Reserve	Deficit	Investments revaluation reserve	Foreign exchange differences	Total shareholders' equity
		\$					
Balance, beginning of period		23,698,314	8,169,228	(36,950,068)	(53,532)	53,459	(5,082,599)
Net loss		-	-	(2,119,217)	-	-	(2,119,217)
Other comprehensive loss items		-	-	-	450	(4,112)	(3,662)
Issuance of common shares		6,599,033	-	-	-	-	6,599,033
Issuance of warrants		-	150,543	-	-	-	150,543
Issue expenses		(18,859)	(7,684)	-	-	-	(26,543)
Stock-based compensation expense		-	112,182	-	-	-	112,182
Balance, end of period		30,278,488	8,424,269	(39,069,285)	(53,082)	49,347	(370,263)

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

Interim Condensed Consolidated Statements of Cash Flows

(amounts in Canadian dollars)

	Note	Nine-month period ended December 31,	
		2020	2019
		\$	
Cash flows from operating activities			
Net loss		(1,421,279)	(2,119,217)
Items not affecting cash			
Depreciation of capital assets		49,913	90,685
Accretion on loans		3,289	-
Accretion on short term loan		-	40,938
Accretion on leases		243	3,059
Accretion on convertible notes		6,503	15,930
Accretion on convertible debentures		-	78,471
Interest on short-term investments		-	(136)
Interest-free governmental loan assistance		(3,980)	-
Gain on disposal of capital assets		-	(2,833)
Stock-based compensation expense	15	89,928	106,698
Loss on settlement of debt, net of redemption expenses of \$55,592		-	120,130
		(1,275,383)	(1,666,275)
Payment of interest		33,996	22,500
Net change in operating working capital items		372,970	176,527
		(868,417)	(1,467,248)
Cash flows from investing activities			
Proceeds from disposal of short-term investments		800,000	725,060
Acquisition of short term investments		-	(200,000)
Proceeds from disposal of investments		-	10,450
Additions to capital assets		(24,639)	(55,059)
Proceeds from disposal of capital assets		-	2,639
Other		(8,421)	(4,112)
		766,940	478,978
Cash flows from financing activities			
Issuance of common shares and warrants, net of issue expenses		687,740	532,166
Issuance of loans and warrants, net of issue expenses		-	647,800
Repayment of convertible notes	12	(150,000)	-
Loan	11	40,000	-
Leases		-	40,769
Lease payments		(54,280)	(41,389)
Payment of interest		(33,996)	(22,500)
		489,464	1,156,846
Net change in cash		387,987	168,576
Cash, beginning of period		570,442	138,242
Cash, end of period		958,429	306,818
Non-cash transactions			
Leases		313,476	-
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		-	150,543

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

Notes to the interim condensed consolidated financial statements

December 31, 2020, March 31, 2020 and December 31, 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 265, 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 February 24, 2021.

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.

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 the recent outbreak of a novel and highly contagious form of coronavirus known as COVID-19 to be a pandemic. 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 governmental 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

	As at	
	December 31, 2020	March 31, 2020
	\$	
Customers	25,453	64,627
Tax credits on research and development expenses	30,092	110,310
Government grant	14,000	28,800
Demand loan bearing annual interest rate of 4%	41,385	42,854
Sales commissions advance, no interest bearing	20,861	20,841
Sales taxes	22,457	74,800
Deposits	1,449	1,450
	155,697	343,682

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

8. Investments

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

Guaranteed investment certificate is pledged as security for an account payable of \$16,011 (March 31, 2020 - \$14,800).

9. Capital assets

The increase of \$288,202, for the nine-month period ended December 31, 2020, is mainly attributable to the increase in right-of-use assets of \$301,512 resulting from the signing of a five-year lease, effective September 1, 2020, for the Corporation's head office.

DIAGNOS Inc.

10. Accounts payable and accrued liabilities

	As at	
	December 31, 2020	March 31, 2020
	\$	
Accounts payable and accrued liabilities	225,065	67,813
Interests payable and accrued	3,498	7,303
Salaries and benefits	129,913	192,001
Sales and withholding taxes	-	5,940
	358,476	273,057

11. Loans

	As at	
	December 31, 2020	March 31, 2020
	\$	
Unsecured non-convertible loans	125,000	125,000
Bank loan	40,000	-
Fair value discount	(12,219)	-
Interest-free deferred grant	11,528	-
	164,309	125,000
Short-term portion	125,000	125,000
Long-term portion	39,309	-

Unsecured non-convertible loans bear interest at the annual rate of 8% and will mature on December 16, 2021.

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.

12. Convertible notes

	As at	
	December 31, 2020	March 31, 2020
	\$	
Unsecured convertible promissory notes	-	150,000
Fair value discount	-	(5,874)
Issue expenses	-	(629)
	-	143,497

During the quarter ended December 31, 2020, the Corporation proceeded with the full reimbursement of the unsecured convertible promissory notes and accrued interests.

13. Leases

	As at	
	December 31, 2020	March 31, 2020
	\$	
Finance leases	28,797	35,485
Finance lease fair value discount	-	(243)
Lease liabilities related to right-of-use assets	299,697	33,813
	328,494	69,055
Leases - short term	89,939	35,313
Leases - long term	238,555	33,742

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 following table presents a reconciliation of changes in leases which have occurred during the nine-month period ended December 31, 2020:

	\$
Balance, beginning of period	69,055
New leases	313,476
Payments	(54,280)
Accretion	243
Balance, end of period	328,494

DIAGNOS Inc.

14. Share capital

Share capital is composed of common shares without par value of which 65,625,925 are issued and outstanding as at December 31, 2020 (March 31, 2020 – 61,366,004). 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.

The following table presents the changes to share capital which have occurred during the nine-month period ended December 31, 2020:

	Number of common shares	\$
Balance, beginning of period	61,366,004	33,666,631
Exercise of stock warrants	4,114,921	658,740
Exercise of stock options	145,000	29,000
Balance, end of period	65,625,925	34,354,371

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 prior to 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 December 31, 2020, the outstanding number of stock options is 6,177,000 (March 31, 2020 - 4,396,000).

As at December 31, 2020, the number of stock options available for issuance is 2,365,909 (March 31, 2020 – 1,291,909).

DIAGNOS Inc.

15. Reserve

Nine-month period ended December 31, 2020				
	Stock warrants	Conversion options	Stock options	Total
	\$			
Balance, beginning of period	4,375,037	1,227,456	2,865,808	8,468,301
Stock-based compensation	-	-	89,928	89,928
Balance, end of period	4,375,037	1,227,456	2,955,736	8,558,229

Nine-month period ended December 31, 2019				
	Stock warrants	Conversion options	Stock options	Total
	\$			
Balance, beginning of period	4,203,995	1,227,456	2,737,777	8,169,228
Private placement	13,750	-	-	13,750
Loans	136,793	-	-	136,793
Issue expenses	(2,200)	-	(5,484)	(7,684)
Stock-based compensation	-	-	112,182	112,182
Balance, end of period	4,352,338	1,227,456	2,844,475	8,424,269

16. 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.

The following tables present fair value hierarchy described above:

	As at December 31, 2020			
	Level 1	Level 2	Level 3	Total financial assets at fair value
	\$			
Financial assets				
Short-term investments	501,665	-	-	501,665
Investments	31,120	-	-	31,120
Total financial assets	532,785	-	-	532,785

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

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

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

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

Cash and short-term investments are held with one of the largest chartered banks in Canada. Unchanged from the last reporting period, management considers the credit risk related to cash and short-term investments to be low as at December 31, 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 December 31, 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 long-term exposure to liquidity risk as at December 31, 2020 is high and is dependent on the Corporation's ability to achieve and maintain profitable operations or to secure additional financing until it is able to generate positive cash flows. 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. The vast majority of cash transactions are in Canadian dollars. Unchanged from the last reporting period, management considers the exchange rate fluctuations risk to be low as at December 31, 2020.

DIAGNOS Inc.

17. 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:

	Three-month period ended		Nine-month period ended	
	December 31,		December 31,	
	2020	2019	2020	2019
	\$		\$	
Canada	71,116	59,313	168,578	139,365
United States of America	5,831	15,778	33,969	59,525
Colombia	930	-	2,807	-
Bangladesh	-	18	-	13,126
Costa Rica	-	2,647	-	2,647
United Arab Emirates	-	11,860	-	35,760
Saudi Arabia	-	735	-	3,419
	<u>77,877</u>	<u>90,351</u>	<u>205,354</u>	<u>253,842</u>

80% of revenues from Canada, for the nine-month period ended December 31, 2020, were attributable to data interpretation consulting services rendered to one company active in the mining sector (nine-month period ended December 31, 2019 - 67%). As this line of business is not strategic to the development of the Corporation, revenue from consulting services is not presented separately from healthcare services.

18. Related party transactions

The Corporation's related parties include its subsidiaries 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:

	Three-month period ended		Nine-month period ended	
	December 31,		December 31,	
	2020	2019	2020	2019
	\$		\$	
Base salary	109,543	130,000	323,918	390,000
Stock-based compensation	23,425	32,945	67,033	79,216
Incentives	-	-	50,000	10,000
Interest on demand loan	485	485	1,455	1,455
Payment of interest on demand loan	(485)	(485)	(1,455)	(1,455)
	<u>132,968</u>	<u>162,945</u>	<u>440,951</u>	<u>479,216</u>

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

	As at	
	December 31, 2020	March 31, 2020
	\$	
Demand loan receivable, annual interest rate of 4%	42,854	42,854
Cash advance, no interest	20,841	20,841

DIAGNOS Inc.

19. 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 \$249,199 during the nine-month period ended December 31, 2020.

During the nine-month period ended December 31, 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). In connection with the program, 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

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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