

A decorative graphic on the left side of the page features a blue and white globe showing the Americas, with two small white butterflies positioned below it. The globe and butterflies are set against a dark blue background that transitions into a bright green curved banner.

# 2007 Annual Report

TSX Venture: ADK

## Explore the past to predict the future!

DIAGNOS inc., a leader in the use of Artificial Intelligence ("AI") and advanced knowledge extraction techniques, is a public Canadian corporation (TSX: ADK).

DIAGNOS inc. has developed data mining software and provides data mining services. 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.

Our family of products offers simple data mining and knowledge extraction solutions in the fields of banking, marketing, sales, manufacturing, mining, oil & gas 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, 2006 to March 31, 2007

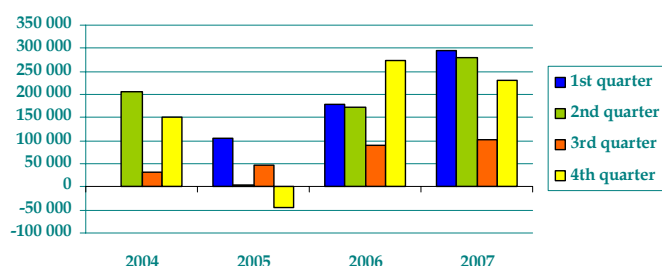
Revenue	246,535	231,685	97,500	200,000	775,720
Other income	49,193	48,560	4,775	30,550	133,078
Net loss	(92,341)	(183,174)	(257,986)	(83,632)	(617,133)
Loss per share	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)

	2007	2006	2005	2004
	\$	\$	\$	\$

### Financial Highlights

Revenue	775,720	709,187	111,746	387,720
Other income	133,078	8,373	-	-
Income taxes	-	-	-	-
Net loss	(617,133)	(581,864)	(1,746,088)	(130,059)
Loss per share	(0.02)	(0.02)	(0.07)	(0.01)
Total assets	1,601,670	964,273	376,770	711,902
Total long-term liabilities	180,061	170,592	215,159	840,656

Quarterly Revenue and Other Income by Fiscal Year



Total Revenue and Other Income by Fiscal Year



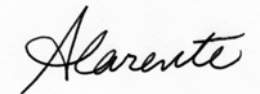
## *Message to Shareholders*

Dear Shareholders:

Fiscal 2007 was an eventful year for DIAGNOS with revenues of \$908,798. The mining and oil & gas market is still strong and we expect the same for the next 12 months of activities. We delivered improved revenue for fiscal year 2007 with an increase of over 26%. DIAGNOS grew to fourteen employees during the fiscal year 2007, adding more resources to our natural resources division. The Corporation hired a new Vice-President, Ms Jacqueline Monfourny, Geologist, to establish a clear direction for this division. DIAGNOS added 14 new customers during the fiscal year 2007.

We believe that our operational growth, investment in strategic development and product developments through fiscal year 2007 have built a solid base for continued growth and execution in fiscal year 2008.

Our revenue was derived primarily from the services rendered to the mining industry as well as some development work for new markets such as security and entertainment. We also acquired approximately 25,000 hectares of exploration rights in Quebec and applied for a 25,000 hectare property in Dominican Republic. The Dominican Republic property should be approved by the local government in early fiscal 2008.



André Larente  
President and Chief Executive Officer

July 13, 2007

Our focus for fiscal year 2008 will be to continue our marketing efforts in our existing markets and also enter into relationships with major mining companies. We view our efforts in analysing large geophysical data bases acquired from countries around the world has a key differentiator for acquiring more land and expanding our natural resources division.

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, entertainment, finance 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 presently a consultant with ePossible Solutions Inc. and has international experience in Finance and Mergers and Acquisitions. Until 2000, Ms Masnaghetti was a partner with Raymond Chabot Grant Thornton, a major accounting firm.

### ***Timothy R. 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 Beverly Hills, California before relocating to Montreal in 1992 to join Astral Media, formerly Astral Communications, as director of 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, senior managers and leaders at over 60 fast-growth companies and organizations. Since 2003, Mr Murdoch has served as the volunteer head coach of the McGill's men's varsity lacrosse team and he is also the founder & past-president of Americans in Montreal. A U.S. Citizen and Permanent Resident of Canada since 1993, Mr Murdoch holds an M.B.A. from the Harvard Business School and an A.B., History from Princeton University, where he was graduated *With Distinction* in the American Studies Program.



**Revenue**

During the fiscal year ended March 31, 2007, DIAGNOS registered revenue of \$775,720 and \$133,078 in other income for a total of \$908,798, an increase of 26% over last year, where we registered \$709,187 in revenue and \$8,373 in other income. The other income consists of a gain on the sale of options granted on certain mineral exploration claims in the amount of \$124,406 and \$8,672 in interest income. The Corporation signed 4 new contracts related to the sale of options on mineral exploration claims during the fiscal year.

During the fourth quarter of 2007, DIAGNOS registered total revenues of \$230,550 compared to \$274,392 in the fourth quarter of 2006. We signed four new clients and acquired approximately 10,000 hectares of mining properties.

**Expenses**

As a result of our efforts to gain market share, our general, sales and administration expenses increased by \$296,639 during the fiscal year 2007 compared to fiscal year 2006, an increase of 27%. The main contributions to this increase are: consulting services, new employees, legal fees and increases in salaries.

Furthermore, we have accepted payment of the outstanding amount of \$50,820 owed by Ste. Genevieve Haïti S.A., a customer, and included in accounts receivable, in the form of 4,472 shares of that company. Since the company is privately held, and the fair value of those shares is not readily determinable, a provision for the full amount of the receivable has been recorded.

**Research and development**

The Corporation incurred \$101,246 in research and development costs during the fiscal year ended March 31, 2007, a decrease of \$78,338 compared to the fiscal year ended March 31, 2006, due to the fact that research projects related to specific solutions were completed and that the Corporation received tax credits from the government of Quebec.

**Net loss**

During the fiscal year ended March 31, 2007, the Corporation incurred a loss of \$617,133 (\$0.02 per share) compared to the fiscal year ended March 31, 2006, in which we reported a net loss of \$581,864 (\$0.02 per share).

The loss for the fourth quarter of 2007 amounted to \$83,632 an increase of 33% compared to the loss of \$62,906 for the fourth quarter 2006.

**Accumulated deficit**

The Corporation's accumulated deficit as at March 31, 2007 is \$8,993,880.

**Financing activities**

During the fiscal year ended March 31, 2007, the Corporation has financed its activities through the issuance of shares and warrants. During the fiscal year, a total of \$1,088,633 was received from the proceeds of exercised warrants.

**Working capital**

As at March 31, 2007, our working capital was \$1,326,233 compared to \$715,648 during our 2006 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 private placements.

**Share information**

As at March 31, 2007, the outstanding shares are common shares and convertible securities:

Common shares	39,928,185
Convertible securities:	
Warrants	2,000,000
Options on shares	4,487,184
Total	46,415,369

**Significant accounting policies**

Gains on the sale of options on mineral exploration claims are recognized net of the remaining unamortized cost of the related mining asset, included in intangible assets, and net of any costs unrecoverable from the optionee, required to be incurred by the Corporation in order to retain valid title to those mineral exploration claims during the period of the option.

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

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 Artificial Intelligence (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) is continuing to gain market share with the addition of 14 customers this year. 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, Ontario and Dominican Republic governments which it expects to use in the identification of potential claims for purchase.

The Corporation delivered proposals to several large oil & gas exploration companies and is waiting for the results. This new application generated additional cost for travel and lodging during this fiscal year.

Finally, the Corporation is pursuing other markets that require AI technology to resolve complex problems within different industries. 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. DIAGNOS has also developed 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 accounting principles 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.



André Larente  
President, CEO and acting CFO  
July 13, 2007

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.

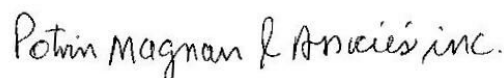
The Board of Directors has approved the Corporation's consolidated financial statements.

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

We have audited the consolidated balance sheets of DIAGNOS inc. as at March 31, 2007 and 2006 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 accounting principles. 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, 2007 and 2006 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 29, 2007

## Consolidated Balance Sheets

	As at March 31, 2007 \$	As at March 31, 2006 \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	339,630	52,911
Temporary investments (Note 4)	618,235	418,540
Amounts receivable (Note 5)	532,104	406,977
Prepaid expenses (Note 6)	16,325	7,812
	1,506,294	886,240
<b>Investment</b> (Note 7)	1	-
<b>Capital assets</b> (Note 8)	63,459	56,920
<b>Intangible assets</b> (Note 9)	31,916	21,113
	<b>1,601,670</b>	<b>964,273</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 10)	180,061	170,592
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital</b> (Note 11)	10,044,592	8,955,959
<b>Contributed surplus</b> (Note 12)	370,897	214,469
<b>Deficit</b>	(8,993,880)	(8,376,747)
	1,421,609	793,681
	<b>1,601,670</b>	<b>964,273</b>

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, 2007	For the year ended March 31, 2006
	\$	\$
<b>Revenue</b>	<b>775,720</b>	<b>709,187</b>
<b>Expenses</b>		
General, sales and administrative	1,386,456	1,089,817
Research and development, net of tax credits	101,246	179,584
Amortization of capital assets	20,824	19,248
Amortization of intangible assets	11,854	10,028
Financial charges	5,551	747
	<b>1,525,931</b>	<b>1,299,424</b>
<b>Loss for the year</b>	<b>(750,211)</b>	<b>(590,237)</b>
<b>Other income</b>		
Gains on the sale of options to mineral exploration claims	124,406	-
Interest	8,672	8,373
	<b>133,078</b>	<b>8,373</b>
<b>Net loss for the year</b>	<b>(617,133)</b>	<b>(581,864)</b>
<b>Basic and diluted loss per share</b>	<b>(0.02)</b>	<b>(0.02)</b>
<b>Weighted average number of shares outstanding</b>	<b>36,154,650</b>	<b>31,496,503</b>

SEE ACCOMPANYING NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS.

## *Consolidated Statements of Deficit*

	For the year ended March 31, 2007	For the year ended March 31, 2006
	\$	\$
<b>Balance at the beginning of the year</b>	(8,376,747)	(7,794,883)
<b>Add:</b>		
Net loss for the year	(617,133)	(581,864)
<b>Balance at the end of the year</b>	<b><u>(8,993,880)</u></b>	<b><u>(8,376,747)</u></b>

SEE ACCOMPANYING NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS.

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

	<b>For the year ended March 31, 2007</b>	<b>For the year ended March 31, 2006</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Net loss for the year	(617,133)	(581,864)
Items not affecting cash and cash equivalents		
Amortization of capital assets	20,824	19,248
Amortization of intangible assets	11,854	10,028
Write-down of capital assets	-	8,412
Write-down of intangible assets	-	1,218
Stock-based compensation expense	156,428	127,835
Gain on sale of intangible assets	(124,406)	-
	<u>64,700</u>	<u>166,741</u>
	(552,433)	(415,123)
Net change in non-cash operating working capital items	<u>(323,866)</u>	<u>(820,989)</u>
	<u>(876,299)</u>	<u>(1,236,112)</u>
<b>Cash flows from investing activities</b>		
Addition to investment	(1)	-
Additions to capital assets	(27,363)	(38,940)
Additions to intangible assets	(55,015)	(16,144)
Proceeds from sale of intangible assets	156,764	-
	<u>74,385</u>	<u>(55,084)</u>
<b>Cash flows from financing activities</b>		
Issuance of shares, net of share issue expenses	<u>1,088,633</u>	<u>1,086,099</u>
<b>Net change in cash and cash equivalents</b>	286,719	(205,097)
<b>Cash and cash equivalents – Beginning of the year</b>	<u>52,911</u>	<u>258,008</u>
<b>Cash and cash equivalents – End of the year</b>	<u>339,630</u>	<u>52,911</u>

SEE ACCOMPANYING NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS.

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

March 31, 2007 and 2006

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

The shares of the Corporation are listed on the TSX Venture Exchange. DIAGNOS inc. develops data mining software and provides data mining services. 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 prospecting for mineral 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 rising 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. Change in accounting policies**

On April 1<sup>st</sup>, 2007, the Corporation will adopt the recommendations of the Canadian Institute of Chartered Accountants Handbook (CICA Handbook) Section 1530, *Comprehensive Income*; Section 3855, *Financial Instruments - Recognition and Measurement*; Section 3861, *Financial Instruments - Disclosure and Presentation*; Section 3865, *Hedges*; and Section 3251, *Equity*. These sections apply to fiscal years beginning on or after October 1, 2006 and provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives, and describe when and how hedge accounting may be applied. Section 1530 provides standards for the reporting and presentation of comprehensive income, which represents the change in equity, from transactions and other events and circumstances from non-owner sources. Other comprehensive income is defined as revenues, expenses, gains and losses that are recognized in comprehensive income, but excluded from net income, in accordance with Canadian generally accepted accounting principles.

Under the new standards, all financial assets, except for those classified as held-to-maturity, loans and receivables, and derivative financial instruments are measured at their fair values. All financial liabilities are measured at their fair values when they are classified as held for trading purposes. Otherwise, they are measured at their carrying value.

## **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 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 data mining services and software is recognized upon delivery in accordance with the contractual conditions in effect with customers.

**f) Recognition of gains on the sale of options to mineral exploration claims**

Gains on the sale of options to mineral exploration claims are recognized net of the remaining unamortized cost of the related mining asset, included in intangible assets, and net of any unrecoverable costs from the optionee, required to be incurred by the Corporation in order to retain valid title to those mineral exploration claims during the option period.

**g) 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.

**h) Investments**

Investments are recorded at cost.

**i) 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. For the additions since April 1<sup>st</sup>, 2006, the Corporation is using the straight-line method.

	<u>Annual rates</u>
Office furniture and equipment	- 20%
Computer equipment	- 33 1/3% and 50%

**j) Intangible assets and amortization**

- i) The mining assets, consisting of mining claims, 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%.

**k) 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.

**l) 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.

**m) 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.

**n) Share issue expenses**

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

**o) Stock-based compensation plan**

The Corporation maintains a stock-based compensation plan, which is described in note 11. 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.

	<b>As at March 31, 2007</b>	<b>As at March 31, 2006</b>		
	<b>\$</b>	<b>\$</b>		
<b>4. Temporary investments</b>				
Certificate of deposit, interest at 2.85%, maturing November 30, 2007	302,858	406,380		
Certificate of deposit, interest at 2.85%, maturing November 30, 2007	302,858	-		
Certificate of deposit, interest at 2.90%, maturing October 22, 2007	12,519	12,160		
	<u>618,235</u>	<u>418,540</u>		
<b>5. Amounts receivable</b>				
Customers	530,371	391,834		
Commodity taxes	1,293	14,733		
Other	440	410		
	<u>532,104</u>	<u>406,977</u>		
<b>6. Prepaid expenses</b>				
Prepaid insurance	6,944	2,880		
Other	9,381	4,932		
	<u>16,325</u>	<u>7,812</u>		
<b>7. Investment</b>				
4,472 common shares – Société Minière Ste-Geneviève-Haïti, S.A.	<u>1</u>	<u>-</u>		
<p>During the year, the Corporation accepted payment of the outstanding amount of \$50,820 owed by Ste. Genevieve Haïti S.A., a customer, and included in accounts receivable, in the form of 4,472 shares of that company. Since the company is privately held, and the fair value of those shares is not readily determinable, the investment has been recorded at the nominal amount of \$1 and a provision for the full amount of the receivable has been recorded and is reflected in these financial statements. Any gain resulting from the disposition of those shares will be recorded in the period in which it occurs.</p>				
<b>8. Capital assets</b>				
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net value</b>	<b>Net value</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Office furniture and equipment	78,118	38,045	40,073	34,431
Computer equipment	179,068	155,682	23,386	22,489
	<u>257,186</u>	<u>193,727</u>	<u>63,459</u>	<u>56,920</u>
<b>9. Intangible assets</b>				
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net value</b>	<b>Net value</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Mining assets	34,666	7,464	27,202	12,134
Software	37,516	32,802	4,714	8,979
	<u>72,182</u>	<u>40,266</u>	<u>31,916</u>	<u>21,113</u>
<b>10. Accounts payable and accrued liabilities</b>				
Accounts payable and accrued liabilities		71,284	90,730	
Salaries and benefits		108,777	78,766	
Other		-	1,096	
		<u>180,061</u>	<u>170,592</u>	

<b>As at March 31, 2007</b>	<b>As at March 31, 2006</b>
<u>\$</u>	<u>\$</u>

**11. Share capital**

Authorized

Unlimited number of common shares, without par value,  
voting and participatingSubscribed and issued: 39,928,185 shares (33,693,019 shares in 2006) 10,044,592      8,955,959

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

	<b>As at March 31, 2007</b>		<b>As at March 31, 2006</b>	
	<b>Number</b>	<b>\$</b>	<b>Number</b>	<b>\$</b>
Private placements	-	-	4,000,000	977,684
Exercise of warrants	6,235,166	1,088,633	545,000	106,000
Exercise of options	-	-	16,655	2,415
	<u>6,235,166</u>	<u>1,088,633</u>	<u>4,561,655</u>	<u>1,086,099</u>

**Stock option plan**

The Corporation has a stock option plan for its directors, senior executives, employees 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, 2007, is 6,000,000.

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, 2007.

	<b>As at March 31, 2007</b>		<b>As at March 31, 2006</b>	
	<b>Stock options</b>	<b>Weighted average exercise price \$</b>	<b>Stock options</b>	<b>Weighted average exercise price \$</b>
Outstanding at beginning of year	3,423,949	0.29	2,125,604	0.34
Granted	2,280,000	0.25	1,960,000	0.25
Forfeited	(1,216,765)	0.27	(645,000)	0.35
Exercised	-	-	(16,655)	0.14
Outstanding at end of year	<u>4,487,184</u>	<u>0.28</u>	<u>3,423,949</u>	<u>0.29</u>

Under the Corporation's stock option plan, 2,280,000 options were granted during the year ended March 31, 2007 with an exercise price between \$0.20 and \$0.28. The compensation cost that has been charged against income is \$156,428 for the year ended March 31, 2007, 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 March 28, 2008 to March 1<sup>st</sup>, 2012. 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, 2007.

Exercise price \$	Options outstanding at March 31, 2007		Options exercisable at March 31, 2007	
	Number of options outstanding	Weighted average remaining contractual life (in years)	Number of options exercisable	Weighted average exercise price \$
0.13	10,000	1.88	10,000	0.13
0.18	5,000	1.54	5,000	0.18
0.20	272,500	4.12	7,500	0.20
0.23	950,000	3.78	316,667	0.23
0.24	17,000	2.45	11,333	0.24
0.26	1,525,000	4.65	-	0.26
0.275	50,000	4.92	-	0.275
0.28	810,000	3.22	270,000	0.28
0.30	120,000	1.84	80,000	0.30
0.40	727,684	2.18	485,123	0.40
	<u>4,487,184</u>		<u>1,185,623</u>	

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

Expected life	5 years	Risk-free interest rate	4.04%
Dividend yield	0%	Volatility	84.5%

**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. The total amount of 2,500,000 warrants was exercised in 2007.
- 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. 3,941,666 warrants were exercised and 3,336,333 warrants expired in 2007. 545,000 warrants were exercised in 2006 and 177,000 in 2005.
- 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. The warrants expired 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. The warrants will expire on October 4, 2007.

**12. Consolidated contributed surplus**

	As at March 31, 2007	As at March 31, 2006
	\$	\$
Balance at beginning of year	214,469	86,634
Add: Stock-based compensation expense	156,428	127,835
Balance at end of year	<u>370,897</u>	<u>214,469</u>

**13. Commitments**

- a) Under the terms of operating lease agreements for its operating facilities, the Corporation is committed to make payments of \$154,219, allocated as follows for the three years to come:
 

2008	\$58,530	2009	\$60,435	2010	\$35,254
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- b) Under the terms of operating lease agreements for office equipment, the Corporation is committed to make payments of \$11,396, allocated as follows for the four years to come:
 

2008	\$3,696	2010	\$3,696
2009	\$3,696	2011	\$ 308
- c) Under the terms of operating lease agreements for computer equipment, the Corporation is committed to make payments of \$6,587 during fiscal year 2008.

**14. Comparative data**

Certain 2006 amounts have been reclassified in order to conform to the presentation adopted in 2007.

**15. 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, 2007, 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

**16. 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:

	<b>As at March 31, 2007</b>	<b>As at March 31, 2006</b>
	<b>\$</b>	<b>\$</b>
Net loss for the year	(617,133)	(581,864)
Income taxes recoverable at statutory tax rates	161,459	156,093
Valuation allowance	(161,459)	(156,093)
	<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	2,602,021	2,616,950
Share issue expenses	8,563	8,563
Investment tax credits	72,493	45,011
Capital assets and intangible assets	184,904	172,721
	<u>2,867,981</u>	<u>2,843,245</u>
<u>Deduct:</u> Valuation allowance	<u>2,867,981</u>	<u>2,843,245</u>
	<u>-</u>	<u>-</u>

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

2008	\$ 1,657,164	2015	\$ 708,358
2009	\$ 2,869,533	2016	\$ 404,637
2010	\$ 583,523	2027	\$ 420,795
2014	\$ 246,255	Total	<u>\$6,890,265</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	\$ 34,386	2015	\$ 169,320		
2014	\$ 25,481	2016	\$ 98,541	Total	<u>\$ 327,728</u>

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

	<u>487,228</u>	<u>455,479</u>
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**17. 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	775,720	499,481
United States	-	81,719
Other	-	127,987
	<u>775,720</u>	<u>709,187</u>

# ***General information***

## ***Stock Exchange Listing***

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

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

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

## ***Auditors***

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

## ***Legal Counsel***

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

## ***Electronic Delivery***

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

## ***Investor Relations***

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

André Larente  
President and Chief Executive Officer

## ***DIAGNOS inc.***

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Toll free: (877) 678-8882  
Fax: (450) 678-8119  
[www.diagnos.ca](http://www.diagnos.ca)

## ***Annual General Meeting***

The Annual and Special Meeting of Shareholders will be held at 10:00 am  
Tuesday, September 4, 2007  
at the Delta Montréal Hotel (Ravel room)  
located at 475, President Kennedy Ave,  
Montréal, 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](http://www.diagnos.ca)