



**Report of the first quarter (Q1) to the Shareholders
for the fiscal year 2006**

For the quarter ended June 30, 2005

including the comparative for the quarter ended June 30, 2004

ADK

Message to the Shareholders

Dear Shareholders:

DIAGNOS completed the first quarter ended June 30, 2005 with the addition of five new customers. The Corporation is working on providing predictions for diamond, gold, copper and nickel exploration for its customers. The results achieved are very positive and will now give DIAGNOS the validation required to increase its business development efforts. The efforts of the past year in building a solution for the natural resource market proved to be the right one.

DIAGNOS is now looking at increasing its customer base and also acquiring properties that will be previously evaluated by our CARDS (Computer Aided Resource Detection Software). The Corporation has acquired data from several sources including the Quebec and Ontario governments for its own usage in determining the land acquisition strategy establish. Consequently, DIAGNOS will now build a larger asset based on acquiring the right land and the right quantity of land. We have proven that the ratio between the quantity and the quality of land acquisition has not been well planned in the past.

During the first quarter, the Corporation participated in several trade shows and was able to present its technology directly to over 20 new companies.

As you might have read through the recent press releases, we have signed additional agreements that include a success fee based on a quantity of shares per positive targets identification. This strategy is in line with our objective of becoming a royalty based Corporation.

We have established a clear strategy for the natural resource market and we are starting to receive positive results from our customers.

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

We will be on the road starting end of August 2005 and presenting DIAGNOS to investors across Canada.



André Larente
President

September 2, 2005

DIAGNOS inc.

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 September 2, 2005, analyses the current financial situation of the Corporation as of June 30, 2005 and should be read with the 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.

The attached consolidated financial statements have not been reviewed by the Corporation's external auditors. The accompanying notes are an integral part of the consolidated financial statements.

Summary of quarterly results

	<i>Fiscal Year</i>	<i>Fiscal Year</i>				<i>Fiscal Year</i>		
	<i>2006</i>	<i>2005</i>				<i>2004</i>		
	<i>Q1</i>	<i>Q4</i>	<i>Q3</i>	<i>Q2</i>	<i>Q1</i>	<i>Q4</i>	<i>Q3</i>	<i>Q2</i>
	<i>June 30,</i>	<i>March 31,</i>	<i>Dec. 31,</i>	<i>Sept. 30,</i>	<i>June 30,</i>	<i>March 31,</i>	<i>Dec. 31,</i>	<i>Sept. 30,</i>
	<i>2005</i>	<i>2005</i>	<i>2004</i>	<i>2004</i>	<i>2004</i>	<i>2004</i>	<i>2003</i>	<i>2003</i>
		\$	\$	\$	\$	\$	\$	\$
Revenue	180,082	(44,497)	47,775	4,504	103,964	150,000	33,005	204,715
Net gain (Loss)	(80,801)	(382,341)	(415,797)	(542,262)	(427,043)	(67,753)	(24,405)	86,553
Earnings per share	(0.01)	(0.02)	(0.01)	(0.02)	(0.02)	(0.00)	(0.01)	0.01

Financial highlights

	<i>Fiscal Year</i>	<i>Fiscal Year</i>	<i>Fiscal Year</i>
	<i>2005</i>	<i>2004</i>	<i>2003</i>
	\$	\$	\$
Revenue	111,746	387,720	128,619
Income taxes	-	-	-
Net gain (Loss)	(1,746,088)	(130,059)	(762,983)
Earnings per share	(0.07)	(0.01)	(0.07)
Total assets	376,770	711,902	250,856
Total Long-term liabilities	215,159	840,656	783,646

Revenue

The revenues for the first quarter ended June 30, 2005 were \$180,082 of which \$45,538 correspond to a one time revenue from its wholly-owned subsidiary, DMS & Technologies Inc. compared to the revenue of the first quarter ended June 30, 2004, of \$103,964. The expected sales for the first quarter all materialized and we were able to add five new customers to our list of clients. Our first customer – Diagem International Resource Corp. – is continuing to find new Kimberlites on their Brazil property. Our total customer count is now twelve and we expect during the next three quarters the results of their exploration programs based on the target identified by DIAGNOS.

Net loss

During the first quarter ended June 30, 2005, the Corporation has incurred a net loss of \$80,801 (\$0.01 per share) compared to a net loss of \$427,043 (\$0.02 per share) for the period ended June 30, 2004. This decrease in net loss compared to the quarter ended June 30, 2004 is mainly due to a decrease in R&D and the increase in our sales.

Financing activities

During the first quarter ended June 30, 2005 there was no warrants exercised.

DIAGNOS inc.

Management Discussion and Analysis (Cont'd)

Cash Flow

As at June 30, 2005, the cash position of the Corporation was \$54,384 compared to a position of \$99,756 on March 31, 2005.

Research and Development

The Corporation has incurred \$20,422 in research and development costs during the quarter, a reduction of \$174,485 compared to the previous quarter. As announced previously, our largest R&D project has been completed.

Information on the shares

As at June 30, 2005, the outstanding shares are common shares or shares attached to common shares:

Common shares	29,176,364
Convertibles	
Warrants	12,066,332
Options on shares	2,935,604
Total	<u>44,178,300</u>

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 Black & Scholes valuation model.

Perspective

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 land and taking participation with existing clients on new projects. Secondly, the Corporation acquired data from several sources including the Quebec and Ontario governments that will be used to identify potential claims for purchase. The Corporation plans to introduce a solution based on CARDS for the Oil & Gas junior exploration companies in the second quarter. We are confident that our initiatives in the natural resource market will have a major impact on the Corporation's future. Our decision to respond to the natural resource market is positive. We have closed our 12th customer and we have a list of prospects that is growing. Finally, we will be pursuing new markets for our technology such as the security and medical markets that require prediction environments.

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 June 30, 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.

DIAGNOS inc.

Consolidated Balance Sheets

	As at June 30, 2005 (Unaudited) \$	As at March 31, 2005 (Audited) \$
ASSETS		
Current assets		
Cash and cash equivalents	164,991	258,008
Amounts receivable (Note 4)	43,086	50,128
Prepaid expenses (Note 5)	6,954	6,779
	215,031	314,915
Capital assets (Note 6)	47,286	45,640
Other assets (Note 7)	14,780	16,215
	277,097	376,770
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	160,647	215,159
SHAREHOLDERS' EQUITY (Shareholders' deficit)		
Share capital (Note 9)	7,875,860	7,869,860
Contributed surplus (Note 10)	116,274	86,634
Deficit	(7,875,684)	(7,794,883)
	116,450	161,611
	277,097	376,770

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Approved on behalf of the Board of Directors



André Larente
Director



Me David Crevier
Director

DIAGNOS inc.

Consolidated Statements of Income

	For the quarter ended June 30, 2005	For the quarter ended June 30, 2004
	(Unaudited)	(Unaudited)
	\$	\$
Revenues	180,082	103,964
Expenses		
General, sales and administrative	233,797	315,200
Research and development	20,422	194,907
Amortization of capital assets	4,408	4,587
Amortization of other assets	2,111	1,299
Financial charges	145	15,014
	260,883	531,007
Net loss for the quarter	(80,801)	(427,043)
Basic and diluted loss per share	(0.01)	(0.02)
Basic weighted average number of shares outstanding	29,169,441	21,805,321

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

DIAGNOS inc.

Consolidated Statements of Deficit

	For the quarter ended June 30, 2005	For the quarter ended June 30, 2004
	(Unaudited)	(Unaudited)
	\$	\$
Balance at the beginning of the quarter	<u>(7,794,883)</u>	<u>(6,046,133)</u>
Add:		
Net loss for the quarter	(80,801)	(427,043)
Interest paid on the component Shareholders' equity of convertible debentures	<u>-</u>	<u>(2,662)</u>
	<u>(80,801)</u>	<u>(429,705)</u>
Balance at the end of the quarter	<u>(7,875,684)</u>	<u>(6,475,838)</u>

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

DIAGNOS inc.

Consolidated Statements of Cash Flows

	For the quarter ended June 30, 2005	For the quarter ended June 30, 2004
	(Unaudited)	(Unaudited)
	\$	\$
Cash flows from operating activities		
Net loss for the quarter	(80,801)	(427,043)
Items not affecting cash and cash equivalents		
Amortization of capital assets	4,408	4,587
Amortization of other assets	2,111	1,299
Issuance of shares under the payment of interest on debentures	-	13,341
Stock-based compensation expense	29,640	-
	36,159	19,227
	(44,642)	(407,816)
Net change in non-cash operating working capital items	(47,645)	(988,009)
	(92,287)	(1,395,825)
Cash flows from financing activities		
Issuance of capital stock – net of related issuance expenses	6,000	1,095,857
Subscription of capital stock	-	675,000
	6,000	1,770,857
Cash flows from investing activities		
Additions to capital assets	(6,055)	(6,296)
Additions to other assets	(675)	-
	(6,730)	(6,296)
Net change in cash and cash equivalents	(93,017)	368,736
Cash and cash equivalents – Beginning of the quarter	258,008	537,252
Cash and cash equivalents – End of the quarter	164,991	905,988

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

DIAGNOS inc.

Notes to Consolidated Financial Statements

As at June 30, 2005 and March 31, 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, 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.

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%.

DIAGNOS inc.

Notes to Consolidated Financial Statements (Cont'd)

3. Summary of significant accounting policies (Cont'd)

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 9. Any consideration from plan participants upon the exercise of stock options is credited to share capital.

DIAGNOS inc.

Notes to Consolidated Financial Statements (Cont'd)

		As at June 30, 2005	As at March 31, 2005
		(Unaudited)	(Audited)
		\$	\$
4. Amounts receivable			
Customers		74,619	70,702
Commodity taxes		1,477	12,436
Others		10,200	10,200
		<u>86,296</u>	<u>93,338</u>
Allowance for doubtful accounts		43,210	43,210
		<u>43,086</u>	<u>50,128</u>
5. Prepaid expenses			
Prepaid insurance		4,746	6,779
Others		2,208	-
		<u>6,954</u>	<u>6,779</u>
6. Capital assets			
	Cost	Accumulated amortization	Net value
	\$	\$	\$
Office furniture and equipment	61,501	34,755	26,746
Computer equipment	186,388	165,848	20,540
	<u>247,889</u>	<u>200,604</u>	<u>47,286</u>
7. Other assets			
	Cost	Accumulated amortization	Net value
	\$	\$	\$
License	239,812	239,812	-
Software	39,347	24,567	14,780
	<u>279,159</u>	<u>264,379</u>	<u>14,780</u>
8. Accounts payable and accrued liabilities			
Accounts payable and accrued liabilities		76,376	142,014
Salaries and fringe benefits		59,423	47,347
Others		24,848	25,798
		<u>160,647</u>	<u>215,159</u>

DIAGNOS inc.

Notes to Consolidated Financial Statements (Cont'd)

	As at June 30, 2005	As at March 31, 2005
	(Unaudited)	(Audited)
	<u>\$</u>	<u>\$</u>
9. Share capital		
Authorized		
Unlimited number of common shares, without par value, voting and participating		
Subscribed and issued: 29,176,364 shares (29,131,364 shares as at March 31, 2005)	7,875,860	7,866,860
Subscribed and unissued: No share (15,000 shares as at March 31, 2005)	-	3,000
	<u>7,875,860</u>	<u>7,869,860</u>

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

	<u>Number</u>	<u>\$</u>
Exercise of warrants	<u>45,000</u>	<u>9,000</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 June 30, 2005, is 4,909,611 options.

The following table presents the changes, which have occurred during the quarter with regard to the stock option plan and summarizes information relating to the stock options outstanding at June 30, 2005.

	<u>Number</u>
Outstanding as at March 31, 2005	2,365,602
Granted	810,000
Exercised	-
Forfeited	<u>(239,998)</u>
Outstanding as at June 30, 2005	<u>2,935,604</u>

DIAGNOS inc.

Notes to Consolidated Financial Statements (Cont'd)

10. Share capital (Cont'd)

Under the Corporation's stock option plan, 810,000 options were granted during the quarter ended June 30, 2005 with an exercise price of \$0.28. The compensation cost that has been charged against income is \$29,640 for the quarter ended June 30, 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.

For the quarter, the fair value of options grant were estimated using the Blank & Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 3.58%, dividend yield of nil, expected volatility of 88.51% and an expected average life of 5 years.

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.

	<u>Stock warrants</u>	<u>Exercise price</u>
Outstanding as at March 31, 2005	2,500,000	\$0.14
Exercised	-	-
Outstanding as at June 30, 2005	<u>2,500,000</u>	<u>\$0.14</u>

- 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. They will be null and void between August 8, 2006 and December 10, 2006.

	<u>Stock warrants</u>	<u>Exercise price</u>
Outstanding as at March 31, 2005	7,778,000	\$0.20
Exercised	-	-
Outstanding as at June 30, 2005	<u>7,778,000</u>	<u>\$0.20</u>

- 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.

	<u>Stock warrants</u>	<u>Exercise price</u>
Outstanding as at March 31, 2005	1,833,332	\$0.40
Exercised	-	-
Outstanding as at June 30, 2005	<u>1,833,332</u>	<u>\$0.40</u>

DIAGNOS inc.

Notes to Consolidated Financial Statements (Cont'd)

	As at June 30, 2005	As at March 31, 2005
	(Unaudited)	(Audited)
	\$	\$
10. Consolidated contributed surplus		
Balance at beginning of the quarter	86,634	-
Add: Stock-based compensation expense	<u>29,640</u>	<u>86,634</u>
Balance at end of the quarter	<u>116,274</u>	<u>86,634</u>

11. 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 June 30, 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

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.

Directors

W. Brian Edward
Chairman of the Board

David Crevier, Secretary

André Larente, Director

Olivier Lerolle, Director

Timothy R. Murdoch, Director

Investor Relations

If you have inquiries, please visit DIAGNOS' Web site at www.diagnos.ca or contact:

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Definition

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

Additional copies are available upon request.

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