



DIAGNOS inc.
knowledge extraction technologies

2006 Annual Report

TSX Venture: ADK

Explore the past to predict the future!

DIAGNOS inc., a leader in knowledge extraction and artificial intelligence, is a public Canadian corporation (TSX: ADK).

DIAGNOS inc. develops and markets data mining software. The Company designed and developed 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.

Our family of products offers simple data mining and knowledge extraction solutions in the fields of banking, marketing, sales, manufacturing and others. It also helps, in the establishment of medical diagnostics, the analysis of blood samples data, satellite images, the management of industrial processes, the prevention of frauds and other applications.

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

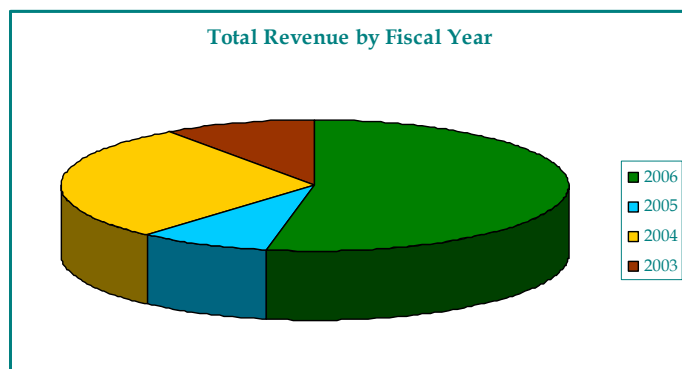
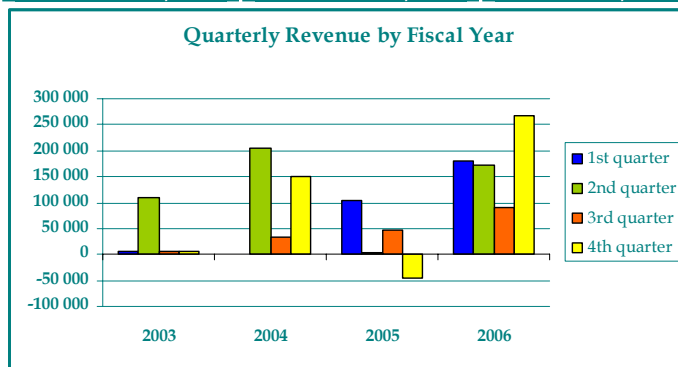
Summary of quarterly results – April 1, 2005 to March 31, 2006

Revenue	180,082	172,667	90,419	266,019	709,187
Net loss	(80,801)	(140,477)	(297,680)	(62,906)	(581,864)
Loss per share	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)

	2006	2005	2004	2003
	\$	\$	\$	\$

Financial Highlights

Revenue	709,187	111,746	387,720	128,619
Income taxes	-	-	-	-
Net loss	(581,864)	(1,746,088)	(130,059)	(762,983)
Loss per share	(0.02)	(0.07)	(0.01)	(0.07)
Total assets	964,273	376,770	711,902	250,856
Total long-term liabilities	170,592	215,159	840,656	783,646



Message to Shareholders

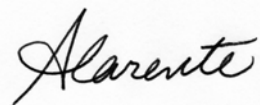
Dear Shareholders:

Fiscal 2006 was an eventful year in the mining field with major transactions such as the acquisition of Virginia Gold by Gold Corp and a solid year for DIAGNOS. We delivered improved results for fiscal year 2006 including revenue growth of over 539%. We controlled and managed our expenses to be in line with our growth and we added customers, for a total customer count of 19 including 2 partnership agreements in the security and Internet world.

We believe that our operational growth, investment in strategic development and product developments through fiscal year 2006 have built a solid base for continued growth and execution in fiscal year 2007.

Our revenue was derived primarily from the services rendered to the mining industry including our first Oil & Gas customer. We also delivered a large portion of our security contract during fiscal year 2006. The remaining phase will be fulfilled in fiscal year 2007.

Our focus for fiscal year 2007 will be to continue our marketing efforts in our existing markets and also enter into relationships with major mining companies.



André Larente
President and Chief Executive Officer

June 13, 2006

The Corporation's Artificial Intelligence (AI) engine will be the driving force behind building new applications that will generate new revenue. Our market targets will be healthcare, security and Internet.

With all the hard work from our Board of Directors, staff and customers, we believe we are in a good position to increase the Corporation's growth over the next several years.

We would like to thank our Shareholders for the patience they have demonstrated over the years. DIAGNOS' first year of full time sales and marketing is proving to be promising as shown by the results reflected in this annual report.

It is my pleasure to submit the annual report of DIAGNOS.

Board of Directors

André Larente, Chairman

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

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 Inc. and several private operating companies and investment funds.

Olivier Lerolle, Director

A French national and a permanent resident of Switzerland since 1985, Olivier Lerolle was granted a degree by Ecole Supérieure de Commerce de Paris. He brings 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.

Livia Masnaghetti, Director

Livia Masnaghetti is a graduate of McGill University holding a degree in Commerce and is a member of the Quebec Order of Chartered Accountants and the Canadian Institute of Chartered Accountants. She is a founding partner of ePossible Solutions Inc., a firm offering consulting and advisory services. Ms Masnaghetti has extensive international experience in the areas of finance, transaction support, mergers and acquisitions and management consulting. Until 2000, Ms Masnaghetti was a partner with Raymond Chabot Grant Thornton, a major accounting firm.

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.

Management Discussion and Analysis

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.

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

Notice to readers

The following discussion, effective as of June 13, 2006, analyses the current financial situation of the Corporation as of March 31, 2006 and should be read with the consolidated financial statements and accompanying notes, which have been prepared in accordance with Canadian generally accepted accounting principles. The currency used is the Canadian dollar.

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.

The fiscal year ended March 31, 2006, was full of challenges. Delivering a strong performance in our vertical market application for exploration companies and also closing our first Oil & Gas sale in Quebec, DIAGNOS was able to increase its sales during the fiscal year. CARDS (Computer Aided Resource Detection Software) became a reality and DIAGNOS is expecting drill results from several customers during fiscal year 2007.

The current growth experienced by the natural resource market coupled with the large amounts of data requiring analysis, represented a perfect match for DIAGNOS. We have attracted new talent to contribute to the success of the Corporation. Our list of prospects is growing and we are confident we will be able to sign additional customers next year.

DIAGNOS has increased its sales efforts and has added new resources to its sales force. The direct result is an increase in prospects and also in customer closings. This should translate into an increase of revenue during the next fiscal year. The Corporation has customers in several countries around the world such as Brazil, Guatemala, Haiti, Dominican Republic and the USA.

Mr W. Brian Edwards resigned from his position of Chairman of the Board in February 2006 and was replaced by Mr André Larente. Ms Livia Masnagheti joined the Board as Director. David Crevier, Timothy Murdoch and Olivier Lerolle remain at their current positions.

Summary of quarterly results

	Fiscal Year 2006				Fiscal Year 2005			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	March 31, 2006	Dec. 31, 2005	Sept. 30, 2005	June 30, 2005	March 31, 2005	Dec. 31, 2004	Sept. 30, 2004	June 30, 2004
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	266,019	90,419	172,667	180,082	(44,497)	47,775	4,504	103,964
Net loss	(62,906)	(297,680)	(140,477)	(80,801)	(382,341)	(415,797)	(542,262)	(427,043)
Loss per share	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.01)	(0.02)	(0.02)

Revenue

During the fiscal year ended March 31, 2006, DIAGNOS registered revenue totalling \$709,187, an increase of \$597,441 over last year. During the year, DIAGNOS adopted a change in selling strategy. The results that we experienced reflect the positive impact of this decision.

During the fourth quarter of 2006, DIAGNOS registered revenue totalling \$266,000, an increase of 697% over the fourth quarter of 2005, where we registered (\$44,497) in revenue. We signed five new clients including our first contract with the United State of America. Hunt Mountain acquired two properties held by DIAGNOS in Abitibi.

DIAGNOS' total contract bookings since the beginning of the year amount to \$880,984. Our billing backlog (contracted but unbilled) is approximately \$170,000.

Expenses

As a result of our efforts to gain market share, our general, sales and administration expenses increased by \$52,540 during the fiscal year 2006 compared to fiscal year 2005, an increase of 5%.

The main contributions to this increase are: consulting services, legal fees and increases in salaries. Furthermore, the Corporation relocated during the third quarter and incurred additional expenses related to this move.

Research and development

The Corporation has incurred \$179,584 in research and development costs during the fiscal year ended March 31, 2006, a decrease of \$604,519 compared to the fiscal year ended March 31, 2005, due to the fact that research projects related to specific solutions were completed.

Net loss

During the fiscal year ended March 31, 2006, the Corporation incurred a loss of \$581,864 (\$0.02 per share) compared to the fiscal year ended March 31, 2005, in which we reported a net loss of \$1,746,088 (\$0.07 per share). This improvement in our net loss for the year is mainly due to the growth in revenue.

The loss for the fourth quarter of 2006 amounted to \$62,906 a decrease of 83% compared to the loss of \$382,341 for the fourth quarter 2005.

Accumulated deficit

The Corporation's accumulated deficit as at March 31, 2006 is \$8,376,747.

Financing activities

During the fiscal year ended March 31, 2006, \$977,684 was generated from the proceeds of the private placement announced in the second quarter. Furthermore, \$106,000 was received from the proceeds of exercised warrants during the fiscal year.

The Corporation has financed its activities through the issuance of shares and warrants. During the year, a total of \$1,086,099 was received.

Working capital

As at March 31, 2006, our working capital was \$715,648 compared to \$99,756 during our 2005 fiscal year. This increase is mainly due to the increase in our cash and temporary investments position and increase in accounts receivable as a result of increased revenue. DIAGNOS anticipates financing its activities in the future from revenue, which will cover a portion of the expenses incurred and cash on hand. If for any reason DIAGNOS should require additional cash to pay expenses, the Corporation may have to raise additional cash from a private placement to its existing Shareholders or new investors. The Corporation also anticipates purchasing additional assets in the form of mineral exploration claims for approximately \$50,000 and computer equipment for approximately \$30,000 during the next fiscal year.

Share information

As at March 31, 2006, the outstanding shares are common shares and convertible securities:

Common shares	33,693,019
Convertible securities:	
Warrants	13,611,332
Options on shares	3,423,949
Total	<u>50,728,300</u>

Significant accounting policy

The Corporation recognizes stock-based compensation and other stock-based payments as compensation expense determined in accordance with the Black & Scholes valuation model, with a corresponding accretion to contributed surplus.

Outlook

The Corporation's AI engine is expected to be the driving force behind building applications for new vertical markets. Our natural resource application CARDS (Computer Aided Resource Detection Software) was our first vertical market development. The Corporation is focused on delivering solutions for the natural resource market and also on building a royalty based business. This will be accomplished by the acquisition of claims and participating with existing clients in new projects. Secondly, the Corporation acquired data from several sources including the Quebec and Ontario governments which it anticipates to use in the identification of potential claims for purchase.

The Corporation delivered a solution for the Oil & Gas exploration market during its second quarter. This new application generated our first customer in the Oil & Gas market and we will be increasing our sales activities in the Oil & Gas market in quarters to come. Finally, the Corporation is pursuing other markets that require AI technology to resolve complex problems within different industries. The Corporation signed a development contract related to the security market with Optosecurity during the second quarter. This development contract is expected to continue and should be completed by the end of the calendar year of 2007. DIAGNOS has been approached by other AI companies from Spain and other countries to create partnerships covering North America. The Corporation is working with a group of radiologists based in the Province of Quebec to continue the original work done by DIAGNOS in the medical field. Our MAMMO application for breast cancer identification is an example of the work that could be reactivated for our development department. DIAGNOS is also working with a group of ophthalmologists to develop a retinopathy screening application.

All these new applications will re-enforce DIAGNOS' market penetration and diversify the Corporation's exposure to any one market, should there be economic downturns.

Risk analysis

Several business risks exist such as the market adoption of AI technology, the Corporation's ability to hire and retain top scientific resources and our ability to convince customers in these new vertical markets of the benefit of our technology and its results. The Corporation also relies on its Shareholders to provide funding, in the event it should experience shortfalls, to sustain continued operations.

Management's Responsibility for Financial Reporting

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 Canadian generally accepted accounting principles and necessarily include amounts based on estimates and judgments.

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

presented fairly in accordance with Canadian generally accepted accounting principles.

The Board of Directors is responsible for ensuring 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 Audit Committee made of three independent Directors has the responsibility to review the consolidated financial statements before their approval.

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



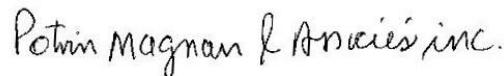
André Larente
President, CEO and acting CFO
June 13, 2006

Auditors' Report to the Shareholders

We have audited the consolidated balance sheet of DIAGNOS inc. as at March 31, 2006 and 2005 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 statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2006 and 2005 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
June 12, 2006

Consolidated Balance Sheets

	As at March 31, 2006 \$	As at March 31, 2005 \$
ASSETS		
Current assets		
Cash and cash equivalents	52,911	258,008
Temporary investments (Note 3)	418,540	-
Amounts receivable (Note 4)	406,977	50,128
Prepaid expenses (Note 5)	7,812	6,779
	<u>886,240</u>	<u>314,915</u>
Capital assets (Note 6)	56,920	45,640
Intangible assets (Note 7)	<u>21,113</u>	<u>16,215</u>
	<u>964,273</u>	<u>376,770</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	<u>170,592</u>	<u>215,159</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	8,955,959	7,869,860
Contributed surplus (Note 10)	214,469	86,634
Deficit	<u>(8,376,747)</u>	<u>(7,794,883)</u>
	<u>793,681</u>	<u>161,611</u>
	<u>964,273</u>	<u>376,770</u>

SEE ACCOMPANYING NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS.

Approved on behalf of the Board of Directors



André Larente
Chairman



Me David Crevier
Secretary

Consolidated Statement of Income

	For the year ended March 31, 2006	For the year ended March 31, 2005
	<u>\$</u>	<u>\$</u>
Revenue	709,187	111,746
Expenses		
General, sales and administrative	1,089,817	1,037,277
Research and development, net of tax credits	179,584	784,103
Amortization of capital assets	19,248	19,748
Amortization of intangible assets	10,028	3,913
Financial charges (Note 14)	747	14,643
	1,299,424	1,859,684
Loss for the year	(590,237)	(1,747,938)
Other income	8,373	1,850
Net loss for the year	(581,864)	(1,746,088)
Basic and diluted loss per share	(0.02)	(0.07)
Weighted average number of shares outstanding	31,496,503	26,776,483

SEE ACCOMPANYING NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS.

Consolidated Statements of Deficit

	For the year ended March 31, 2006	For the year ended March 31, 2005
	\$	\$
Balance at the beginning of the year	(7,794,883)	(6,046,133)
Add:		
Net loss for the year	(581,864)	(1,746,088)
Interest paid on the component Shareholders' equity of convertible debentures	-	(2,662)
	(581,864)	(1,748,750)
Balance at the end of the year	(8,376,747)	(7,794,883)

SEE ACCOMPANYING NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS.

Consolidated Statements of Cash Flows

	For the year ended March 31, 2006	For the year ended March 31, 2005
	\$	\$
Cash flows from operating activities		
Net loss for the year	(581,864)	(1,746,088)
Items not affecting cash and cash equivalents		
Amortization of capital assets	19,248	19,748
Amortization of intangible assets	10,028	3,913
Write-down of capital assets	8,412	-
Write-down of intangible assets	1,218	-
Issuance of shares under the payment of interest on debentures	-	13,344
Stock-based compensation expense	127,835	86,634
	<u>166,741</u>	<u>123,639</u>
	(415,123)	(1,622,449)
Net change in non-cash operating working capital items	<u>(820,989)</u>	<u>(195,998)</u>
	<u>(1,236,112)</u>	<u>(1,818,447)</u>
Cash flows from investing activities		
Proceeds from sale of capital assets	-	434
Additions to capital assets	(38,940)	(9,191)
Additions to intangible assets	(16,144)	(16,025)
	<u>(55,084)</u>	<u>(24,782)</u>
Cash flows from financing activities		
Reimbursement of convertible debentures	-	(535,000)
Variation in share capital, net of share issue expenses	1,086,099	2,098,985
	<u>1,086,099</u>	<u>1,563,985</u>
Decrease in cash and cash equivalents	(205,097)	(279,244)
Cash and cash equivalents – Beginning of the year	<u>258,008</u>	<u>537,252</u>
Cash and cash equivalents – End of the year	<u><u>52,911</u></u>	<u><u>258,008</u></u>

SEE ACCOMPANYING NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS.

Notes to Audited Consolidated Financial Statements

March 31, 2006 and 2005

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 and developed 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 areas of mineral prospecting, including diamond, gold, zinc, copper and, Oil & Gas.

Going concern

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. 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 consolidated 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 intangible 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 translated into the functional currency using the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenue and expenses are translated at the average rate for the period. Income and losses resulting from translation 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 development of software. The tax credits received are accounted for as a deduction of the related expenses.

e) Revenue recognition

Revenue from software is recognized upon delivery in accordance with the contractual conditions in effect with customers.

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 from the acquisition date.

g) Investments

Investments are recorded at cost.

h) 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%

i) Intangible assets and amortization

i) The mining assets, consisting of mining concessions, are amortized using the straight-line method over their useful life, which is two years.

ii) Software is amortized using the declining balance method at the annual rate of 50%.

j) 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.

k) 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.

l) Loss per share

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

During the year, 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 fully diluted loss per share, which is calculated according to the repurchase of shares method, is equal to the basic loss per share due to the anti-dilution effect of the stock option plan.

m) Share issue expenses

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

n) Stock-based compensation plan

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

Stock-based compensation is recorded as a charge to income, using the fair-value obtained by applying the Black & Scholes valuation model, with a corresponding credit to contributed surplus.

3. Temporary investments

	<u>As at March 31, 2006</u>	<u>As at March 31, 2005</u>
	<u>\$</u>	<u>\$</u>
Certificate of deposit, interest at 2.87%, maturing October 12, 2006	406,380	-
Certificate of deposit, interest at 3%, maturing October 21, 2006	12,160	-
	<u>418,540</u>	<u>-</u>

	As at March 31, 2006	As at March 31, 2005		
	\$	\$		
4. Amounts receivable				
Customers	391,834	70,702		
Commodity taxes	14,733	12,436		
Other	410	10,200		
	<u>406,977</u>	<u>93,338</u>		
Allowance for doubtful accounts	-	43,210		
	<u>406,977</u>	<u>50,128</u>		
5. Prepaid expenses				
Prepaid insurance	2,880	6,779		
Other	4,932	-		
	<u>7,812</u>	<u>6,779</u>		
6. Capital assets				
	Cost	Accumulated amortization	Net value	Net value
	\$	\$	\$	\$
Office furniture and equipment	65,045	30,614	34,431	28,220
Computer equipment	164,778	142,289	22,489	17,420
	<u>229,823</u>	<u>172,903</u>	<u>56,920</u>	<u>45,640</u>
7. Intangible assets				
	Cost	Accumulated amortization	Net value	Net value
	\$	\$	\$	\$
Mining assets	12,912	778	12,134	-
Software	37,059	28,080	8,979	16,215
	<u>49,971</u>	<u>28,858</u>	<u>21,113</u>	<u>16,215</u>
8. Accounts payable and accrued liabilities				
Accounts payable and accrued liabilities			90,730	142,014
Salaries and benefits			78,766	47,347
Other			1,096	25,798
			<u>170,592</u>	<u>215,159</u>
9. Share capital				
Authorized				
Unlimited number of common shares, without par value, voting and participating				
Subscribed and issued: 33,693,019 shares (29,131,364 shares in 2005)			8,955,959	7,866,860
Subscribed and not issued: Nil (15,000 shares in 2005)			-	3,000
			<u>8,955,959</u>	<u>7,869,860</u>

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

	As at March 31, 2006		As at March 31, 2005	
	Number	\$	Number	\$
Private placements	4,000,000	977,684	10,833,333	1,850,000
Exercise of warrants	545,000	106,000	1,812,775	444,344
Exercise of options	16,655	2,415	68,347	10,635
Issuance of common shares under the payment of interest on debentures	-	-	75,521	32,012
	<u>4,561,655</u>	<u>1,086,099</u>	<u>12,789,976</u>	<u>2,336,991</u>

Stock option plan

The Corporation has a stock option plan for its employees, directors and consultants by virtue of which they can acquire common shares. The conditions of exercise are determined by the Board of Directors following the rules of the TSX Venture Exchange. The options are granted at a price equal to the share price at the closing of 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 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 is limited to 20% of the common shares outstanding on the grant date. The maximum number of options, which the Corporation is authorized to issue as at March 31, 2006 is 4,909,611.

The following table presents the changes, which have occurred during the fiscal year with regard to the stock option plan and summarizes information relating to the stock options outstanding at March 31, 2006.

	As at March 31, 2006		As at March 31, 2005	
	Stock options	Weighted average exercise price	Stock options	Weighted average exercise price
		\$		\$
Outstanding at beginning of year	2,125,604	0.34	1,135,203	0.28
Granted	1,960,000	0.25	1,364,684	0.38
Forfeited	(645,000)	0.35	(305,936)	0.46
Exercised	(16,655)	0.14	(68,347)	0.16
Outstanding at end of year	<u>3,423,949</u>	<u>0.29</u>	<u>2,125,604</u>	<u>0.34</u>

Under the Corporation's stock option plan, 1,960,000 options were granted during the year ended March 31, 2006 with an exercise price between \$0.23 and \$0.28. The compensation cost that has been charged against income is \$127,835 for the year ended March 31, 2006, and the counterpart has been credited to contributed surplus in the shareholders' equity.

These options have a term to maturity during which they can be exercised with dates ranging from November 2, 2006 to February 21, 2011. Grants made prior to June 3, 2004 were subject to exercise periods ranging between one and half years and five years from the date of grant. For options granted subsequent to June 3, 2004, they will vest at 33.33% per year, commencing with the first anniversary of the grant.

The following table summarizes information on stock options outstanding at March 31, 2006:

Exercise price	Options outstanding at March 31, 2006		Options exercisable at March 31, 2006	
	Number of options outstanding	Weighted average remaining contractual life (in years)	Number of options exercisable	Weighted average exercise price
\$				\$
0.13	10,000	2.88	10,000	0.13
0.18	5,000	2.54	5,000	0.18
0.20	7,500	1.99	7,500	0.20
0.23	950,000	4.78	-	0.23
0.24	37,000	3.45	12,334	0.24
0.26	200,000	4.54	-	0.26
0.28	1,286,765	2.86	476,765	0.28
0.30	200,000	2.84	66,667	0.30
0.40	727,684	3.18	242,561	0.40
	<u>3,423,949</u>		<u>820,827</u>	

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

Expected life	4.33 years	Risk-free interest rate	3.84%
Dividend yield	0%	Volatility	55%

Stock warrants

- a) As part of a private placement process, 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 expire on dates ranging from September 7, 2006 to December 14, 2006.
- b) As part of a private placement process, the Corporation issued 8,000,000 warrants entitling the holder to purchase one common share at the price of \$0.20 per share. 545,000 warrants were exercised during the year (177,000 in 2005). They will expire on dates ranging from August 8, 2006 to December 10, 2006.
- c) As part of a private placement process, 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 expire on August 30, 2006.
- d) As part of a private placement process, the Corporation issued 2,000,000 warrants entitling the holder to purchase one common share at the price of \$ 0.35 per share. They will expire on October 4, 2007.

10. Consolidated contributed surplus

	As at March 31, 2006	As at March 31, 2005
	\$	\$
Balance at beginning of year	86,634	-
<u>Add: Stock-based compensation expense</u>	<u>127,835</u>	<u>86,634</u>
Balance at end of year	<u>214,469</u>	<u>86,634</u>

11. Commitments

- a) Under the terms of operating lease agreements for its operating facilities, the Corporation is committed to make payments of \$210,339, allocated as follows for the four years to come:

2007	\$56,120	2009	\$60,435
2008	\$58,530	2010	\$35,254

- b) Under the terms of operating lease agreements for office equipment, the Corporation is committed to make payments of \$14,784, allocated as follows for the five years to come:

2007	\$3,388	2009	\$3,696
2008	\$3,696	2010	\$3,696
		2011	\$ 308

12. Comparative data

Certain 2005 amounts have been reclassified in order to conform with the presentation adopted in 2006.

13. Financial instruments

a) Fair value

Cash and cash equivalents, temporary investments, 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, 2006, 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

	As at March 31, 2006	As at March 31, 2005
	\$	\$
14. Financial charges		
Interest on the component liability of convertible debentures	-	13,344
Other	747	1,299
	<u>747</u>	<u>14,643</u>

15. 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:

Net loss for the year	<u>(581,864)</u>	<u>(1,748,750)</u>
Income taxes recoverable at statutory tax rates	156,093	668,956
Valuation allowance	<u>(156,093)</u>	<u>(668,956)</u>
	<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	2,616,950	2,882,279
Share issue expenses	8,563	78,533
Investment tax credits	45,011	-
Capital assets and intangible assets	<u>172,721</u>	<u>157,804</u>
	2,843,245	3,118,616
<u>Deduct:</u> Valuation allowance	<u>2,843,245</u>	<u>3,118,616</u>
	<u>-</u>	<u>-</u>

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

2007	\$ 227,156	2014	\$ 246,255
2008	\$1,657,164	2015	\$ 708,358
2009	\$2,869,533	2016	<u>\$ 406,811</u>
2010	\$ 583,523	Total	<u>\$6,698,800</u>

Share issue expenses will expire as follows:

2011	<u>\$ 22,316</u>
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Investment tax credits will expire as follows:

2013	\$ 25,504	2015	<u>\$ 159,489</u>
2014	\$ 18,493	Total	<u>\$ 203,486</u>

The difference between the book value and the tax value of the tangible fixed assets and intangible assets is of:

<u>455,479</u>	<u>416,601</u>
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16. Segment information

The geographic allocation to the different segments is determined on the basis of the country of delivery.

The following table presents revenue by geographical sector:

Canada	499,481	105,741
United States	81,719	6,005
Other	<u>127,987</u>	<u>-</u>
	<u>709,187</u>	<u>111,746</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

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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 or contact:

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Annual General Meeting

The Annual General Meeting of Shareholders will be held at 10:00 am
Tuesday, September 5, 2006
at the Hotel Quality Inn & Suites
located at 6680 Taschereau Boulevard
in Brossard, Québec

Definitions

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.

www.diagnos.ca