DIAGNOS Inc.

Interim Unaudited Condensed Consolidated Financial Statements
Three-month and Nine-month Periods ended December 31, 2016

DIAGNOS Inc.

Table of Contents

Interim Condensed Consolidated Statements of Financial Position (unaudited) 1

Interim Condensed Consolidated Statements of Earnings and Comprehensive Loss (unaudited) 2

Interim Condensed Consolidated Statements of Changes in Equity (unaudited) 3

Interim Condensed Consolidated Statements of Cash Flows (unaudited) 4

Notes to the Interim Condensed Consolidated Financial Statements (unaudited) 5

DIAGNOS Inc.

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

	Note	December 31, 2016	March 31, 2016
		As at	
		$	
ASSETS			
Current			
Cash		880,389	477,015
Short-term investments	6	84,005	103,686
Accounts receivable	7	707,984	350,102
Prepaid expenses		13,256	47,535
		1,685,634	978,338
Non-current			
Investments	8	17,280	129,250
Capital assets	9	212,765	141,259
Intangible assets		33,943	21,775
		263,988	292,284
Total assets		**1,949,622**	**1,270,622**
LIABILITIES			
Current			
Accounts payable and accrued liabilities	10	747,343	342,382
Deferred revenue		211,919	100,083
Loans	11	627,671	474,659
Convertible Debentures	13	1,044,326	-
Convertible Notes	12	-	1,066,162
		2,631,259	1,983,286
Non-current			
Convertible Debentures	13	2,028,735	2,436,297
Total liabilities		**4,659,994**	**4,419,583**
Commitments	16		
SHAREHOLDERS' DEFICIENCY			
Share capital	14	19,839,267	18,163,302
Reserve	15	6,298,539	6,020,477
Deficit		(28,852,256)	(27,284,302)
Investments revaluation reserve		4,078	(48,438)
		(2,710,372)	(3,148,961)
Total liabilities and shareholders' deficiency		**1,949,622**	**1,270,622**

The accompanying notes are an integral part of these interim unaudited 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 December 31, 2016	Three-month period ended December 31, 2015	Nine-month period ended December 31, 2016	Nine-month period ended December 31, 2015
		$	$	$	$
Revenue	20	**1,403,271**	**364,083**	**2,032,072**	**740,588**
Expenses					
Costs of services and research and development		371,747	309,656	1,221,487	755,148
Selling and administrative		753,520	616,525	1,871,951	2,063,037
	18	1,125,267	926,181	3,093,438	2,818,185
Profit (loss) before interest		**278,004**	**(562,098)**	**(1,061,366)**	**(2,077,597)**
Interest expense		(215,825)	(154,531)	(506,588)	(326,946)
Net profit (loss)		**62,179**	**(716,629)**	**(1,567,954)**	**(2,404,543)**
Other comprehensive loss					
Item that may be reclassified to net loss					
Net change in value of available-for-sale financial assets		(18,272)	(12,500)	125,908	(20,340)
Net change in foreign exchange translation		(5,135)	-	(14,587)	32
Realized (gain) loss on disposal of available-for-sale financial assets		(23,498)	-	(58,805)	50,960
		(46,905)	(12,500)	52,516	30,652
Comprehensive income (loss)		**15,274**	**(729,129)**	**(1,515,438)**	**(2,373,891)**
Basic and diluted comprehensive income (loss) per share		**0.00**	**(0.01)**	**(0.01)**	**(0.02)**
Weighted-average number of common shares outstanding		140,028,119	106,163,823	117,049,794	106,160,009

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

DIAGNOS Inc.

Interim Condensed Consolidated Statements of Changes in Equity (unaudited)

(amounts in Canadian dollars)

	Nine-month period ended December 31, 2016					
	Note	Share capital	Reserve	Deficit	Investments revaluation reserve	Total equity
		$				
Balance, beginning of period		**18,163,302**	**6,020,477**	**(27,284,302)**	**(48,438)**	**(3,148,961)**
Net loss		-	-	(1,567,954)	-	(1,567,954)
Other comprehensive loss		-	-	-	52,516	52,516
Issuance of common shares	14	1,675,965	-	-	-	1,675,965
Issuance of conversion options	13, 15	-	59,195	-	-	59,195
Issuance of warrants	13, 15	-	150,226	-	-	150,226
Issuance expenses	15	-	(2,336)	-	-	(2,336)
Stock-based compensation expense	14, 15	-	70,977	-	-	70,977
Balance, end of period		**19,839,267**	**6,298,539**	**(28,852,256)**	**4,078**	**(2,710,372)**

	Nine-month period ended December 31, 2015					
	Note	Share capital	Reserve	Deficit	Investments revaluation reserve	Total equity
		$				
Balance, beginning of period		**18,161,677**	**5,843,011**	**(24,091,871)**	**(137,667)**	**(224,850)**
Net loss		-	-	(2,404,543)	-	(2,404,543)
Other comprehensive loss		-	-	-	30,652	30,652
Issuance of common shares	14	1,625	-	-	-	1,625
Issuance of conversion options	13, 15	-	546,450	-	-	546,450
Issuance of warrants	13, 15	-	12,300	-	-	12,300
Issuance expenses	15	-	(17,118)	-	-	(17,118)
Stock-based compensation expense	14, 15	-	80,113	-	-	80,113
Balance, end of period		**18,163,302**	**6,464,756**	**(26,496,414)**	**(107,015)**	**(1,975,371)**

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

DIAGNOS Inc.

Interim Condensed Consolidated Statements of Cash Flows (unaudited)

(amounts in Canadian dollars)

	Note	Nine-month period ended December 31, 2016	2015
		$	
Cash flows from operating activities			
Net loss		(1,567,954)	(2,404,543)
Items not affecting cash			
Depreciation of capital assets		119,337	34,898
Amortization of intangible assets		17,016	12,786
Accretion on short term loans		59,000	-
Accretion on convertible notes	12	3,838	111,735
Accretion on convertible debentures	13	105,800	37,858
Gain on settlement of debt		(10,000)	-
Compounded interest	13	42,438	95,417
Stock-based compensation expense	14, 15	70,977	80,113
(Gain) loss on disposal of investment		(58,805)	50,960
Gain on receivables payable in shares		(34,000)	-
		(1,252,353)	(1,980,776)
Payment of interest		208,059	68,500
Net change in non-cash operating working capital items		142,194	40,893
		(902,100)	**(1,871,383)**
Cash flows from investing activities			
Additions to short-term investments		(319)	(1,000,000)
Proceeds from disposals of short-term investments		20,000	1,053,132
Proceeds from disposals of investments		322,878	5,040
Additions to capital assets		(190,843)	(176,916)
Additions to intangible assets		(29,184)	(19,311)
Other		(14,587)	32
		107,945	**(138,023)**
Cash flows from financing activities			
Issuance of common shares, net of issue expenses	14	1,225,965	1,625
Issuance of demand loans	11, 21	-	400,000
Repayment of demand loans	11, 21	-	(400,000)
Issuance of loans	11	444,012	-
Repayment of loans	11	(350,000)	-
Payment of convertible notes	12	(130,000)	-
Issuance of convertible debentures, net of issue expenses	13	142,438	1,692,968
Issuance of conversion options, net of issue expenses	13, 15	10,042	529,332
Issuance of warrants, net of issue expenses	15	63,131	-
Payment of interest		(208,059)	(68,500)
		1,197,529	**2,155,425**
Net change in cash		**403,374**	**146,019**
Cash, beginning of period		477,015	352,105
Cash, end of period		**880,389**	**498,124**
Non-cash transactions			
Value of payment in shares of customer receivables		85,000	-
Issue expenses in the form of stock warrants	13, 15	-	12,300
Issuance of convertible debentures	13	796,088	-
Issuance of convertion options	13, 15	49,153	-
Issuance of warrants	13, 15	84,759	-
Converion of debentures in common shares	13	450,000	-

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

1. Going concern assumption

These interim unaudited 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. The Corporation's anticipated level of gross expenditures and ongoing commitments for the next twelve months exceeds its expected cash inflows over the same period as well as its cash and short-term investments on hand as at December 31, 2016 and as such, the realization of assets and the discharge of liabilities in the ordinary course of business remain uncertain. In order to address these uncertainties, the Corporation has implemented some or all of the following measures:

Liquidity risk	Risk mitigation measures
Funding of operating and financing expenses	• Reduce operating costs with temporary staff lay-offs, curtail certain consulting and travel costs • Continue to seek debt financing from private investors • 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.

These interim unaudited 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. and its subsidiaries ("the Corporation") were incorporated under the Canada Business Corporations Act, the General Corporation Law of Delaware, USA, the India Companies Act, the companies laws of Poland and the companies laws of Mexico. 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 interpretation services mainly:

- to assist health specialists in the detection of diabetic retinopathy; and
- to assist exploration companies in identifying mining deposits.

These interim unaudited condensed consolidated financial statements have been approved by the Board of Directors of the Corporation on February 3, 2017.

3. Basis of consolidation and summary of accounting policies

Basis of presentation
These interim unaudited 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 unaudited 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 at December 31, 2016 is as follows:

Name of subsidiary	Location	Percentage of ownership
DMS & Technologies Inc.	Canada	100%
8913404 Canada Inc.	Canada	100%
Diagnos USA Inc.	United States of America	100%
Diagnos Poland sp. Z o.o.	Poland	100%
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 interim unaudited condensed consolidated financial statements.

Summary of accounting policies
These interim unaudited 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, 2016. 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. The following is a list of the significant accounting policies.

a) General
The interim unaudited condensed consolidated financial statements have been prepared and measured at historical cost, except for certain financial instruments that are measured at fair value as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the assets acquired and liabilities assumed.

b) Revenue recognition
Revenue represents the fair value of amounts received and receivable from third parties for goods supplied to customers and for services rendered, net of allowances and discounts.

Revenue derived from services is recognized over the period in which the services are rendered and when collection is reasonably assured. Any unbilled services rendered are presented under "Accounts receivable" in the consolidated statements of financial position. Any amount invoiced before the delivery of services or goods is presented under "Deferred revenue" in the consolidated statements of financial position.

Revenue from the sale of products is recognized upon transfer of rights to the customer. Any amount invoiced which does not meet the revenue recognition conditions related to this type of sale is presented under "Deferred revenue" in the consolidated statements of financial position.

Where the arrangement includes multiple separate elements, the Corporation evaluates these arrangements to determine whether the multiple elements have value for the customer. In these cases, revenue is allocated to each element based on their fair values and recognized when the above-noted revenue recognition criteria have been satisfied.

In any situation, when the anticipated costs of a contract are more likely than not to exceed the total revenue from the contract, then a provision for the anticipated loss is recognized in the period in which it occurs.

c) Interest
Interest is accounted for using the effective interest method. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

d) Investment tax credits

The Corporation records investment tax credits when it believes it has complied with the eligibility requirements as set out in the income tax legislation of Canada and its provinces and collection is reasonably assured. Refundable investment tax credits are presented separately of research and development expenses in the consolidated statements of earnings and comprehensive loss. Investment tax credits related to capital expenditures are recorded as reductions of capital assets.

e) Capital assets and depreciation

Capital assets are stated at historical cost less accumulated depreciation, impairment losses and related tax credits. Historical cost includes all costs directly attributable to the acquisition. Computer equipment cost includes software that is integral to its functionality.

Depreciation of capital assets is provided on parts that have homogenous lives by using the straight-line method over the estimated useful lives, as follows:

	Annual rates
Office furniture and equipment	20%
Computer and medical equipment	50%
Leasehold improvements	Lesser of the lease term and the useful life

f) Intangible assets and amortization

Intangible assets are stated at historical cost less accumulated amortization, impairment losses and related tax credits. Historical cost includes all costs directly attributable to the acquisition.

Amortization of intangible assets is provided by using the straight-line method over the estimated useful lives, as follows:

	Annual rates
Mineral claims	50%
Computer software	50%

g) Impairment of tangible and intangible assets

At the end of each reporting period, the Corporation assesses whether there is any indication that an asset has suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount of an asset is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

h) Income taxes

The Corporation uses the liability method of accounting for income tax. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using enacted or substantially enacted income tax rates expected to be in effect for the period in which the differences are expected to reverse. To the extent that it is not probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised, the deferred tax asset is not recognized.

i) Research and development expenses

All expenses related to development activities, which do not meet generally accepted criteria for deferral, and research expenses are expensed as incurred. Development expenses, which meet generally accepted criteria for deferral, are capitalized and amortized over the estimated period of benefit. For the periods presented in these interim unaudited condensed consolidated financial statements, all expenses related to development activities were expensed as incurred.

j) Loss per share

The loss per share is determined using the weighted-average number of common shares outstanding during the year.

The diluted loss per share, which is calculated according to the treasury stock method, is equal to the basic loss per share due to the anti-dilution effect of the stock option plan.

k) Stock-based compensation

Stock-based compensation is recorded as an expense in the consolidated statements of earnings and comprehensive loss, using the fair value obtained by applying the Black - Scholes option pricing model, with a corresponding credit to reserve. The compensation expense is amortized according to the graded vesting method over the vesting period. Upon exercise of stock options, the accumulated compensation is reduced from reserve and added to share capital.

l) Equity

Share capital is recorded at the subscribed value of the shares issued.

Reserve is composed of stock-based compensation, issuance of conversion options and issuance of stock warrants less accumulated stock-based compensation on exercise of stock options and the value of stock warrants exercised.

Gains and losses related to the revaluation of certain financial instruments are included in the investments revaluation reserve amount.

Deficit includes the profits and losses from the current year and prior years.

Costs related to the issuance of shares, stock warrants or stock options are recorded in equity, net of tax, as a deduction of the issuance proceeds.

m) Financial instruments

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 purchase. Consequently, the Corporation classified its financial assets and liabilities as follows:

- Cash is classified as loans and receivables and is measured at amortized cost using the effective interest rate method;

- Short-term investments are classified as financial assets at Fair Value Through Profit or Loss (“FVTPL”) and are measured at fair value. Gains and losses from periodic revaluation are recognized through Profit or loss;

- Accounts receivable are classified as loans and receivables and are measured at amortized cost using the effective interest rate method;

- Investments in subsidiaries are initially recorded at cost and are eliminated when preparing the interim unaudited condensed consolidated financial statements;

- Investments in associates are initially recorded at cost and are subsequently adjusted to reflect the Corporation’s shares in the net profit or loss of the associate;

- Investments in entities other than subsidiaries and associates, discussed above, are classified as available for sale and are measured at fair value. Changes in fair value are recognized in other comprehensive loss. In the case where the fair value cannot be determined, investments are measured and presented at cost. Investments in the form of securities from payment of trade receivables are measured at the receivable amount. Any difference between the receivable amount, at settlement date, and the fair value of the shares received is recognized in the consolidated statements of earnings and comprehensive loss;

- Accounts payable, accrued liabilities, convertible notes and convertible debentures are classified as other liabilities and are measured at amortized cost using the effective interest rate method; and,

- Transaction costs related to FVTPL financial assets are expensed as incurred. Transaction costs related to available-for-sale financial assets, held-to-maturity financial assets, other liabilities and loans and receivables are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the effective interest rate method.

The component parts of compound instruments (convertible notes and convertible debentures) issued by the Corporation are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Corporation's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest rate method until extinguished upon conversion or at the instrument's maturity date.

The values of component parts classified as equity are determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

n) Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership. All other leases are classified as operating leases. Finance leases are recorded as an asset and a liability at the lower of the fair value of the asset and the present value of the minimum lease payments. Finance lease payments are apportioned between the finance charge and the reduction of the outstanding liability. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term. There is no finance lease as at December 31, 2016 and March 31, 2016.

o) Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

p) Foreign Currency Translation

For the purpose of the interim unaudited condensed consolidated financial statements, the profit or loss and financial position of each group entity are expressed in Canadian dollars, which is the functional and presentation currency of the Corporation.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the Corporation at the exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Foreign currency differences arising on translation are recognized as financial expense in profit or loss.

Foreign operations
The assets and liabilities of foreign operations are translated to Canadian dollars using exchange rates prevailing at the end of the reporting period. Revenue and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly or significant transactions occurred during that period, in which case the exchange rates at the date of the transactions are used. Exchange differences arising from the translation process of net investments in foreign operations are recognized as foreign currency translation adjustments in other comprehensive loss under investments revaluation reserve and accumulated in equity.

4. Changes in accounting policies not yet adopted

The International Accounting Standards Board (IASB) made revisions as part of its continuing improvements project. Below is a summary of the relevant standards affected and a discussion of the amendments.

a) IAS 7, Statement of Cash Flows
In January 2016, the IASB amended IAS 7 to require further disclosures enabling users of the financial statement to evaluate changes in liabilities arising from financing activities. To achieve this objective, the IASB requires that the following changes in liabilities arising from financing activities are disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

This amendment is effective for the annual periods beginning on or after January 1, 2017. Management is currently evaluating the impact of these disclosure requirements.

b) IFRS 9, Financial Instruments
The IASB issued IFRS 9 in November 2009 with the long-term goal of replacing IAS 39, Financial Instruments: Recognition and Measurement. Several amendments have been made to this standard since that date including amendments made in July and August 2014 relating to the classification of financial assets and the use of a single impairment model for all financial instruments.

These amendments, along with the adoption of the standard, are effective for annual reporting periods beginning on or after January 1, 2018. Management is currently evaluating the impact of the adoption of this standard, including amendments.

c) IFRS 15, Revenue from Contracts with Customers
The IASB issued IFRS 15, Revenue from Contracts with Customers with its goal to provide a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This new standard will supersede current revenue recognition guidance in IAS 18, Revenue, IAS 11, Construction Contracts and IFRIC 13, Customer Loyalty Programmes.

The objective of this standard is to provide a five-step approach to revenue recognition that includes identifying contracts with customers, identifying performance obligations, determining transaction prices, allocating transaction prices to performance obligations and recognizing revenue when performance obligations are satisfied. In certain instances, transfer of assets that are not related to the entity’s ordinary activities will also be required to follow some of the recognition and measurement requirements of the new model. The standard also expands current disclosure requirements.

On April 12, 2016, the IASB amended IFRS 15 to comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation).

With regards to identifying performance obligations, the amendments clarify how to determine when promises in a contract are ‘distinct’ goods or services and, therefore, should be accounted for separately. The amendments to licensing guidance clarify when revenue from a licence of intellectual property should be recognized ‘over time’ and when it should be recognised at a ‘point in time’. With regards to the principal versus agent assessment, the amendments clarify that the principal in an arrangement controls a good or service before it is transferred to a customer.

This standard and related amendments are effective for annual reporting periods beginning on or after January 1, 2018. Management is currently assessing the impact of the adoption of this standard.

d) IFRS 10, Interim condensed unaudited consolidated financial statements & IAS 28, Investments in Associates

The IASB previously issued a narrow-scope amendment to IFRS 10, Interim condensed unaudited consolidated financial statements and IAS 28, Investments in Associates and Joint Ventures to address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 when dealing with the sale or contribution of assets between an investor and its associate or joint venture. The original amendments required a full gain or loss to be recognized where a transaction involved a business or that a partial gain or loss be recognized when a transaction involved assets that did not constitute a business.

The original effective date for this amendment was for annual reporting periods beginning on or after January 1, 2016 however, on December 21, 2015, the IASB decided to postpone this change until the completion of a broader review by the IASB which may result in the simplification of accounting for such transactions and other aspects of accounting for associates and joint ventures.

5. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Corporation’s significant accounting policies, management is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates.

The following are the key estimates concerning the future, and other key sources of estimation uncertainty at the end of the reporting year, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

a) Going concern

The Corporation's ability to continue as a going concern is dependent on securing additional and immediate financing and on achieving and maintaining profitable operations. Management has to assess the outcome of these matters when preparing the Corporation’s interim unaudited condensed consolidated financial statements. The Corporation’s current level of operations is not sufficient to cover its expenses and ongoing commitments, resulting in the negative cash flows generated from its operating activities. The Corporation's ability to generate positive cash flows from its operating activities is dependent on achieving and maintaining profitable operations. Since inception, the Corporation has been able to finance its activities and operate on a going concern basis through issuances of shares, stock warrants, convertible notes, convertible debentures and demand loans. However, there is no guarantee that such financing will be available going forward (refer to note 1).

b) Tax credits on research and development expenses

The Corporation’s receivables include refundable tax credits on research and development (R&D) expenses. Management has to make a critical judgment related to the eligibility of R&D expenses with regards to the provisions of the current tax credits programs.

c) Stock-based compensation

Stock-based compensation involves the valuation of grants of stock options. The Corporation relies on the fair value obtained by applying the Black - Scholes option pricing model. This model requires making assumptions related to the risk-free interest rate (with a term that matches the expected life of the options), the expected stock price volatility, the expected life of the options and the expected dividend yield on the Corporation’s shares. Management also has to estimate the number of options that will eventually vest. Management relies on past experience to make these estimates.

d) Fair value of financial instruments

Financial instruments are presented at fair value. In the absence of active markets in the evaluation of financial assets and financial liabilities, the Corporation relies on evaluation techniques based on inputs that are not based on observable market data which could cause the actual results to differ from the estimates.

6. Short-term investments

	As at December 31, 2016	As at March 31, 2016
	$	
Guaranteed investment certificates, bearing interest between 0.9% and 1.75% (March 31, 2016 - same) and maturing between January 21, 2017 and June 13, 2018 (March 31, 2016 - July 22, 2016 and June 13, 2018)	84,005	103,686

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, 2016 - $100,000) are pledged as security for an account payable of $25,123 (March 31, 2016 - $29,809).

7. Accounts receivable

	As at December 31, 2016	As at March 31, 2016
	$	
Customers	535,132	100,916
Tax credits on research and development expenses	80,333	141,453
Demand loan bearing annual interest rate of 4%	43,500	43,500
Sales taxes	16,748	31,967
Deposits	9,802	10,612
Others	22,469	21,654
	707,984	350,102

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

8. Investments

	Number of companies	As at December 31, 2016	As at March 31, 2016
		$	
Shares of publicly traded companies	2 (March 31, 2016 - 5)	17,280	129,250
Shares of private companies	3 (March 31, 2016 - 3)	-	-
Shares of Associate	1 (March 31, 2016 - 1)	-	-
		17,280	129,250

The Corporation does not exercise significant influence over the publicly traded companies or the private companies. These investments are classified as available-for-sale and are measured at fair value. Changes in fair value are recognized in other comprehensive loss. In the case where the fair value cannot be determined, investments are measured and presented at cost.

The Corporation holds 48 common shares, or 48% (March 31, 2016 – same), of SARL Diagnos Medical, an Algerian corporation which is considered an investment in an associate. Investments in associates are initially recorded at cost and are subsequently adjusted to reflect the Corporation’s shares in the net profit or loss of the associate.

9. Capital assets

During the nine-month period ended December 31, 2016, the increase in fixed assets is mainly due to the purchase of fundus cameras as part of a healthcare services agreement with a Mexican government organization.

10. Accounts payable and accrued liabilities

	As at	
	December 31, 2016	March 31, 2016
	$	
Accounts payable and accrued liabilities	396,023	161,087
Salaries and benefits	191,175	178,329
Sales taxes	160,145	2,966
	747,343	342,382

11. Loans

	As at	
	December 31, 2016	March 31, 2016
	$	
Unsecured non-convertible loans	627,671	474,659

During the quarter ended September 30, 2016, the Corporation entered into the following unsecured non-convertible loan agreements for an aggregate value of $200,000;

- One loan for $100,000 that bears interest at an annual rate of 10%. This loan was repaid in full during the quarter ended December 31, 2016.
- One loan for $100,000 that bears interest at a monthly rate of 2%**.** This loan was repaid in full during the quarter ended September 30, 2016.

During the quarter ended September 30, 2016, the Corporation entered into two unsecured non-convertible loan agreements (“2017-Q2 Loans”) for an aggregate value of $200,000. The 2017-Q2 Loans bear interest at an annual rate of 10% and mature between April 24, 2017 and June 7, 2017.

During the quarter ended June 30, 2016, the Corporation entered into two unsecured non-convertible loan agreements (“2017-Q1 Loans”) for an aggregate value of $300,000. The 2017-Q1 Loans bear interest at an annual rate of 12% and mature between April 24, 2017 and June 7, 2017. As part of the 2017-Q1 Loans, the Corporation has granted a total of 2,750,000 bonus stock warrants entitling the lenders to purchase 2,750,000 shares of the Corporation at a price of $0.05 and $0.06 per share for a period of twelve months. The fair value of the stock warrants has been established at $0.02 per warrant, or $55,988 in aggregate, using the Black-Scholes option pricing model with the following weighted average assumptions.

Expected life:	1 year	Risk-free interest rate:	0.86%
Liquidity discount:	25%	Volatility:	111.36%

During the quarter ended December 31, 2016, one loan in the amount of $150,000 was repaid in full.

In March 2016, the Corporation entered into three unsecured non-convertible loan agreements (“Loans”) for an aggregate value of $533,000. The Loans bear interest at an annual rate of 12% and mature between March 6, 2017 and March 22, 2017. As part of the Loans, the Corporation has granted a total of 5,332,500 bonus stock warrants entitling the 3 lenders to purchase 5,332,500 shares of the Corporation at a price of $0.05 per share for a period of twelve months. The fair value of the Warrants has been established at $0.011 per warrant, or $58,341 in aggregate, using the Black-Scholes option pricing model with the following weighted average assumptions.

Expected life:	1 year	Risk-free interest rate:	0.86%
Liquidity discount:	25%	Volatility:	92.15%

From May 1, 2015 to July 14, 2015, an entity related to a director of the Corporation loaned $400,000 to the Corporation in the form of secured convertible demand loans bearing annual interest of 10%. On July 29, 2015, the holder of the demand loans proceeded with the conversion of the principal amount owing of $400,000 into secured convertible debentures of the Corporation as part of the private placement described in note 13.

The following table presents a reconciliation of changes in loans for the comparative nine-month periods ended December 31, 2016.

	Nine-month period ended December 31,	
	2016	2015
	$	
Balance, beginning of period	**474,659**	**-**
Issuance of loans - principal amounts	500,000	400,000
Issuance of stock warrants	(55,988)	-
Accretion	59,000	-
Conversion of demand loans	-	(400,000)
Repayment in cash	(350,000)	-
Balance, end of period	**627,671**	**-**

12. Convertible Notes

		As at	
		December 31, 2016	March 31, 2016
	Number of units	$	
Unsecured convertible promissory notes	nil (March 31, 2016 - 107)	-	1,066,162
Less: short term portion	nil (March 31, 2016 - 107)	-	(1,066,162)
Long term portion	nil (March 31, 2016 - nil)	-	-

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 13) and paid cash amounts of $130,000 to some of the holders of the Notes.

The following table presents a reconciliation of changes in convertible notes for the comparative nine-month periods ended December 31, 2016.

	Nine-month period ended December 31,	
	2016	2015
	$	
Balance, beginning of period	**1,066,162**	**936,429**
Accretion	3,838	111,735
Issuance of convertible debentures	(930,000)	-
Repayment in cash	(130,000)	-
Gain on settlement of debt	(10,000)	-
Balance, end of period	**-**	**1,048,164**

13. Convertible Debentures

	As at	
	December 31, 2016	March 31, 2016
	$	
Secured convertible debentures	2,877,956	2,283,630
Compounded interest expense	195,105	152,667
	3,073,061	2,436,297
Secured convertible debentures - short term	1,044,326	-
Secured convertible debentures - long term	2,028,735	2,436,297

During the quarter ended September 30, 2016, as part of a non-brokered private placement, the Corporation issued $190,000 worth of senior secured convertible debentures (each a “Q2-2017 Debenture”) and 950,000 stock warrants (each a “Q2-2017 Warrant”). The Q2-2017 Debentures bear interest at an annual rate of 12%, and will mature on July 22, 2017. The Q2-2017 Warrants entitle the holder to purchase one Common Share (“Share”) at a price of $0.06 per Share until July 22, 2017. At the sole option of the holders of the Q2-2017 Debentures, the principal amount of the Q2-2017 Debentures may be converted at any time during the 1-year term, in whole or in part, into common shares of the Corporation at a price of $0.06 per common share. Any accrued interest on the principal, at time of conversion, is immediately payable in cash.

On May 18th and May 3rd, 2016, as part of a non-brokered private placement, the Corporation issued $930,000 worth of senior secured convertible debentures (each a “Q1-2017 Debenture”) and 4,650,000 stock warrants (each a “Q1-2017 Warrant”). The Q1 2017 Debentures bear interest at an annual rate of 12%, and will mature on May 3rd, 2017. The Q1-2017 Warrants entitle the holder to purchase one Common Share (“Share”) at a price of $0.06 per Share until May 3rd, 2017. At the sole option of the holders of the Q1-2017 Debentures, the principal amount of the Q1-2017 Debentures may be converted at any time during the 1-year term, in whole or in part, into common shares of the Corporation at a price of $0.06 per common share. Any accrued interest on the principal, at time of conversion, is immediately payable in cash.

There were no cash proceeds as the Q1-2017 Debentures and Q1-2017 Warrants were issued solely in settlement of outstanding debt pertaining to Unsecured Convertible and Redeemable Promissory Notes, bearing interest at 10%, with a conversion and redemption price of $0.16, issued between March 31, 2014 and May 2, 2014 (see note 12).

The fair value of the Q1-2017 and Q2-2017 Debentures has been established at $966,567 resulting from the difference between their nominal values of $1,120,000 and the fair value of the conversion options of $59,195 and the fair value of the warrants of $94,238 (see note 15).

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. The debentures include a feature such that the conversion price will be adjusted downwards in the event the Corporation issues instruments with a strike price or purchase price below the market price of the Corporation’s traded shares at the date of such issuance. As such, the conversion options do not meet the criteria for classification as equity and were subsequently recorded as liability.

During the quarter ended December 31, 2016, $450,000 worth of Debentures were converted into common shares of the Corporation at a conversion price of $0.10.

From May 1, 2015 to July 14, 2015, an entity related to a director of the Corporation loaned $400,000 to the Corporation in the form of secured convertible demand loans bearing annual interests of 10% (refer to note 10). On July 29, 2015, the holder of the demand loans proceeded with the conversion of the principal amount of $400,000 into secured convertible debentures of the Corporation as part of the private placement described above.

The following table presents a reconciliation of changes in convertible debentures for the nine-month period ended December 31, 2016.

	Nine-month period ended December 31,	
	2016	2015
	$	
Balance, beginning of period	**2,436,297**	**-**
Proceeds from private placements	190,000	1,890,000
Conversion of convertible notes	930,000	-
Conversion of demand loans	-	400,000
Conversion into common shares	(450,000)	-
Issue expenses	(28,041)	(50,582)
Issuance of stock warrants	(94,238)	-
Issuance of conversion options	(59,195)	(546,450)
Compounded interest	42,438	-
Issue expenses in the form of stock warrants	-	(12,300)
Accretion	105,800	37,858
Balance, end of period	**3,073,061**	**1,718,526**

14. Share capital

As at December 31, 2016, share capital is composed of common shares without par value of which 140,619,786 (March 31, 2016 - 106,163,823) 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. 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, 2016.

	Number of common shares	$
Balance, beginning of period	**106,163,823**	**18,163,302**
Private placement of rights	25,005,963	968,965
Exercise of stock warrants	4,950,000	257,000
Conversion of Debentures	4,500,000	450,000
Balance, end of period	**140,619,786**	**19,839,267**

The following table presents the changes to share capital which have occurred during the nine-month period ended December 31, 2015.

	Number of common shares	$
Balance, beginning of period	**106,147,573**	**18,161,677**
Issuance of common shares	16,250	1,625
Balance, end of period	**106,163,823**	**18,163,302**

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. Stock option grants vest at 33.33% 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 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 December 31, 2016, the outstanding number of stock options available for issuance was 8,442,072 (December 31, 2015 – 10,688,738).

The following table presents the changes which have occurred during the nine-month periods ended December 31, 2016 and December 31, 2015, with respect to stock options.

	Nine-month period ended December 31, 2016		**Nine-month period ended December 31, 2015**	
	Number of stock options	Weighted-average exercise price ($)	Number of stock options	Weighted-average exercise price ($)
Outstanding, beginning of period	**7,814,684**	**0.12**	**6,693,684**	**0.20**
Granted	5,780,000	0.07	3,700,000	0.10
Expired	(3,543,335)	0.13	(2,579,000)	0.27
Outstanding, end of period	**10,051,349**	**0.09**	**7,814,684**	**0.12**

The stock-based compensation expense of $70,977 for the nine-month period ended December 31, 2016 (nine-month period ended December 31, 2015 - $80,113) arising from stock options granted has been amortized according to the graded vesting method and is reported under “Selling and administrative” expenses in the consolidated statements of earnings and comprehensive loss.

15. Reserve

	Nine-month period ended December 31, 2016			
	Stock warrants	Conversion options	Stock options	Total
	$			
Balance, beginning of period	**3,743,741**	**24,322**	**2,252,414**	**6,020,477**
Private placements	94,238	59,195	-	153,433
Issue expenses	(2,336)	-	-	(2,336)
Loans	55,988	-	-	55,988
Stock-based compensation	-	-	70,977	70,977
Balance, end of period	**3,891,631**	**83,517**	**2,323,391**	**6,298,539**

	Nine-month period ended December 31, 2015			
	Stock warrants	Conversion options	Stock options	Total
	$			
Balance, beginning of period	**3,673,100**	**24,322**	**2,145,589**	**5,843,011**
Private placements	12,300	546,450	-	558,750
Issue expenses	-	(17,118)	-	(17,118)
Stock-based compensation	-	-	80,113	80,113
Balance, end of period	**3,685,400**	**553,654**	**2,225,702**	**6,464,756**

Stock warrants

During the quarter ended September 30, 2016, in connection with the financing described in note 13 above, the Corporation issued 950,000 stock warrants entitling the holders to purchase 950,000 shares of the Corporation at a price of $0.06 per share for a period of twelve months. The fair value of the warrants has been established at $0.01 per warrant using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected life:	1 year	Risk-free interest rate:	0.86%
Liquidity discount:	25%	Volatility:	116.94%

During the quarter ended June 30, 2016, in connection with the financing described in note 13 above, the Corporation issued 4,650,000 stock warrants entitling the holders to purchase 4,650,000 shares of the Corporation at a price of $0.06 per share for a period of twelve months. The fair value of the warrants has been established at $0.018 per warrant using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected life:	1 year	Risk-free interest rate:	0.86%
Liquidity discount:	25%	Volatility:	105.6%

During the quarter ended June 30, 2016, in connection with the financing described in note 11 above, the Corporation issued 2,750,000 bonus stock warrants entitling the holders to purchase 2,750,000 shares of the Corporation at a price of $0.06 and $0.05 per share for a period of twelve months. The fair value of the warrants has been established at $0.02 per warrant using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected life:	1 year	Risk-free interest rate:	0.86%
Liquidity discount:	25%	Volatility:	111.36%

During the fourth quarter of the year ended March 31, 2016, in connection with the financing described in note 11 above, the Corporation issued 5,332,500 bonus stock warrants entitling the holders to purchase 5,332,500 shares of the Corporation at a price of $0.05 per share for a period of twelve months. The fair value of the warrants has been established at $0.011 per warrant using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected life:	1 year	Risk-free interest rate:	0.86%
Liquidity discount:	25%	Volatility:	92.15%

During the second quarter of the year ended March 31, 2016, in connection with the financing described in note 13 above, the Corporation issued 415,333 broker warrants as part of a commission arrangement with the brokers involved with the issuance of the Debentures. Each warrant is exercisable for one common share of DIAGNOS (each a “Common Share”) at a price of $0.15 per common share over a two-year period ending July 29, 2017. The warrants are non-transferable. The fair value of the Warrants has been established at $0.03 per unit using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected life:	2 years	Risk-free interest rate:	0.80%
Liquidity discount:	25%	Volatility:	107.18%

The following table presents the changes to stock warrants which have occurred during the nine-month period ended December 31, 2016.

	Nine-month period ended December 31, 2016	
	Number of stock warrants	Weighted average exercise price ($)
Balance, beginning of period	**7,247,833**	**0.066**
Private placement	5,600,000	0.06
Loans	2,750,000	0.055
Exercised	(4,950,000)	0.052
Expired	(1,500,000)	0.095
Balance, end of period	**9,147,833**	**0.06**

Conversion options

The fair value of the conversion options of the Q1-2017 and Q2-2017 Debentures issued during the nine-month period ended December 31, 2016 (see note 13) has been established at $59,195 using the discounted cash flows valuation method with the following weighted average assumptions:

Maturity:	1 years	Nominal interest rate:	12%
Interest payment frequency:	2 per year	Effective interest rate:	18.82%

16. Commitments

Under the terms of an operating lease agreement which will expire in September 2019, the Corporation is committed to making minimum annual lease payments of $108,000 for the duration of the lease.

17. Financial instruments and risk management

a) Fair value hierarchy

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 December 31, 2016
	Level 1	**Level 2**	**Level 3**	**Total financial assets at fair value**
			$	
Financial assets				
Short-term investments	84,005	-	-	84,005
Investments – shares	17,280	-	-	17,280
Total financial assets	101,285	-	-	101,285

	Level 1	**Level 2**	**Level 3**	**Total financial liabilities at fair value**
			$	
Financial liabilities				
Loans	-	-	627,671	627,671
Convertible Debentures	-	-	3,073,061	3,073,061
Total financial liabilities	-	-	3,700,732	3,700,732

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

				As at March 31, 2016
	Level 1	**Level 2**	**Level 3**	**Total financial assets at fair value**
			$	
Financial assets				
Short-term investments	103,686	-	-	103,686
Investments – shares	129,250	-	-	129,250
Total financial assets	232,936	-	-	232,936

	Level 1	**Level 2**	**Level 3**	**Total financial liabilities at fair value**
			$	
Financial liabilities				
Loans	-	-	474,659	474,659
Convertible Notes	-	-	1,066,162	1,066,162
Convertible Debentures	-	-	2,436,297	2,436,297
Total financial liabilities	-	-	3,977,118	3,977,118

b) 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. Consequently, management considers the credit risk related to cash and short-term investments to be low as at December 31, 2016 and March 31, 2016.

Customers

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, 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 December 31, 2016:

- 13% of the net accounts receivable are over 90 days old (0% as at March 31, 2016);
- accounts receivable from customers exceeding the normal payment terms of 30 days for which no allowance was applied represented 54% of the net accounts receivable from customers (33% as at March 31, 2016).

Management is reasonnably assured that its receivables will be collected, and therefore considers the credit risk related to accounts receivable to be low as at December 31, 2016 and March 31, 2016.

ii. Liquidity Risks

Liquidity risk is the risk that the Corporation cannot meet its obligations as they come due. To fund its liquidity requirements, the Corporation uses cash flows from operations and issuance of debt and shares.

As at December 31, 2016, accounts payable, loans and convertible instruments that were due in the next 12 months totalled $2,419,340 (March 31, 2016 - $1,883,203). Considering the available liquidities to meet its short term obligations, the Corporation's exposure to liquidity risk as at December 31, 2016 and March 31, 2016 is high and is dependant on the Corporation's ability in securing additional financing and achieving and maintaining profitable operations. Refer to going concern assumption 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.

As at December 31, 2016 and March 31, 2016, the Corporation's exposure to interest rate risk is summarized as follows:

Short-term investments	Fixed interest rate
Accounts receivable	Non-interest bearing
Investments	Non-interest bearing
Demand loan from related party	Fixed interest rate
Accounts payable and accrued liabilities	Non-interest bearing
Loans	Fixed interest rate
Convertible notes	Fixed interest rate
Convertible debentures	Fixed interest rate

As at December 31, 2016 since the amount of $84,005 (March 31, 2016 – $103,686) in short term investments is not significant, any material changes in interest rates upon renewal would not have a significant impact on the Corporation’s net profit or loss.

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. A negative or positive variation of 50% of the value of the shares held as at December 31, 2016 would have an absolute impact of $8,640 ($64,625 as at March 31, 2016) on the Corporation’s comprehensive loss. Consequently, management considers the market risk related to investments in shares to be low as at December 31, 2016 (March 31, 2016 - high).

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. The Corporation has limited exposure to currencies such as USD, INR, PLN and AED. As of December 31, 2016, amounts receivable from customers in MXN represents 47% of total amounts receivable from customers. A negative or positive variation of 50% of the MXN currency value on these amounts receivable from customers as at December 31, 2016 would have an absolute impact of $128,898 ($0 as at March 31, 2016) on the Corporation’s comprehensive loss. Consequently, management considers the exchange rate fluctuation risk to be high as at December 31, 2016 (March 31, 2016 – low).

18. Expenses by nature

	Three-month period ended December 31,		Nine-month period ended December 31,	
	2016	2015	2016	2015
	$		$	
Depreciation and amortization	56,625	24,901	136,353	47,684
Audit	-	11,595	57,673	59,523
Communications	13,214	12,817	40,329	31,578
Consulting and subcontracting fees	162,623	131,262	678,255	283,358
Equipment	3,794	487	91,409	2,307
Leasing	36,763	27,848	124,817	125,585
Legal fees	(4,405)	19,640	73,288	327,970
(Gain) loss on disposal of investments	(23,498)	-	(58,805)	50,960
Gain on receivables payable in shares	-	-	(34,000)	-
Marketing	39,083	11,700	137,286	49,091
Overhead	135,522	49,996	186,492	182,633
Remuneration	646,428	577,880	1,507,793	1,558,613
Tax credits	(25,000)	(40,000)	(85,000)	(125,000)
Travel and living	84,118	98,055	237,548	223,883
	1,125,267	926,181	3,093,438	2,818,185

19. Income taxes

As at December 31, 2016 and December 31, 2015, income taxes recoverable are composed of non-capital losses and investment tax credits. 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 unaudited condensed consolidated financial statements.

The non-capital losses (federal amounts shown hereafter), deferrable and available, will expire as follows:

March 31,	$	March 31,	$
2026	9,342	2031	854,384
2027	177,589	2032	1,491,339
2028	93,504	2033	1,314,805
2029	1,585,748	2034	850,751
2030	1,557,531	2035	1,963,984
		2036	1,972,657
		Total	11,871,634

Investment tax credits (federal amounts shown hereafter) will expire as follows:

March 31,	$	March 31,	$
2023	34,386	2030	132,055
2024	25,481	2031	148,019
2025	161,868	2032	160,790
2026	86,448	2033	169,056
2027	87,193	2034	173,416
2028	91,820	2035	134,971
2029	94,288	2036	107,716
		Total	1,607,507

Financing issue expenses (federal amounts shown hereafter) will be amortized as follows:

March 31,	$
2017	73,992
2018	70,986
2019	62,366
2020	55,044
Total	262,388

20. Segment information

The Corporation is active in the following sectors:

a) Healthcare: Image analysis services through CARA (Computer Assisted Retinal Analysis), a software tool which assists health specialists in the detection of diabetic retinopathy.

b) Natural resources: Data mining consulting services through CARDS (Computer Aided Resource Detection System), a software tool used to assist exploration companies in identifying mining deposits. In addition, the Corporation offers project management services.

Net profit (loss) per sector:

	Three-month period ended December 31, 2016			Three-month period ended December 31, 2015		
	Healthcare	Natural resources	Total	Healthcare	Natural resources	Total
		$			$	
Revenue	1,302,519	100,752	1,403,271	289,083	75,000	364,083
Costs of services and research and development	(321,259)	(50,488)	(371,747)	(395,207)	85,551	(309,656)
Selling and administrative	(703,099)	(50,421)	(753,520)	(393,290)	(223,235)	(616,525)
Profit (loss) before interest	278,161	(157)	278,004	(499,414)	(62,684)	(562,098)
Interest expense	(215,825)	-	(215,825)	(138 623)	(15 908)	(154,531)
Net profit (loss)	62,336	(157)	62,179	(638,037)	(78,592)	(716,629)

	Nine-month period ended December 31, 2016			Nine-month period ended December 31, 2015		
	Healthcare	Natural resources	Total	Healthcare	Natural resources	Total
		$			$	
Revenue	1,480,531	551,541	2,032,072	540,588	200,000	740,588
Costs of services and research and development	(828,362)	(393,125)	(1,221,487)	(672,262)	(82,886)	(755,148)
Selling and administrative	(1,796,530)	(75,421)	(1,871,951)	(1,744,639)	(318,398)	(2,063,037)
Profit (loss) before interest	(1,144,361)	82,995	(1,061,366)	(1,876,313)	(201,285)	(2,077,597)
Interest expense	(506,588)	-	(506,588)	(295 270)	(31 676)	(326,946)
Net profit (loss)	(1,650,949)	82,995	(1,567,954)	(2,171,583)	(232,960)	(2,404,543)

77% of revenues earned from the healthcare sector for the nine-month period ended December 31, 2016 were attributable to one governmental organization (80% of revenues earned from the healthcare sector for the nine-month period ended December 31, 2015 were attributable to one global pharmaceutical corporation).

Revenues per sector:

	Three-month period ended December 31,				Nine-month period ended December 31,			
	2016		2015		2016		2015	
	$	%	$	%	$	%	$	%
Healthcare	1,302,519	93%	289,083	79%	1,480,531	73%	540,588	73%
Natural resources	100,752	7%	75,000	21%	551,541	27%	200,000	27%
	1,403,271	100%	364,083	100%	2,032,072	100%	740,588	100%

Revenue by geographic area presented on the basis of the country of contract signature:

	Three-month period ended December 31,		Nine-month period ended December 31,	
	2016	2015	2016	2015
	$		$	
Mexico	1,144,028	74,094	1,181,553	74,094
Canada	110,501	75,001	561,415	200,121
India	45,351	40,937	144,943	63,871
United Arab Emirates	12,000	91,774	48,000	267,978
Turkey	47,525	-	47,525	-
Kenya	36,297	-	36,297	-
Colombia	6,022	-	6,022	-
United States of America	(493)	20,355	3,257	51,161
Poland	2,040	16,012	3,060	35,848
Switzerland	-	45,910	-	47,515
	1,403,271	364,083	2,032,072	740,588

Capital and intangible assets are mainly located in Canada and Mexico.

21. 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 and nine-month periods ended December 31, 2016.

	Three-month period ended December 31,		Nine-month period ended December 31,	
	2016	2015	2016	2015
	$		$	
Base salary	131,250	142,500	405,417	427,500
Stock-based compensation	5,028	9,590	12,085	28,770
Incentives	35,000	80,000	35,000	80,000
Sales commissions	63,743	4,000	78,932	15,500
Interest on demand loan	405	405	1,275	1,275
Payment of interest on demand loan	(405)	(405)	(1,275)	(1,275)
	235,021	236,090	531,434	551,770

From May 1, 2015 to July 14, 2015, an entity related to a director of the Corporation loaned $400,000 to the Corporation in the form of a secured convertible demand loan, annual interest rate of 10%. On July 29, 2015, the holder of the demand loan proceeded with the conversion of the principal amount owing of $400,000 into secured convertible debentures of the Corporation as part of the private placement described in note 13.

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

	December 31, 2016	March 31, 2016
	$	
Demand loan receivable, annual interest rate of 4%	43,500	43,500
Convertible Debentures, annual interest rate of 10%	(500,000)	(500,000)

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.

Transfer Agents and Registrar
Computershare Trust Company of Canada

Auditor
Deloitte LLP