



DIAGNOS inc.
knowledge extraction technologies

Report of the third quarter (Q3) to the Shareholders for the fiscal year 2004-2005

For the quarter and the nine-month period ended December 31, 2004
including the comparative for the quarter and the nine-month period ended December 31, 2003

Notice to readers

The attached consolidated financial statements have not been reviewed by the Company's external auditors.
The accompanying notes are an integral part of the consolidated financial statements.
All amounts are expressed in Canadian dollars.
You will find more information concerning DIAGNOS inc. by consulting SEDAR Web site (www.sedar.com).



MESSAGE TO THE SHAREHOLDERS

Dear Shareholders:

During the third quarter ended December 31, 2004, DIAGNOS completed the work started with its existing customers to demonstrate the results of the prediction models for diamond exploration. The results achieved are very positive and will now give DIAGNOS the validation required to increase its business development efforts. The DIAGNOS management will be dedicated to increase the revenue of the Company.

DIAGNOS has finished the restructuring of the Company and will now put its energies on its customer development activities. Consequently, DIAGNOS has planned to be present at a couple of natural resource conferences. In January, the Company participated in the Round Up in Vancouver and, in March, is planning to attend the PDAC conference in Toronto. These two major public events that will cover Canada and the USA will give us the opportunity to identify additional prospects.

During the quarter, we have finalized the development of MCubiX EP and the full integration of it in our natural resource market product line.

As you might have read through the recent press releases, we have signed additional agreements. We have received multiple positive comments about CARDS and the usefulness of this new method to identify precious metals.

We have established a clear strategy for the natural resource market that is starting to be fruitful. Our change in our commercial strategy was the right decision.

We have also started a media coverage strategy that will help us get known more rapidly in the natural resource market.

[Signed]
André Larente
President

February 2005

Notice to readers

The attached consolidated financial statements have not been reviewed by the Company's external auditors.
The accompanying notes are an integral part of the consolidated financial statements.
All amounts are expressed in Canadian dollars.
You will find more information concerning DIAGNOS inc. by consulting SEDAR Web site (www.sedar.com).



CERTIFICATION OF INTERIM FILING

I, André Larente, acting as President of DIAGNOS inc, certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 Certification of *Disclosure in Issuers' Annual and Interim Filings*) of DIAGNOS inc. for the interim period ended December 31, 2004.
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings; and
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings.

February 2005

[Signed]
André Larente
President

Notice to readers

The attached consolidated financial statements have not been reviewed by the Company's external auditors.
The accompanying notes are an integral part of the consolidated financial statements.
All amounts are expressed in Canadian dollars.
You will find more information concerning DIAGNOS inc. by consulting SEDAR Web site (www.sedar.com).

DIAGNOS inc.

Management Discussion and Analysis

The following discussion analyses the current financial situation as of December 31, 2004 with the consolidated financial statements and complimentary notes, which are presented for intermediate financial information and conducted in accordance with generally, accepted Canadian standards, currency used is the Canadian dollar. This report is effective as of February 24, 2005 and should be read with the unaudited intermediate financial statements of December 31, 2004.

DIAGNOS inc. (TSX Venture Exchange: ADK) is a Canadian software 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. The Company has adopted a vertical market approach.

Summary of quarterly results

	FY 04-05			FY 03-04				FY 02-03
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	Dec. 31, 2004	Sept. 30, 2004	June 30, 2004	March 31, 2004	Dec. 31, 2003	Sept. 30, 2003	June 30, 2003	March 31, 2003
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	47,775	4,504	103,964	150,000	33,005	204,715	0	6,680
Net Gain (Loss)	(415,797)	(542,262)	(427,043)	(67,753)	(24,405)	86,553	(124,454)	(185,584)
Earning per Share	(0.01)	(0.02)	(0.02)	(0.00)	(0.01)	0.01	(0.01)	(0.01)

Selected annual information

	Fiscal year 2003-2004	Fiscal year 2002-2003	Fiscal year 2001-2002
	\$	\$	\$
Revenue	387,720	128,619	7,000
Income taxes	0	0	0
Net income (Loss)	(130,059)	(762,983)	(3,182,617)
Earnings per share	(0.01)	(0.07)	(0.11)
Total assets	711,902	250,856	346,870
Total long-term liabilities	840,656	783,646	959,831

Revenue

The sales for the third quarter ended December 31, 2004 were \$47,775 compared to the sales of the third quarter ended December 31, 2003 of \$33,005. The reason for this slight increase is mainly due to the change in strategy established in the previous quarter. The expected sales for the second quarter will be recognized over the next four quarters.

The positive announcement of our first customer – Diagem International Resource Corp. – on the identification of a new kimberlite, demonstrates clearly the future potential of the CARDS software.

Net loss

During the third quarter ended December 31, 2004, the Company has incurred a net loss of \$415,797 (\$0.01 per share) compared to a net loss of \$24,405 (\$0.01 per share) for the period ended December 31, 2003.

This decrease in net loss compared to the quarter ended September 30, 2004 is mainly due to a decrease in R&D and the completion of the MCubiX EP software. Our research and development costs will be reduced considerably over the next quarters.

The Company will be in a good cash position mainly due to its financing activities. The Company has enough existing financing to cover future periods.

Notice to readers

The attached consolidated financial statements have not been reviewed by the Company's external auditors.

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

All amounts are expressed in Canadian dollars.

You will find more information concerning DIAGNOS inc. by consulting SEDAR Web site (www.sedar.com).

DIAGNOS inc.

Management Discussion and Analysis (Cont'd)

Financing activities

During the third quarter ended December 31, 2004 there was no warrants exercised. According to our business plan, the R&D was our biggest exposure in terms of costs. The end of our fiscal year will finish our major R&D activities. This will reduce the capital cost of the Company.

The Company, with its different private placements, is in good position for the short term financing. Our Shareholders will be able to exercise their warrants and this will increase our cash position.

Cash Flow

As of December 31, 2004, the cash position of the Company was \$484,017 compared to a position of \$118,776 on December 31, 2003.

Research and Development

The Company has incurred \$207,887 in research and development costs during the quarter, a reduction of \$85,038 compared to the previous quarter. As announced in our second quarter, these major R&D costs will end by our fiscal year end.

Information on the shares

As at December 31, 2004, the outstanding shares are common shares or shares attached to common shares:

Common shares	28,886,017
Convertibles	
Warrants	12,833,333
Options on shares	2,249,887
Total	<u>43,969,237</u>

Significant accounting policy

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

Perspective

We are confident that our initiatives in the natural resource market will have a major impact on the Company'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. Our decision to respond to the natural resource market is positive. We have finalized our sales strategies and pricing models. We will also attend multiple conferences in the mining field and are hopeful to increase our number of prospects with the CARDS solution.

The response for our CARDS solution is very good and we are confident that we will sign more agreements in the short term.

Risk analysis

Credit risk

Financial instruments, which potentially subject the Company 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 December 31, 2004, the Company'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

Notice to readers

The attached consolidated financial statements have not been reviewed by the Company's external auditors.
The accompanying notes are an integral part of the consolidated financial statements.
All amounts are expressed in Canadian dollars.
You will find more information concerning DIAGNOS inc. by consulting SEDAR Web site (www.sedar.com).

DIAGNOS inc.

Management Discussion and Analysis (Cont'd)

Forward-looking statements

This MD&A contains certain forward-looking statements with respect to the Company. 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.

Notice to readers

The attached consolidated financial statements have not been reviewed by the Company's external auditors.

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

All amounts are expressed in Canadian dollars.

You will find more information concerning DIAGNOS inc. by consulting SEDAR Web site (www.sedar.com).

DIAGNOS inc.

Consolidated Balance Sheets

	December 31, 2004 (Unaudited) \$	March 31, 2004 (Audited) \$
ASSETS		
Current Assets		
Cash and cash equivalents	484,017	537,252
Amounts receivable (Note 4)	151,557	108,257
Prepaid expenses (Note 5)	326	5,659
	<u>635,900</u>	<u>651,168</u>
Capital Assets (Note 6)	49,354	56,631
Other Assets (Note 7)	<u>6,967</u>	<u>4,103</u>
	<u>692,221</u>	<u>711,902</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 8)	261,605	468,166
Component liability of convertible debentures (Note 10)	<u>-</u>	<u>372,490</u>
	<u>261,605</u>	<u>840,656</u>
Shareholder's Equity (Shareholder's deficit)		
Share capital (Note 9)	7,820,824	5,754,869
Component Shareholders' Equity of convertible debentures (Note 10)	-	162,510
Deficit	(7,453,749)	(6,046,133)
Contributed Surplus	<u>63,541</u>	<u>-</u>
	<u>430,616</u>	<u>(128,754)</u>
	<u>692,221</u>	<u>711,902</u>

On behalf of the Board

[Signed] _____
André Larente
Director

[Signed] _____
David Crevier
Director

Notice to readers

The attached consolidated financial statements have not been reviewed by the Company's external auditors.
The accompanying notes are an integral part of the consolidated financial statements.
All amounts are expressed in Canadian dollars.
You will find more information concerning DIAGNOS inc. by consulting SEDAR Web site (www.sedar.com).

DIAGNOS inc.

Consolidated Statements of Earnings

	Quarters ended December 31		Nine-month periods ended December 31	
	2004	2003	2004	2003
	(Unaudited) \$	(Unaudited) \$	(Unaudited) \$	(Unaudited) \$
Revenues	47,775	134,671	156,243	338,698
Expenses				
General, sales and administrative	249,978	107,410	835,560	250,493
Research and development	207,887	34,589	695,719	59,560
Amortization of capital assets	4,376	6,298	13,472	20,868
Amortization of other assets	995	785	3,431	42,679
Financial charges	336	9,994	13,015	27,403
	463,572	159,076	1,561,197	401,003
Net loss for the period	(415,797)	(24,405)	(1,404,954)	(62,305)
Basic loss per share	(0.01)	(0.01)	(0.05)	(0.01)
Diluted loss per share	(0.01)	(0.01)	(0.05)	(0.01)
Basic weighted average number of shares outstanding	28,886,017	14,121,931	26,039,860	13,830,345

Notice to readers

The attached consolidated financial statements have not been reviewed by the Company's external auditors.
The accompanying notes are an integral part of the consolidated financial statements.
All amounts are expressed in Canadian dollars.
You will find more information concerning DIAGNOS inc. by consulting SEDAR Web site (www.sedar.com).

DIAGNOS inc.

Consolidated Statements of Deficit and Contributed Surplus

	Quarters ended December 31		Nine-month periods ended December 31	
	2004	2003	2004	2003
	(Unaudited) \$	(Unaudited) \$	(Unaudited) \$	(Unaudited) \$
CONSOLIDATED DEFICIT				
Balance at the beginning of the period	<u>(7,037,952)</u>	<u>(5,949,683)</u>	<u>(6,046,133)</u>	<u>(5,896,573)</u>
Add:				
Net loss for the period	(415,797)	(24,405)	(1,404,954)	(62,305)
Interest paid on the component Shareholders' Equity of convertible debentures	<u>-</u>	<u>(6,443)</u>	<u>(2,662)</u>	<u>(21,653)</u>
	<u>(415,797)</u>	<u>(30,848)</u>	<u>(1,407,616)</u>	<u>(83,958)</u>
Balance at the end of the period	<u>(7,453,749)</u>	<u>(5,980,531)</u>	<u>(7,453,749)</u>	<u>(5,980,531)</u>
CONSOLIDATED CONTRIBUTED SURPLUS				
Balance at the beginning of the period	<u>42,186</u>	<u>-</u>	<u>-</u>	<u>-</u>
Add:				
Stock based compensation expense	<u>21,355</u>	<u>-</u>	<u>63,541</u>	<u>-</u>
Balance at the end of the period	<u>63,541</u>	<u>-</u>	<u>63,541</u>	<u>-</u>

Notice to readers

The attached consolidated financial statements have not been reviewed by the Company's external auditors.
The accompanying notes are an integral part of the consolidated financial statements.
All amounts are expressed in Canadian dollars.
You will find more information concerning DIAGNOS inc. by consulting SEDAR Web site (www.sedar.com).

DIAGNOS inc.

Consolidated Statements of Cash Flows

	Quarters ended		Nine-month periods ended	
	December 31		December 31	
	2004	2003	2004	2003
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	\$	\$	\$	\$
Cash flows from operating activities				
Net loss for the period	(415,797)	(24,405)	(1,404,954)	(62,305)
Items not affecting cash and cash equivalents				
Amortization of capital assets	4,376	6,298	13,472	20,868
Amortization of other assets	995	785	3,431	42,679
Issuance of share under the payment of interest on debentures	-	9,739	13,341	26,365
Stock based compensation expense	21,355	-	63,541	-
	(389,071)	(7,583)	(1,311,169)	27,607
Change in non-cash operating working capital items	(32,225)	(8,312)	(244,528)	(82,735)
	(421,296)	(15,895)	(1,555,697)	(55,128)
Cash flows from financing activities				
Issuance of capital stock - net of related issuance expenses	-	95,000	2,049,953	127,197
Reimbursement of convertible debenture	-	-	(535,000)	-
	-	95,000	1,514,953	127,197
Cash flows from investing activities				
Additions to capital assets	(2,894)	-	(12,491)	(912)
Net change in cash and cash equivalents	(424,190)	79,105	(53,235)	71,157
Cash and cash equivalents – Beginning of period	908,207	39,671	537,252	47,619
Cash and cash equivalents – End of period	484,017	118,776	484,017	118,776

Notice to readers

The attached consolidated financial statements have not been reviewed by the Company's external auditors.
The accompanying notes are an integral part of the consolidated financial statements.
All amounts are expressed in Canadian dollars.
You will find more information concerning DIAGNOS inc. by consulting SEDAR Web site (www.sedar.com).

DIAGNOS inc.

Notes to Consolidated Financial Statements

As at December 31, 2004 and March 31, 2004

1) STATUTES AND NATURE OF ACTIVITIES

The Company is a listed on the TSX Venture Exchange. Its main activity consists in the conception of software, which is intended to allow the storage, retrieval, synthesis and intelligent analysis of digital images.

2) ACCOUNTING POLICIES MODIFICATION

STOCK-BASED COMPENSATION

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

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) USE OF ESTIMATES

The preparation of 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 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 Company 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 earnings.

d) 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.

e) 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:

	ANNUAL RATES
Office furniture and equipment	- 20%
Computer equipment	- 50%

f) OTHER ASSETS AND AMORTIZATION

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

Notice to readers

The attached consolidated financial statements have not been reviewed by the Company's external auditors.

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

All amounts are expressed in Canadian dollars.

You will find more information concerning DIAGNOS inc. by consulting SEDAR Web site (www.sedar.com).

DIAGNOS inc.

Notes to Consolidated Financial Statements (Cont'd)

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

g) INCOME TAXES

The Company 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 Company 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.

h) 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 earnings over the estimated period of benefit.

i) 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 using the treasury method, is equal to the basic loss per share due to the anti-dilutive effect of stock options.

j) SHARE ISSUE EXPENSES

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

k) STOCK-BASED COMPENSATION PLAN

The Company maintains a stock-base compensation plan, which is described in note 9. Any consideration from plan participants upon the exercise of stock options is credited to share capital.

Notice to readers

The attached consolidated financial statements have not been reviewed by the Company's external auditors.

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

All amounts are expressed in Canadian dollars.

You will find more information concerning DIAGNOS inc. by consulting SEDAR Web site (www.sedar.com).

DIAGNOS inc.

Notes to Consolidated Financial Statements (Cont'd)

	December 31, 2004	March 31, 2004		
	(Unaudited)	(Audited)		
	<u>\$</u>	<u>\$</u>		
4) AMOUNTS RECEIVABLE				
Customers	144,859	97,723		
Commodity taxes recoverable	3,182	-		
Others	<u>10,200</u>	<u>17,218</u>		
	158,241	114,941		
Provision for doubtful account	<u>6,684</u>	<u>6,684</u>		
	<u>151,557</u>	<u>108,257</u>		
5) PREPAID EXPENSES				
Prepaid insurance	326	1,836		
Others	<u>-</u>	<u>3,823</u>		
	<u>326</u>	<u>5,659</u>		
6) CAPITAL ASSETS				
	Cost	Accumulated Amortization	Net Value	Net Value
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Office furniture and equipment	61,501	31,291	30,210	33,697
Computer equipment	<u>183,289</u>	<u>164,145</u>	<u>19,144</u>	<u>22,934</u>
	244,790	195,436	49,354	56,631
7) OTHER ASSETS				
	Cost	Accumulated Amortization	Net Value	Net Value
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
License	239,812	239,812	-	-
Software	<u>28,941</u>	<u>21,974</u>	<u>6,967</u>	<u>4,103</u>
	268,753	261,786	6,967	4,103
8) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES				
Trade			198,903	331,809
Commodity taxes payable			-	8,467
Salaries and fringe benefits payable			36,904	102,092
Others			<u>25,798</u>	<u>25,798</u>
			<u>261,605</u>	<u>468,166</u>

Notice to readers

The attached consolidated financial statements have not been reviewed by the Company's external auditors.
The accompanying notes are an integral part of the consolidated financial statements.
All amounts are expressed in Canadian dollars.
You will find more information concerning DIAGNOS inc. by consulting SEDAR Web site (www.sedar.com).

DIAGNOS inc.

Notes to Consolidated Financial Statements (Cont'd)

	December 31, 2004	March 31, 2004
	(Unaudited)	(Audited)
	<u>\$</u>	<u>\$</u>
9) SHARE CAPITAL		
Authorized		
Unlimited number of common shares, without par value, voting and participating		
Subscribed and issued: 28,886,017 shares (16,341,388 shares as at March 31, 2004)	7,820,824	5,529,869
Subscribed and unissued: No share (1,833,333 shares as at March 31, 2004)	-	225,000
	<u>7,820,824</u>	<u>5,754,869</u>
During the period, the issued share capital varied as follows:		
	<u>Number</u>	<u>\$</u>
Inissuance of shares under payment of interest on debentures	75,521	32,012
Exercise of warrants	1,635,775	408,943
Issuance of shares under private placements	<u>10,833,333</u>	<u>1,850,000</u>
	<u>12,544,629</u>	<u>2,290,955</u>

Stock option plan

The Company 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 Company is limited to 20% of the common shares outstanding on the granting date.

In 1996, the Company granted 242,000 options outside of the stock option plan.

The maximum number of options, which the Company is authorized to emit as at December 31, 2004, is 4,909,611 options.

Notice to readers

The attached consolidated financial statements have not been reviewed by the Company's external auditors.

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

All amounts are expressed in Canadian dollars.

You will find more information concerning DIAGNOS inc. by consulting SEDAR Web site (www.sedar.com).

DIAGNOS inc.

Notes to Consolidated Financial Statements (Cont'd)

9) SHARE CAPITAL (CONT'D)

The following table presents the stock option activity during the period and summarizes information about stock options outstanding as at December 31, 2004.

	<u>Number</u>
Outstanding as at September 30, 2004	2,242,887
Granted	7,000
Exercised	-
Forfeited	-
	<hr/>
Outstanding and exercisable as at December 31, 2004	2,249,887

Under the Company's stock option plan, 7,000 options were granted during the quarter ended December 31, 2004 with an exercise price of \$0.24 (nil for the quarter ended December 31, 2003). The compensation cost that has been charged against earnings is \$21,355 for the quarter ended December 31, 2004 (nil for quarter ended December 31, 2003) and \$63,541 for the nine-month period ended December 31, 2004 (nil for the nine-month period ended December 31, 2003) and the counterpart has been credited to contribute surplus in the Shareholder's equity.

For each of 2004 and 2003, the fair value of options grant were estimated using the Blank & Scholes option pricing model with the following weighted average assumptions: risk free interest of 3.92%, dividend yield of nil, expected volatility of 77.96% and an expected average life of 5 years.

Stock warrants

- a) In the process of a private placement, the Company issued 1,000,000 warrants entitling the holder to purchase one common share at the price of \$ 0.14 per share. In addition, 1,500,000 additional warrants will be issued after the authorization of TSX Venture Exchange. They will be null and void on September 7, 2006.

	<u>Stock Warrants</u>	<u>Exercise Price</u>
Outstanding and exercisable as at September 30, 2004	1,000,000	\$ 0.14
Exercised	-	-
	<hr/>	<hr/>
Outstanding and exercisable as at December 31, 2004	<u>1,000,000</u>	<u>\$ 0.14</u>

- b) In the process of a private placement, the Company issued 7,000,000 warrants entitling the holder to purchase one common share at the price of \$ 0.20 per share. In addition, 1,000,000 additional warrants will be issued after the authorization of TSX Venture Exchange. They will be null and void between August 8, 2006 and November 10, 2006.

	<u>Stock Warrants</u>	<u>Exercise Price</u>
Outstanding and exercisable as at September 30, 2004	7,000,000	\$ 0.20
Exercised	-	-
	<hr/>	<hr/>
Outstanding and exercisable as at December 31, 2004	<u>7,000,000</u>	<u>\$ 0.20</u>

Notice to readers

The attached consolidated financial statements have not been reviewed by the Company's external auditors.
The accompanying notes are an integral part of the consolidated financial statements.
All amounts are expressed in Canadian dollars.
You will find more information concerning DIAGNOS inc. by consulting SEDAR Web site (www.sedar.com).

DIAGNOS inc.

Notes to Consolidated Financial Statements (Cont'd)

9) SHARE CAPITAL (CONT'D)

- c) In the process of a private placement, the Company issued 1,833,333 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.

	<u>Stock Warrants</u>	<u>Exercise Price</u>
Outstanding and exercisable as at September 30, 2004	1,833,333	\$ 0.40
Exercised	-	-
Outstanding and exercisable as at December 31, 2004	<u>1,833,333</u>	<u>\$ 0.40</u>

10) CONVERTIBLE DEBENTURES

The September 12, 2001, the Company issued convertible debentures for an amount of \$ 1,199,667 with an annual rate interest of 12%. The aforementioned convertible debentures were entirely discharged during the period.

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

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

	<u>December 31, 2004</u> (Unaudited) \$	<u>March 31, 2004</u> (Audited) \$
Liability component	-	372,490
Deduct: Short-term part	-	372,490
Long-term debt	-	-
Component Shareholders' equity	-	<u>162,510</u>

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

11) COMMITMENT

License agreement

On March 6, 2001, the Company signed a license agreement with Mentor on Call Inc. which enables it to have non-exclusive rights for the use of the "Mentor on Call e-learning software" technology over a period of ten years.

Under this agreement, the Company is subjected to a royalty payment of 7% to 4% on the gross sales of items related to the "Mentor on Call e-learning software" technology over the ten-year period. The royalty payment percentage fluctuates from 7% from the first year of the agreement to 4% to the last year.

Notice to readers

The attached consolidated financial statements have not been reviewed by the Company's external auditors.

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

All amounts are expressed in Canadian dollars.

You will find more information concerning DIAGNOS inc. by consulting SEDAR Web site (www.sedar.com).

DIAGNOS inc.

Notes to Consolidated Financial Statements (Cont'd)

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 Company 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 December 31, 2004, the Company'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

Notice to readers

The attached consolidated financial statements have not been reviewed by the Company's external auditors.

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

All amounts are expressed in Canadian dollars.

You will find more information concerning DIAGNOS inc. by consulting SEDAR Web site (www.sedar.com).

Corporate information

Directors

W. Brian Edwards
St-Lambert, Québec

André Larente
Verchères, Québec

Olivier Lerolle
Geneva, Switzerland

David Crevier
Montréal, Québec

Timothy R. Murdoch
Montréal, Québec

Definitions

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

Legal counsel

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

Transfer agent

Computershare of Canada
1500 University Street
Suite 7001
Montréal, Québec
H3A 3S8

Stock market inscription

TSX Venture Exchange
Symbol: ADK

Quarterly report

Additional copies are available upon written request at:

DIAGNOS inc.
7005 Taschereau Boulevard
Suite 250
Brossard, Québec
J4Z 1A7
Fax: (450) 678-8119

Management

André Larente
President

W. Brian Edwards
Chairman of the Board

Auditors

Potvin Magnan & Associés Inc., c.a.
200 MacDonald Street
Suite 302
Saint-Jean-sur-Richelieu, Québec
J3B 8J6

Computershare of Canada
1512 Front Street
8th Floor
Toronto, Ontario
M5J 2N1

Cusip: 25244220 7

Head office

7005 Taschereau Boulevard
Suite 250
Brossard, Québec
J4Z 1A7

Telephone: (450) 678-8882
Toll free: (877) 678-8882
Fax: (450) 678-8119