



2005 Annual Report

*The power of information lies  
in the knowledge drawn from it*

ADK

## Explore the past to predict the future!

Everyday businesses gather large amounts of data. Buried under this mountain of information sleeps hidden knowledge. This knowledge can give your business an edge over your competitors. When every second counts, being able to extract knowledge and apply it to business processes is essential. The knowledge extraction technology made by DIAGNOS ensures you that every single piece of information detained by your business will be put to profit easily.

DIAGNOS inc. developed and markets a data mining software suite capable of extracting knowledge from historical data - in the form of images, text or traditional databases - and making predictions that improve business processes and decision making ability.

	Q1	Q2	Q3	Q4	Total
	\$	\$	\$	\$	\$

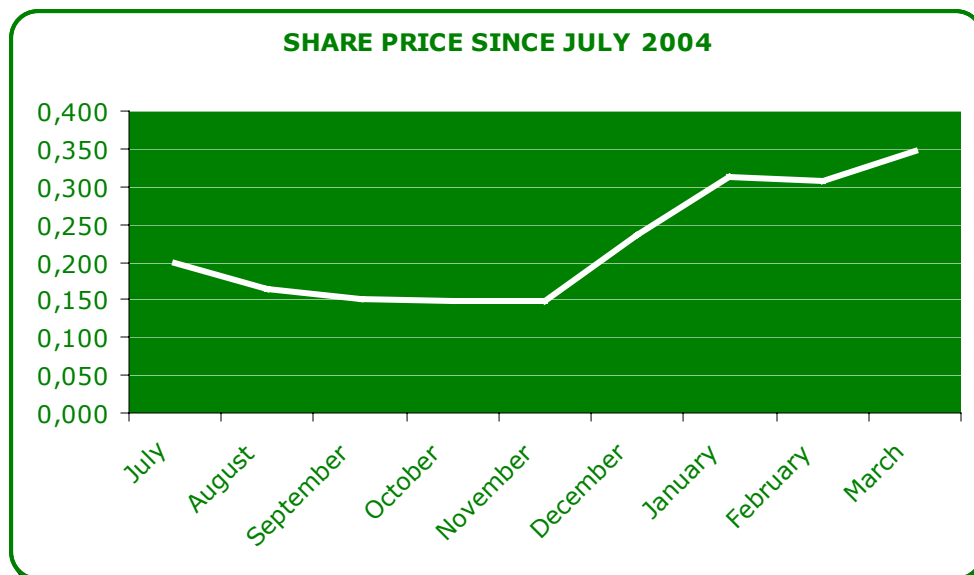
### Summary of quarterly results – April 1, 2004 to March 31, 2005

Revenue	103,964	4,505	47,775	(44,497)	111,746
Net gain (Loss)	(427,043)	(542,262)	(415,797)	(382,341)	(1,746,088)
Earnings per share	(0.02)	(0.02)	(0.01)	(0.02)	(0.07)

	Fiscal Year 2004-2005	Fiscal Year 2003-2004	Fiscal Year 2002-2003	Fiscal Year 2001-2002
	\$	\$	\$	\$

### Financial Highlights

Revenue	111,746	387,720	128,619	7,000
Income taxes	0	0	0	0
Net gain (Loss)	(1,746,088)	(130,059)	(762,983)	(3,182,617)
Earnings per share	(0.07)	(0.01)	(0.07)	(0.11)
Total assets	376,770	711,902	250,856	346,870
Total long-term liabilities	215,159	840,656	783,646	959,831



## *Message to Shareholders*

Dear Shareholders,

During the last fiscal year ended March 31, 2005, DIAGNOS took a turn by completing multiple steps to improve and consolidate its financial and technological position. DIAGNOS is now moving ahead with a clear mission in the natural resource market with the introduction of CARDS (Computer Aided Resource Detection Software) for the exploration market. By the end of the fiscal year, the Corporation had signed five (5) new customers in Brazil, Ontario and Quebec.

During this period, DIAGNOS registered many significant orders for its "CARDS" services. Our technology is getting good recognition in the natural resource market. We also invested in an Oil and Gas solution that should be announced in the second quarter of fiscal 2006. Our methodology and processes developed during the fiscal year 2005 has evolved by

the introduction of a new scientific solution for the identification of drilling targets.

With all the hard work from our Board of Directors, staff and customers, the Corporation is in a good position to increase its growth over the next several years.

We would like to thank our Shareholders for the patience they have demonstrated over the years. DIAGNOS has proven that it can survive the hardest times and that it has delivered over the last year a clear path to success.

On behalf of the Board of Directors, it is my pleasure to submit the consolidated financial statements of DIAGNOS.



André Larente  
President and Chief Executive Officer

June 23, 2005

## ***Board of Directors***

### ***W. Brian Edwards, President***

W. Brian Edwards is an entrepreneur and founder of one of North America's most successful electronic commerce companies, BCE Emergis. As founder and CEO from 1998 to 2002, the company grew to become one of ten most valuable companies on the Toronto Stock Exchange, and for nine consecutive years was named one of the 100 fastest growing companies in Canada and one of the 500 fastest growing companies in America. Mr Edwards was the co-Chairman of the 2004 Centraide of Greater Montreal Campaign. Board Memberships: Concordia University, Camoplast Inc., Biotronix Inc. and Miranda Technologies Inc.

### ***André Larente, Director***

André Larente is the President and Chief Executive Officer of DIAGNOS inc. He has been active in the information technology sector for more than 26 years. He has previously held leading management positions with companies such as Siemens, Syscan International, Newbridge Networks, Legent; Cognos, Tandem Computers and Honeywell Information Systems. His extensive business contacts and experience in the information technology sector make him ideally suited to lead DIAGNOS through an anticipated period of strong growth.

### ***David Crevier, Secretary***

Me David Crevier is a member of the Quebec Bar and has been practicing business law since 1975. His main focus has been in the area of public and private financing and equity investment, and he has been associated with a number of very successful ventures in the resource and technology sectors, often from the start-up stage. He has extensive experience as a director of public corporations and is currently a director of Yorbeau Resources Inc., Cancor Mines Inc., Diagem International Resource Corp. and several private operating and investment firms.

### ***Timothy Murdoch, Director***

Tim Murdoch joined IBM in 1984 as a marketing representative in Boston where he earned repeated memberships to IBM's 100% Club. He later worked at InterTalent Agency in Los Angeles before relocating to Montreal in 1992 to join Astral Communications as Director, Business Development. Mr Murdoch's consulting company, Murdoch International, Ltd. was founded to facilitate Québec-U.S. market development. Since 1998, he has advised CEOs, entrepreneurs, managers and leaders at over 40 fast-growth companies. Mr Murdoch is Head Coach of McGill's Men's Varsity Lacrosse Team, Founder & Past-President of Americans in Montréal, Honorary Member of Life Sciences Forum-Montreal, and Co-Founder of the Portal of Montreal. A U.S. Citizen and Permanent Resident of Canada, Mr Murdoch holds an MBA from Harvard Business School and an A.B. in History from Princeton University.

### ***Olivier Lerolle, Director***

A French national and a permanent resident of Switzerland since 1985, Olivier Lerolle was granted a degree by École Supérieure de Commerce de Paris. Prior to joining Cabinet Gainsbury & Consorts - bringing to the firm over thirty years of international banking, business management and consulting experience - he held several management positions with Citibank (in New York) and Banque Indosuez. The functions held in the latter included those of Head of International Loan Syndication in Paris, Head of Project Finance in South East Asia and General Manager of Indosuez Finance in Geneva. In this last role, he was in charge of capital markets and mergers & acquisitions. He is an accomplished and respected businessman, with considerable experience in conducting business strategy, financing and development mandates on behalf of privately held and state-owned companies in Europe and North America.

## Management Discussion and Analysis

The following discussion, effective as of June 23, 2005, analyses the current financial situation of the Corporation as of March 31, 2005 and should be read with the audited consolidated financial statements and accompanying notes, which are presented for financial information and conducted in accordance with generally accepted Canadian standards. The currency used is the Canadian dollar.

DIAGNOS inc. (TSX Venture Exchange: ADK) is a Canadian corporation that develops and sells knowledge extraction software. DIAGNOS is demonstrating a new dimension in analyzing data, text and images simultaneously in a commercial environment.

This fiscal year ended March 31, 2005 was full of challenges. The development of a vertical market application for exploration companies drove the entire staff at DIAGNOS to over perform in their day-to-day tasks. CARDS (Computer Aided Resource Detection Software) became a reality mid year with the first results from our customer beta site in Brazil. The tight expense policy and follow up with our Shareholders gave us the autonomy to realize our developments on time.

Because the natural resource market is having a growth period and couple with the large amounts of data to analyze, this was a perfect match for DIAGNOS. All our new hires have been dedicated to the success of the Corporation. Our prospects list is growing and we are confident to be able to sign additional customers next year.

Our financial situation was greatly improved by the closing of several private placements during our fiscal year 2005. This financing gave us the funding required to finalize all our development projects to enable the Corporation to move forward with the vision of being a leader in supplying a predictive platform for exploration companies.

DIAGNOS has increased its sells efforts by adding additional resources in its sales force. The direct result is an increase in prospects and also in customer closings. This should reflect an increase in its revenues during the next fiscal year.

There are no changes at the board level: W. Brian Edwards, President of the Board, David Crevier, Timothy Murdoch, Olivier Lerolle and André Larente are remaining at their current positions.

The Corporation has adopted a conservative approach in its expense of research and development activities where no capitalizations were done.

### Summary of quarterly results

	FY 04-05				FY 03-04			
	Q4 March 31, -	Q3 Dec. 31, 2004	Q2 Sept. 30, 2004	Q1 June 30, 2004	Q4 March 31, 2004	Q3 Dec. 31, 2003	Q2 Sept. 30, 2003	Q1 June 30, 2003
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Revenue</b>	(44,497)	47,775	4,504	103,964	150,000	33,005	204,715	0
<b>Net gain (Loss)</b>	(382,341)	(415,797)	(542,262)	(427,043)	(67,753)	(24,405)	86,553	(124,454)
<b>Earnings per share</b>	(0.02)	(0.01)	(0.02)	(0.02)	(0.00)	(0.01)	0.01	(0.01)

### Revenue

During the fiscal year ended March 31, 2005, DIAGNOS registered revenues totaling \$111,746, a decrease of \$275,974 over last year's exercise. These results came mainly from a change in selling strategy going from an indirect to direct selling. The sale of licenses services into the natural resource industry was slower than anticipated mainly due to the beta site activities. The decrease also takes into consideration the R&D credits that were not accounted for in fiscal year 2005 because of additional documentation required by the government. The Corporation had to cancel a sale of \$50,000 during the fourth quarter because the customer could not deliver his data therefore showing a small loss.

Because of the push to gain market share, we have increased by \$675,890 our general and administration expenses during the fiscal year 2005 compared to fiscal year 2004.

### Net loss

During the fiscal year ended March 31, 2005, the Corporation had a deficit of \$1,746,088 (\$0.07 per share) compared to the fiscal year ended March 31, 2004, which had a deficit of \$130,059 (\$0.01 per share). This loss is due to the R&D expenses incurred to finalize our CARDS application, payment of a debenture and the increase in our selling activities.

**Accumulated deficit**

The Corporation's accumulated deficit as at March 31, 2005 is \$7,794,883.

**Cash flow**

As at March 31, 2005, our current short-term assets are \$314,915 compared to \$651,168 during our 2004 exercise. This decrease is mainly due to our cash position. The Corporation has signed several contracts, which will generate revenues over the next quarters. The Corporation does not expect to raise further private placement in the short term. The Corporation will work with its Shareholder base to exercise warrants if required.

Outside the current revenues generated from its operations, the Corporation has financed its activities through the issuing of shares and warrants. Between March 31, 2004 and today a total of \$2,304,979 have been received.

**Research and Development**

The Corporation has incurred \$784,103 in research and development costs during the year. As previously announced, these major R&D costs ended in our fiscal year ended March 31, 2005.

**Information on the shares**

As at March 31, 2005, the outstanding shares are common shares or shares attached to common shares:

Common shares	29,131,364
Convertibles	
Warrants	12,111,332
Options on shares	2,365,602
Total	43,608,298

**Significant accounting policy**

The Corporation has selected the retroactive application (to January 1, 2003) for recognition of stock-based compensation and other stock-based payments and consequently charged to income stock-based compensation according to Black & Scholes valuation model.

**Perspective**

We are confident that our initiatives in the natural resource market will have a major impact on the Corporation's future. The latest results announced with the discovery of our first kimberlite in Brazil for Diagem International Resource Corp., demonstrate clearly that DIAGNOS is in a good position in this growing market. The response for our CARDS solution is very good and we are confident that we will sign more agreements in the short term. We are anticipating a good first quarter 2006 based on our current prospect list.

**Risk analysis***Credit risk*

Financial instruments, which potentially subject the Corporation to concentrations of credit risk, consist primarily of cash and cash equivalents. These financial instruments are held with high-credit quality financial institutions. Consequently, management considers the concentration of risk related to cash and cash equivalents to be minimal.

*Interest rate risk*

As at March 31, 2005, the Corporation's exposure to interest rate risk is summarized as follows:

Cash and cash equivalents	- Fixed and variable interest rate
Amounts receivable	- Non-interest bearing
Accounts payable and accrued liabilities	- Non-interest bearing

**Forward-looking statements**

This MD&A contains certain forward-looking statements with respect to the Corporation. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. We consider the assumptions on which these forward-looking statements are based to be reasonable, but caution the reader that these assumptions regarding future events, many of which are beyond our control, may ultimately prove to be incorrect since they are subject to risks and uncertainties that affect us. These risks and uncertainties include risks associated with market acceptance, competitive developments and other factors. Except for ongoing obligations under securities laws to disclose all material information to investors, we disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## ***Management's Responsibility for Financial Reporting***

The management is responsible for the preparation of the consolidated financial statements and other financial information relating to the Corporation included in this annual report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and necessarily include amounts based on estimates and judgments of management.

Potvin Magnan & Associés Inc., Chartered Accountants, our independent auditors, are engaged to express a professional opinion on the consolidated financial statements. According to the auditor's report, their examination is conducted in accordance with generally accepted auditing standards and includes tests and other procedures, which allow the auditors to report whether the consolidated financial statements prepared by the management are presented fairly in accordance with generally accepted accounting principles.



André Larente  
President, CEO and acting CFO  
June 23, 2005



W. Brian Edwards  
President of the Board of Directors  
June 23, 2005

The Board of Directors is responsible for insuring that management fulfills its responsibilities for financial reporting. The Board of Directors discusses with the independent auditors the results of their audit and their audit report and approves the issuance to Shareholders of the consolidated financial statements. The Board has created an Audit Committee made of three members. The duty of the Audit Committee is to review the consolidated financial statements before their approval.

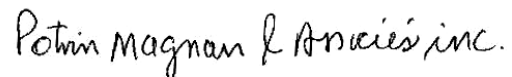
The Board of Directors has approved the Corporation's consolidated financial statements.

## ***Auditors' Report to the Shareholders***

We have audited the consolidated balance sheets of DIAGNOS inc. as at March 31, 2005 and 2004 and the consolidated statements of income, deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Potvin Magnan & Associés Inc.  
Chartered Accountants  
Saint-Jean-sur-Richelieu, Québec  
June 23, 2005

## ***Consolidated Balance Sheets***

	<b>For the year ended March 31, 2005</b>	<b>For the year ended March 31, 2004</b>
	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	258,008	537,252
Amounts receivable (Note 4)	50,128	108,257
Prepaid expenses (Note 5)	6,779	5,659
	<u>314,915</u>	<u>651,168</u>
<b>Capital assets</b> (Note 6)	45,640	56,631
<b>Other assets</b> (Note 7)	<u>16,215</u>	<u>4,103</u>
	<b><u>376,770</u></b>	<b><u>711,902</u></b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 8)	215,159	468,166
Component liability of convertible debentures (Note 9)	<u>-</u>	<u>372,490</u>
	<u>215,159</u>	<u>840,656</u>
<b>SHAREHOLDERS' EQUITY (Shareholders' deficit)</b>		
<b>Share Capital</b> (Note 10)	7,869,860	5,754,869
<b>Component Shareholders' equity of convertible debentures</b> (Note 9)	-	162,510
<b>Contributed surplus</b> (Note 11)	86,634	-
<b>Deficit</b> (Ref. page 10)	<u>(7,794,883)</u>	<u>(6,046,133)</u>
	<u>161,611</u>	<u>(128,754)</u>
	<b><u>376,770</u></b>	<b><u>711,902</u></b>

SEE ACCOMPANYING NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS.

Approved on behalf of the Board of Directors



André Larente  
Director



Me David Crevier  
Director

## *Consolidated Statements of Income*

	For the year ended March 31, 2005	For the year ended March 31, 2004
	\$	\$
<b>Revenues</b>	<b>111,746</b>	<b>387,720</b>
<b>Expenses</b>		
General, sales and administrative	1,102,123	426,233
Research and development, net of tax credits	784,103	(4,557)
Amortization of capital assets	19,748	30,979
Amortization of other assets	3,913	44,075
Financial charges (Note 13)	12,793	47,252
	<b>1,922,680</b>	<b>543,982</b>
<b>Loss for the year</b>	(1,810,934)	(156,262)
<b>Other income</b>	64,846	26,203
<b>Net loss for the year</b>	<b>(1,746,088)</b>	<b>(130,059)</b>
<b>Basic and diluted loss per share</b>	<b>(0.07)</b>	<b>(0.01)</b>
<b>Basic weighted average number of shares outstanding</b>	26,776,483	14,072,272

SEE ACCOMPANYING NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS.

***Consolidated Statements of Deficit***

	<b>For the year ended March 31, 2005</b>	<b>For the year ended March 31, 2004</b>
	<b>\$</b>	<b>\$</b>
<b>Balance at the beginning of the year</b>	<u>(6,046,133)</u>	<u>(5,896,573)</u>
<b>Add:</b>		
Net loss for the year (Ref. page 9)	(1,746,088)	(130,059)
Interest paid on the component Shareholders' equity of convertible debentures	<u>(2,662)</u>	<u>(19,501)</u>
	<u>(1,748,750)</u>	<u>(149,560)</u>
<b>Balance at the end of the year</b>	<b><u><u>(7,794,883)</u></u></b>	<b><u><u>(6,046,133)</u></u></b>

SEE ACCOMPANYING NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS.

## ***Consolidated Statements of Cash Flows***

	<b>For the year ended March 31, 2005</b>	<b>For the year ended March 31, 2004</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Net loss for the year (Ref. page 9)	(1,746,088)	(130,059)
Items not affecting cash and cash equivalents		
Amortization of capital assets	19,748	30,979
Amortization of other assets	3,913	44,075
Issuance of shares under the payment of interest on debentures	13,344	44,699
Stock-based compensation expense	86,634	-
	<u>123,639</u>	<u>119,753</u>
	(1,622,449)	(10,306)
Net change in non-cash operating working capital items	<u>(195,998)</u>	<u>(92,882)</u>
	<u>(1,818,447)</u>	<u>(103,188)</u>
<b>Cash flows from financing activities</b>		
Reimbursements of convertible debentures	(535,000)	-
Variation in share capital, net of share issue expenses	<u>2,098,985</u>	<u>593,734</u>
	<u>1,563,985</u>	<u>593,734</u>
<b>Cash flows from investing activities</b>		
Proceeds from sale of capital asset	434	-
Additions to capital assets	(9,191)	(913)
Additions to other assets	<u>(16,025)</u>	<u>-</u>
	<u>(24,782)</u>	<u>(913)</u>
<b>Net change in cash and cash equivalents</b>	(279,244)	489,633
<b>Cash and cash equivalents – Beginning of the year</b>	<u>537,252</u>	<u>47,619</u>
<b>Cash and cash equivalents – End of the year</b>	<u><u>258,008</u></u>	<u><u>537,252</u></u>

SEE ACCOMPANYING NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS.

## ***Notes to Audited Consolidated Financial Statements***

As at March 31, 2005 and 2004

### **1. Statutes and nature of activities**

The shares of the Corporation are listed on the TSX Venture Exchange. DIAGNOS inc. develops and markets data mining software. The Corporation designed, developed and markets MCubiX, a data mining software suite capable of extracting knowledge from historical data - in the form of images, text or traditional databases - and making predictions that improve business processes and decision making ability. CARDS (Computer Aided Resource Detection Software), the first vertical application, is dedicated to the natural resources market and can be applied to several sectors of prospecting, such as diamond, gold, zinc, copper and the oil and gas.

#### **Going concern assumption**

These consolidated financial statements have been prepared on a going concern basis, which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Corporation has not realized profit from operations since its inception and there can be no assurance that it will either achieve or maintain profitability in the future. The Corporation will also require additional financing to fund its continuing operations and to market its technologies. The Corporation is seeking additional funds through additional financing whether by way of private placement or public offering. The Corporation's ability to continue as a going concern is dependent on raising additional financing and achieving and maintaining profitable operations. The outcome of these matters cannot be predicted at this time. These consolidated financial statements do not include any adjustments and classifications of assets and liabilities, which might be necessary should the Corporation be unable to continue its operations.

### **2. Accounting policy modification**

#### **Stock-based compensation**

According to new accounting rules the Corporation has selected the retroactive application (to January 1, 2003) for recognition of stock-based compensation and other stock-based payments and consequently charged to income stock-based compensation according to Black & Scholes valuation model.

### **3. Summary of significant accounting policies**

#### **a) Use of estimates**

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates that affect the amounts of assets and liabilities reported in the consolidated financial statements. Those estimates also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant estimates include tax credits recoverable, the useful lives of capital assets and other assets and certain accrued liabilities. Actual results could differ from those estimates.

#### **b) Consolidation**

These consolidated financial statements include the accounts of the Corporation and those of its wholly-owned subsidiary, DMS & Technologies Inc.

#### **c) Foreign currency translation**

The accounts are remeasured into the functional currency using the temporal method. Under this method, monetary assets and liabilities are remeasured at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are remeasured at historical rates. Revenues and expenses are remeasured at the average rate for the period. Gains and losses resulting from remeasurement are reflected in the statement of income.

#### **d) Government assistance**

The Corporation obtained tax credits from the government of Quebec according to the research and development concerning the conception of software. The aforementioned tax credits thus obtained were entered in deduction of the expenses.

#### **e) Revenue recognition**

The revenues from software are generally recognized as the delivery was made in accordance with the methods contained in a sale contract and that the risks and the significant advantages inherent in the property are transferred to the customer.

**f) Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand and balance with banks as well as all highly liquid short-term investments having a term of less than three months as the acquisition date.

**g) Capital assets and amortization**

Capital assets are recorded at cost less accumulated amortization and related tax credits. Amortization is calculated using the declining balance method at the following annual rates:

	<u>Annual rates</u>
Office furniture and equipment	- 20%
Computer equipment	- 50%

**h) Other assets and amortization**

- i) The license is stated at cost and has been amortized using the straight-line method over the estimated useful life of this asset, which was three years.
- ii) The softwares are stated at cost and they are amortized using the declining balance method at the annual rate of 50%.

**i) Income taxes**

The Corporation provides for income taxes using the liability method of tax allocation. 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 income tax rates expected to be in effect for the year in which the differences are expected to reverse.

The Corporation establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all the future income tax assets will not be realized.

**j) Research and development expenses**

All expenses related to development activities, which do not meet generally accepted criteria for deferral, and research are expensed as incurred. Development expenses, which meet generally accepted criteria for deferral, are capitalized and amortized against income over the estimated period of benefit.

**k) Loss per share**

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

During the exercise only the warrants and stock options whose exercise price was equal or lower than the average stock market during the exercise were taken into account.

The loss diluted by share, which is calculated according to the method of the repurchase of share, is equal to the basic loss by share because of the anti-dilution effect of the stock option plan.

**l) Share issue expenses**

Share issue expenses have been applied against the proceeds from the issuance of share capital.

**m) Stock-based compensation plan**

The Corporation maintains a stock-based compensation plan, which is described in note 10. Any consideration from plan participants upon the exercise of stock options is credited to share capital.

		<b>As at March 31, 2005</b>	<b>As at March 31, 2004</b>
		<b>\$</b>	<b>\$</b>
<b>4. Amounts receivable</b>			
Customers		70,702	97,723
Commodity taxes recoverable		12,436	-
Others		10,200	17,218
		<u>93,338</u>	<u>114,941</u>
Allowance for doubtful accounts		43,210	6,684
		<u>50,128</u>	<u>108,257</u>
<b>5. Prepaid expenses</b>			
Prepaid insurance		6,779	1,836
Other		-	3,823
		<u>6,779</u>	<u>5,659</u>
<b>6. Capital assets</b>			
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net value</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Office furniture and equipment	61,501	33,281	28,220
Computer equipment	180,334	162,914	17,420
	<u>241,835</u>	<u>196,195</u>	<u>45,640</u>
<b>7. Other assets</b>			
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net value</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
License	239,812	239,812	-
Software	38,671	22,456	16,215
	<u>278,483</u>	<u>262,268</u>	<u>16,215</u>
<b>8. Accounts payable and accrued liabilities</b>			
Accounts payable and accrued liabilities		142,014	331,809
Commodity taxes		-	8,467
Salaries and fringe benefits		47,347	102,092
Other		25,798	25,798
		<u>215,159</u>	<u>468,166</u>

<b>As at March 31, 2005</b>	<b>As at March 31, 2004</b>
<u>\$</u>	<u>\$</u>

## 9. Convertible debentures

In September 12, 2001, the Corporation issued convertible debentures for an amount of \$535,000 with an annual rate interest of 12%. The aforementioned convertible debentures were entirely discharged during the year.

The interest resulting of convertible debentures are payable in common shares, if the Corporation is exercising the choice.

The convertible debentures are financial instruments, which contain a component liability as well as a component Shareholders' equity. They were established with a fair market method and they are presented at the consolidated balance sheets as follows:

Liability component	-	372,490
<u>Deduct</u> : Short-term part	<u>-</u>	<u>372,490</u>
Long-term debt	<u>-</u>	<u>-</u>
Component Shareholders' equity	<u>-</u>	<u>162,510</u>

The fair market value of the component liability of convertible debentures is equivalent to the book value.

## 10. Share capital

Authorized

Unlimited number of common shares, without par value,  
voting and participating

Subscribed and issued: 29,131,364 shares (16,341,388 shares in 2004)	7,866,860	5,529,869
Subscribed and unissued: 15,000 shares (1,833,333 shares in 2004)	<u>3,000</u>	<u>225,000</u>
	<u>7,869,860</u>	<u>5,754,869</u>

During the year, the issued share capital varied as follows:

	<b>As at March 31, 2005</b>		<b>As at March 31, 2004</b>	
	<b>Number</b>	<b>\$</b>	<b>Number</b>	<b>\$</b>
Private placements	10,833,333	1,850,000	1,500,000	150,000
Payment of creditors	-	-	160,983	32,197
Exercise of warrants	1,812,775	444,344	866,150	186,537
Exercise of options	68,347	10,635	-	-
Issuance of common shares under the payment of interest on debentures	<u>75,521</u>	<u>32,012</u>	<u>395,879</u>	<u>64,200</u>
	<u>12,789,976</u>	<u>2,336,991</u>	<u>2,923,012</u>	<u>432,934</u>

## Stock option plan

The Corporation adopted a stock option plan for its employees, directors and consultants in virtue of which they can acquire common shares. The conditions of exercise are determined by the Board of Directors but this mode is governed by the rules of the TSX Venture Exchange. The options are granted to the closing price of the stock exchange market 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 optionee pursuant to share option, may not exceed 5% of the common shares outstanding on the granting date.

The maximum number of common shares that may be reserved for issuance to insiders of the Corporation is limited to 20% of the common shares outstanding on the granting date.

In 1996, the Corporation granted 242,000 options outside of the stock option plan. Those were forfeited at September 30, 2004.

The maximum number of options, which the Corporation is authorized to emit as at March 31, 2005, is 4,909,611 options.

The following tables present the changes, which have occurred during the exercise with regard to the stock option plan and summarize information relating to the stock options outstanding at March 31, 2005.

A summary of the status of the Corporation's stock option plan as at March 31, 2005 and 2004 and of changes during the years ending on those dates is presented below:

	<b>As at March 31, 2005</b>		<b>As at March 31, 2004</b>	
	<b>Stock options</b>	<b>Weighted average exercise price</b> \$	<b>Stock options</b>	<b>Weighted average exercise price</b> \$
Outstanding at beginning of year	1,135,203	0.28	1,252,703	0.60
Granted	1,379,684	0.38	110,000	0.16
Forfeited	(80,938)	0.46	(227,500)	0.28
Exercised	(68,347)	0.16	-	-
Outstanding at end of year	<u>2,365,602</u>	<u>0.34</u>	<u>1,135,203</u>	<u>0.28</u>

The following table summarizes information on stock options at March 31, 2005:

<b>Exercise price</b> \$	<b>Outstanding at March 31, 2005</b>		<b>Options exercisable at March 31, 2005</b>	
	<b>Number</b>	<b>Weighted average remaining contractual life (in years)</b>	<b>Number exercisable</b>	<b>Weighted average exercise price</b> \$
0.11	8,330	1.67	8,330	0.11
0.13	19,998	3.88	15,003	0.13
0.18	13,325	3.54	13,325	0.18
0.20	7,500	2.99	7,500	0.20
0.24	52,000	4.49	-	0.24
0.28	936,765	1.84	936,765	0.28
0.30	200,000	4.86	-	0.30
0.40	1,127,684	4.18	-	0.40
	<u>2,365,602</u>		<u>980,923</u>	

Under the Corporation's stock option plan, 1,379,684 options were granted during the year ended March 31, 2005 with an exercise price between \$0.24 and \$0.40. The compensation cost that has been charged against income is \$86,634 for the year ended March 31, 2005, and the counterpart has been credited to contributed surplus in the Shareholders' equity.

These options will be to maturity under miscellaneous dates. The prior grants at June 3, 2004 were submitted to a purchase period between one and half years and five years. For the realized grant from this date and in the future, they will be earned at 33.33% per year, beginning the following year of the grant.

#### **Net loss pro forma**

Had compensation cost been determined based on the fair value method, the Corporation's net loss and loss per share for the year ended March 31, 2005 would have been adjusted to the pro forma amounts indicated below:

Net loss for the year as reported	\$(1,746,088)
Compensation expense	<u>158,872</u>
Pro forma net loss	<u>\$(1,904,960)</u>
Pro forma basic and diluted loss per share	<u>\$(0.07)</u>

The pro forma disclosure omits the effects of awards granted before the years beginning April 1st, 2002.

The fair value of each option grant is estimated on the date of grant using the Black & Sholes option pricing model with the following weighted average assumptions used for grants during the year.

Expected life	3.3 years	Risk-free interest rate	3.74%
Dividend yield	0%	Volatility	185%

**Stock warrants**

- a) In the process of a private placement, the Corporation issued 2,500,000 warrants entitling the holder to purchase one common share at the price of \$0.14 per share. They will be null and void between September 7, 2006 and December 14, 2006.
- b) In the process of a private placement, the Corporation issued 8,000,000 warrants entitling the holder to purchase one common share at the price of \$0.20 per share. 222,000 warrants were exercised during the fiscal year. They will be null and void between August 8, 2006 and December 10, 2006.
- c) In the process of a private placement, the Corporation issued 1,833,332 warrants entitling the holder to purchase one common share at the price of \$ 0.40 per share. They will be null and void on August 30, 2006.

**11. Consolidated contributed surplus**

	<b>As at March 31, 2005</b>	<b>As at March 31, 2004</b>
	<b>\$</b>	<b>\$</b>
Balance at beginning of year	-	-
Add: Stock-based compensation expense	86,634	-
Balance at end of year	<u>86,634</u>	<u>-</u>

**12. Financial instruments****a) Fair value**

Cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities are financial instruments whose fair value approximates their carrying value due to their short-term maturity.

**b) Credit risk**

Financial instruments, which potentially subject the Corporation to concentrations of credit risk, consist primarily of cash and cash equivalents. These financial instruments are held with high-credit quality financial institutions. Consequently, management considers the concentration of risk related to cash and cash equivalents to be minimal.

**c) Interest rate risk**

As at March 31, 2005, the Corporation's exposure to interest rate risk is summarized as follows:

Cash and cash equivalents	- Fixed and variable interest rate
Amounts receivable	- Non-interest bearing
Accounts payable and accrued liabilities	- Non-interest bearing

**13. Financial charges**

Interests on the component liability of convertible debentures	13,344	44,699
Others	<u>(511)</u>	<u>2,553</u>
	<u>12,793</u>	<u>47,252</u>

**14. Income taxes**

The reconciliation of the income tax provision calculated using the federal and provincial statutory income tax rates to the provision for income taxes per the financial statements is as follows:

Loss for the year	<u>(1,748,750)</u>	<u>(149,560)</u>
Income taxes recoverable at statutory tax rates	668,956	57,386
Valuation allowance	<u>(668,956)</u>	<u>(57,386)</u>
	<u>-</u>	<u>-</u>

	<b>As at March 31, 2005</b>	<b>As at March 31, 2004</b>
	<u>\$</u>	<u>\$</u>
Significant components of the Corporation's future income tax assets are as follows:		
Future income tax assets		
Operating losses carried forward	2,882,279	2,231,952
Share issue expenses	78,533	78,533
Capital assets	<u>157,804</u>	<u>148,737</u>
	3,118,616	2,459,222
<u>Deduct:</u> Valuation allowance	<u>3,118,616</u>	<u>2,459,222</u>
	<u>-</u>	<u>-</u>

The non-capital losses, continuable and available, will expire as follows:

2006	139,073	\$
2007	227,156	
2008	1,657,164	
2009	2,869,533	
2010	583,523	
2014	246,255	
2015	<u>1,719,804</u>	
	<u>7,442,508</u>	\$

Share issue expenses will expire as follows:

2006	<u>204,673</u>	\$
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The difference between the book value and the tax value of the tangible fixed assets and intangible assets is of:

<u>416,601</u>	<u>392,970</u>
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## 15. Segment information

The allocation to product is determined based on the place of delivery.

The following table presents revenues from external revenues exploitation and by geographical sector:

United States	6,005	237,720
Canada	<u>105,741</u>	<u>150,000</u>
	<u>111,746</u>	<u>387,720</u>

# ***General information***

## ***Stock Exchange Listing***

Shares of DIAGNOS inc. are listed on the TSX Venture Exchange under the symbol ADK.

## ***Transfer Agents and Registrar***

Computershare Trust Company of Canada  
1500, University Street  
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H3A 3S8

## ***Auditors***

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200, MacDonalD Street  
Suite 302  
Saint-Jean-sur-Richelieu, Québec  
J3B 8J6

## ***Legal counsel***

Colby Monet Demers Delage & Crevier  
Tour McGill College  
1501, McGill College Avenue  
Suite 2900  
Montréal, Québec  
H3H 3M8

## ***Electronic Delivery***

The Shareholders of DIAGNOS inc. can elect to receive DIAGNOS' documents (such as Quarterly and Annual Reports and the Proxy Circular) in electronic form on the Internet rather than in hard copy by mail. Shareholders wishing to use this service should contact Computershare Trust Company of Canada.

## ***Investor Relations***

If you have inquiries, please visit DIAGNOS' Web site at [www.diagnos.ca](http://www.diagnos.ca) or contact:

André Larente  
President and Chief Executive Officer

## ***DIAGNOS inc.***

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## ***Annual Meeting***

The Annual Meeting of Shareholders will be held at 10:00 am Tuesday, September 6, 2005 at the Hotel Quality Inn & Suites located at 6680 Taschereau Boulevard in Brossard, Québec

## ***Definition***

In this report all currencies are in Canadian dollars unless specified.

Additional copies are available upon request.

Un exemplaire français du présent rapport annuel est disponible sur demande.

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