

2011

TSX Venture: ADK



Q2

Quarterly Report 2011

Second quarter ended September 30, 2010

DIAGNOS

Your Knowledge Partner



Every day businesses gather large amounts of data. Buried under this mountain of information sleeps hidden knowledge. This knowledge can give a business an edge over its competitors.

Explore the past to predict the future!

DIAGNOS inc. is a leader in the use of Artificial Intelligence and advanced knowledge extraction technologies.

DIAGNOS provides data mining, data analysis consulting services, and designs advanced data analysis software products. The Corporation's flagship product, MCubiX, is a suite of data mining tools 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.

DIAGNOS offers data mining and knowledge extraction solutions to the natural resources, healthcare, and media industries.

The shares of DIAGNOS are listed on the TSX Venture Exchange under the symbol ADK.

Message to Shareholders

Dear Shareholders:

During the first half of fiscal year 2011, DIAGNOS mainly focused on refining the CARA technology platform including continued improvement and testing of algorithms, completion of a web interface and image transfer software, preparation for the start of 2 formal clinical trials, as well as on business development activities including successful execution of 16 field trials with prospective customers, presence at medical conferences, development of relationships with governments, identification and training of 5 resellers, putting in place 2 channel agreements. CARA (Computer Assisted Retinal Analysis) is a technology designed to assist health care specialists in the detection of diabetic retinopathy – damage to the back of the eye caused by complications of diabetes, which can eventually lead to blindness. Following successful regulatory approval in Canada in December 2009, DIAGNOS submitted the product to the US Food and Drug Administration for review and expect a response by the end of fiscal year 2011. Approval will clear the way for commercialization of CARA technology services in the US. The “Outlook” sub-section of this document presents more information on the benefits of CARA.

In the second quarter ended September 30, 2010, revenues increased by \$252,432 to \$273,939, from \$21,507 in the comparable quarter in fiscal 2010 and the net loss decreased by 14% to \$455,551, from \$541,989 in the same periods. As at September 30, 2010, the Corporation had close to \$735,000 in cash and short-term investments. Additionally, at quarter end, investments in shares amounted to \$396,355.

Although most of our current business development efforts are concentrated towards bringing CARA to market worldwide, we continue to provide services in our two other business segments:

- CARDS (Computer Aided Resources Detection System) – a data mining application for the natural resources sector. We are witnessing an increase in awareness to our CARDS solutions (2D & 3D) from our existing clients and prospects. In the first half of fiscal year 2011 ended September 30, 2010, DIAGNOS signed one new contract, paid in full, for a value of \$200,000. From October 1 to November 15, 2010 additional new contracts for a value of \$157,500 were signed. The “Outlook” sub-section of this document presents more information on the CARDS solution;
- DHS (Dynamic Hit Scoring) – an application based on algorithms that break down a song into variables such as pitch and tempo and then compare its structure to the top 100 *Billboard*® charts over a period of six years. Currently, DHS is showcased on the website Hitlab.com, an online platform where musicians can submit their songs to find out if they have a potential hit on their hands.

Revenue per business segment is presented in the “Revenue” sub-section of the “Management Discussion and Analysis” section of this document.

In addition to the fees for consulting services, DIAGNOS is entitled, under specific agreements, to receive payments arising from economic resource discoveries made as a result of CARDS. These potential royalties are payable in shares, in cash or net smelter returns on revenues derived from mining operations. As at September 30, 2010, DIAGNOS had a portfolio of 21 mining royalty agreements compared to 20 as at March 31, 2010. The increase of one royalty agreement is related to the above-mentioned contract signed during the quarter.

It is my pleasure to submit this 2011 second quarter report.



André Larente
Chief Executive Officer
November 19th, 2010

Management Discussion and Analysis

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Description of the Corporation

DIAGNOS inc. (DIAGNOS) is a Canadian corporation that provides data mining and interpretation services based on its suite of proprietary software products capable of extracting knowledge from historical data.

DIAGNOS operates in one reportable segment - data mining and interpretation services based on its suite of proprietary software products capable of extracting knowledge from historical data. DIAGNOS is active in four different sectors, presented hereafter by order of importance:

- **Natural resources:** Data mining consulting services through CARDS (Computer Aided Resource Detection System), a software tool which is currently used to assist in identifying mining deposits. In combination with modern exploration techniques, CARDS is a useful tool to save both money and time by limiting target areas for exploration. In addition to data mining and target generation, DIAGNOS offers project management services. CARDS has been developed by, and is proprietary to, DIAGNOS;
- **Healthcare:** Consulting services in the healthcare sector through CARA (Computer Assisted Retinal Analysis), a software tool which assists health specialists in the detection and grading of diabetic retinopathy. CARA is an in-house hosted web-based application that integrates fundus cameras with an image processing engine over a secure connection. CARA also performs an automated analysis of fundus images for the presence of lesions indicative of diabetic retinopathy. CARA has been developed by, and is proprietary to, DIAGNOS;
- **Media:** Royalties from an application developed by DIAGNOS, named DHS (Dynamic Hit Scoring). DHS algorithms mine data from patterns which exist in the music, and compare these patterns to that of hit songs in the US over a period of six years. Seventy-eight variables are measured to determine the song's hit potential. Currently DHS is showcased on a website owned by Hitlab LLC and DIAGNOS generates revenues from royalties based on DHS service fees; and,
- **Consulting:** DIAGNOS provides a range of statistical, and software consulting services, specializing in multimedia mining, segmentation, profiling, prediction and targeting.

The shares of DIAGNOS are listed on the TSX Venture Exchange under the symbol ADK. More information concerning DIAGNOS is available by consulting the corporate website at www.diagnos.com and the SEDAR website at www.sedar.com.

Notice to readers

The following discussion, dated November 19, 2010, analyses the financial situation of the Corporation as at September 30, 2010 and should be read with the interim consolidated financial statements and accompanying notes. These interim consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). However, they do not include all information required under GAAP and, accordingly, should be read in conjunction with the consolidated financial statements included in the latest annual report. Additionally, they were not reviewed or audited by the Corporation's external auditors. The currency used is the Canadian dollar.

The information contained in this management discussion and analysis was approved by the Board of Directors on November 19, 2010.

Forward-looking statements

This document contains certain forward-looking statements with respect to the Corporation. These forward-looking statements, by their nature, necessarily imply 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 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 the Corporation. These risks and uncertainties include risks associated with market acceptance, competitive developments, world economic situation 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.

Summary of quarterly results

	2011		2010				2009	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3 *
	Sept. 30, 2010	June 30, 2010	March 31, 2010	Dec. 31, 2009	Sept. 30, 2009	June 30, 2009	March 31, 2009	Dec. 31, 2008 *
	\$							
Revenue	273,939	135,300	141,193	142,495	21,507	52,878	79,882	* 273,980
Comprehensive loss	455,551	438,916	328,280	374,601	531,989	514,286	773,664	* 937,645
Loss per share	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.02

* Following the audit of the 2009 annual financial statements, the Corporation has restated the 2009 third quarter results as follows for presentation purposes in the 2009 annual report:

	Revenue	Amounts receivable	General, sales and administrative	Research & Development, net of tax credits	Comprehensive loss
As previously reported	438,500	1,235,262	844,459	156,093	807,645
Uncertainty regarding collection	(130,000)	(130,000)	-	-	130,000
Reclassification of cost sharing agreement	(34,520)	-	(26,795)	(7,725)	-
Restated balance	273,980	1,105,262	817,664	148,368	937,645

Summary of annual results

	March 2010	March 2009	March 2008
	\$		
Revenue	358,073	1,885,956	1,863,176
Net loss	1,910,838	2,079,903	398,085
Comprehensive loss	1,749,156	2,099,693	398,085
Basic and diluted loss per share	0.04	0.05	0.01
Assets	2,273,691	2,662,755	4,871,677

Results analysis

Net results

For the Three-month period of fiscal 2011 ended September 30, 2010, the comprehensive loss amounted to \$455,551, a decrease of \$76,438 or 14% over the amount of \$531,989 for the comparative quarter ended September 30, 2009. For the six-month period ended September 30, 2010, the comprehensive loss amounted to \$894,467, a decrease of \$151,808 or 15% over the amount of \$1,046,275 for the comparative six-month period ended September 30, 2009. This positive variance of \$151,808 in the comprehensive loss for the six-month period of fiscal year 2011 is mainly ascribable to the increase of \$340,854 in revenues and to the increase of \$204,201 in business development expenses compared to the same period in fiscal year 2010.

Revenue

For the Three-month period ended September 30, 2010, revenues amounted to \$273,939, an increase of \$252,432 over the amount of \$21,507 for the comparative quarter ended September 30, 2009. For the six-month period ended September 30, 2010, revenues amounted to \$409,239, an increase of \$334,854 over the amount of \$74,385 for the comparative six-month period ended September 30, 2009. Comparative revenue figures, per business segment, for the quarters and the six-month periods ended September 30, 2010 and 2009 can be detailed as follows:

Business segment	Three months ended September 30,			Six months ended September 30,		
	2010	2009	Variance	2010	2009	Variance
	\$			\$		
Natural resources	246,474	15,000	231,474	273,274	37,878	235,396
Healthcare – equipment	27,150	-	27,150	27,150	-	27,150
Healthcare – services	315	-	315	315	-	315
Media	-	6,507	(6,507)	50,000	36,507	13,493
Consulting	-	-	-	58,500	-	58,500
Total	273,939	21,507	252,432	409,239	74,385	334,854

Cost of goods sold

During the current quarter ended September 30, 2010, DIAGNOS sold its first fundus camera at a price of \$27,950. The cost of this camera is \$24,000 and is presented under "Cost of Goods Sold" on the Consolidated Statements of Earnings and Comprehensive Loss.

General, sales and administrative (GS&A)

For the quarter ended September 30, 2010, GS&A expenses amounted to \$512,774, an increase of \$127,850 or 33% over the amount of \$384,924 for the comparative quarter ended September 30, 2009. For the six-month period ended September 30, 2010, GS&A expenses amounted to \$915,127, an increase of \$204,201 or 29% over the amount of \$710,926 for the comparative six-month period ended September 30, 2009. These increases are mainly due to the increase in business development expenses related to the market introduction of CARA.

The compensation expense related to the stock option plan amounts to \$49,946 for the current quarter compared to \$23,680 for the quarter ended September 30, 2009. For the six-month period ended September 30, 2010, the compensation expense related to the stock option plan amounts to \$80,359 compared to \$50,350 for the six-month period ended September 30, 2009. These increases are mainly due a higher number of options granted in the first six months of the current fiscal year compared to the same period of last fiscal year.

Research and development (R&D) and refundable tax credits on R&D expenses

For the quarter ended September 30, 2010, R&D expenses amounted to \$161,320, an increase of \$31,405 or 24% over the amount of \$129,915 for the comparative quarter ended September 30, 2009. This increase of \$31,405 is mainly due to a higher number of employees and consultants. For the six-month period ended September 30, 2010, R&D expenses amounted to \$307,855, an increase of \$8,615 or 3% over the amount of \$299,240 for the comparative six-month period ended September 30, 2009. This increase of \$8,615 is mainly due to a higher number of employees.

A refundable tax credits provision related to these R&D expenses in the amounts of \$22,275 for the current quarter and of \$47,025 for the six-month period ended September 30, 2010, compared to \$32,400 and \$67,900 respectively for the comparative periods ended September 30, 2009, were accrued according to the eligibility conditions regarding governmental tax credits programs. During these periods, our team of scientists continued their work on the development of an analytical software tool to help health specialists in the detection of diabetic retinopathy. The development of new features and applications is an important competitive differentiator for DIAGNOS.

Geology

For the quarter ended September 30, 2010, Geology expenses amounted to \$63,391, an increase of \$27,946 or 79% over the amount of \$35,445 for the comparative quarter ended September 30, 2009. For the six-month period ended September 30, 2010, Geology expenses amounted to \$103,928, an increase of \$12,757 or 14% over the amount of \$91,171 for the comparative six-month period ended September 30, 2009. These increases are mainly due to the increase in travel and subcontractors expenses amid the increase in new exploration sales contracts in the current quarter.

Interest income

Interest income amounted to \$4,802 for the quarter ended September 30, 2010 compared to \$2,290 for the quarter ended September 30, 2009. For the six-month period ended September 30, 2010, interest income amounted to \$6,012 compared to \$6,977 for the six-month period ended September 30, 2009. The decrease of \$965 or 14% in the six-month period is explained by lower returns and lower amounts invested in short term investment instruments during this period.

Cash flows analysis

Working capital, cash flows & liquidity

As at September 30, 2010, the working capital amounts to \$756,831 compared to \$1,034,734 as at September 30, 2009.

The net changes in cash for the current and the comparative quarters and six-month periods ended September 30, 2010 and 2009 can be summarized by increases (decreases) in cash flows from:

	Three-month period ended September 30,		Six-month period ended September 30,	
	2010	2009	2010	2009
	\$		\$	
Operating activities	(443,687)	(486,941)	(845,225)	(870,531)
Investing activities	435,938	597,536	619,288	922,878
Financing activities	1,850	-	111,950	-
	(5,899)	110,595	(113,987)	52,347

Cash flows from operating activities: The net losses after items not affecting cash of \$410,523 in the first quarter and of \$808,275 in the six-month period ended September 30, 2010 are the main contributors to the decreases in cash of \$443,687 and of \$845,225 from operating activities in the respective periods.

Cash flows from investing activities: The net increases in cash from investing activities in the quarters and six-month periods ended September 30, 2010 and 2009 arose mainly from the net proceeds of temporary investments needed to fund the operating activities.

Cash flows from financing activities: The net increases in cash from financing activities in the quarter and six-month period ended September 30, 2010 arose from the exercise of stock options.

Balance sheets analysis

Temporary investments

Temporary investments in the amount of \$592,528, as at September 30, 2010, consist of guaranteed investment certificates issued by a Canadian chartered bank. From March 31, 2010 to September 30, 2010, temporary investments decreased by \$694,238 in order to fund the operating activities.

Amounts receivable and allowance for doubtful accounts

As at September 30, 2010, amounts receivable of \$372,069 include refundable R&D tax credits in the amount of \$240,364 and customer receivables in the amount of \$130,775 net of an allowance for doubtful accounts of \$42,405. None of the clients for which a provision for doubtful accounts was recorded were bankrupt as at November 19, 2010. Therefore, the Corporation is aggressively pursuing collection efforts to recover the amounts owed.

Amounts receivable from customers can be detailed as follows:

Business segment	As at		Variance
	September 30, 2010	March 31, 2010	
	\$		
Natural resources	101,937	24,212	77,725
Healthcare	28,838	-	28,838
Consulting	-	20,318	(20,318)
Total	130,775	44,530	86,245

Investments

The amount of \$396,355, presented under "Investments" on the consolidated balance sheet as at September 30, 2010, represents the value of shares of private and publically traded companies held by the Corporation. These financial instruments are classified as available for sale and are measured at fair value. Shares in private companies are carried at \$1 because it is not possible to establish a fair value. Variations in fair value are presented under "Other element of comprehensive loss" on the consolidated statements of earnings and comprehensive loss.

The following table presents the value of those shares per sector as at September 30, 2010.

Business segment	As at		Variance
	September 30, 2010	March 31, 2010	
			\$
Natural resources	385,970	341,573	44,397
Healthcare	10,385	6,609	3,776
Total	396,355	348,182	48,173

The following table presents the changes which have occurred during the six-month period ended September 30, 2010.

	Number of shares	\$	Annualized Return
Balance, beginning of quarter	3,775,551	348,182	
Variance in fair value	-	48,173	28%
Balance, end of quarter	3,775,551	396,355	

Shares certificates for 312,500 shares, representing a value of \$87,500 as at September 30, 2010, carry trading conditions limiting the Corporation to trade up to 62,500 shares per month, on a cumulative basis, over the next five months.

Capital assets

Capital assets consist of office equipment, computer equipment and leasehold improvements.

For the six-month period ended September 30, 2010, additions to capital assets amounted to \$55,206 compared to \$11,533 for the six-month period ended September 30, 2009. These additions are mainly comprised of two fundus cameras used to help develop and demonstrate the CARA technology in the detection of diabetic retinopathy.

Amortization of capital assets amounted to \$34,792 for the six-month period ended September 30, 2010 compared to \$45,900 for the six-month period ended September 30, 2009. The decrease of \$11,108 is mainly due to the decrease in purchases of fixed assets in the last four quarters.

Intangible assets

Intangible assets consist of mineral claims and computer software.

For the six-month period ended September 30, 2010, additions to intangible assets amounted to \$19,744 compared to \$8,615 for the six-month period ended September 30, 2009. The increase of \$11,129 is mainly related to the purchase of new mining claims in the Abitibi region of the province of Quebec.

Amortization of intangible assets amounted to \$19,214 for the six-month period ended September 30, 2010 compared to \$72,500 for the six-month period ended September 30, 2009. The decrease of \$53,286 is due to the decrease in purchases of mining claims in the last fiscal year ended March 31, 2010.

Deferred revenue

The amount of \$78,384, presented under "Deferred revenue" on the consolidated balance sheet as at September 30, 2010, is comprised of services or goods invoiced before the services are rendered or the goods are delivered. The decrease of \$9,600, from the amount of \$87,984 as at March 31, 2010, is related to the delivery of the final report to one client in the natural resources sector.

Commitments

Commitments consist of office space leases for a total obligation of \$738,500 for the next five years starting April 1, 2010. As at September 30, 2010, the Corporation has not entered into any other off-balance sheet arrangement.

Last July, DIAGNOS has entered into a dealership agreement with Carl Zeiss Canada (CZC), a subsidiary of one of the major fundus camera manufacturers worldwide, and is authorized to resell one of CZC's fundus camera products. In order to benefit from preferred pricing, DIAGNOS has committed to yearly minimum purchases under this agreement.

Contingencies

As at September 30, 2010, the Corporation is not party to any legal proceedings or disputes with customers and suppliers.

Royalty agreements

As at September 30, 2010, DIAGNOS had a portfolio of 21 mining royalty agreements with 17 different clients compared to 20 mining royalty agreements with 16 different clients as at March 31, 2010. In addition to the fees for consulting services, under specific agreements, DIAGNOS is entitled to receive payments arising from economic resource discoveries made as a result of CARDS. These royalties are payable in shares, in cash or net smelter returns on revenues derived from mining operations within the limits of the properties as defined in the agreements. As at September 30, 2010, no revenues were derived from these mining royalties.

Under an agreement with the promoters of Hitlab.com, the Corporation is entitled to receive a royalty of \$3 per song analyzed using the "Dynamic Hit Scoring" technology developed by the Corporation. As at September 30, 2010, cumulative earned royalties under this agreement amounted to \$8,063.

Share information

As at September 30, 2010, the Corporation had the following common shares and convertible securities outstanding:

Common shares	52,288,343
Stock options	5,696,024
Stock warrants	3,000,000
	<u>60,984,367</u>

Significant accounting policies

a) Revenue recognition

Data mining and project management services generally involve the delivery of services and products. Revenue derived from services is recognized over the period in which the services are rendered when there is no uncertainty regarding collection. Revenue derived from products is recognized upon delivery to the customer. Any unbilled services rendered are presented under "Work in progress" on the consolidated balance sheets. Any amount invoiced before the delivery of services or goods is presented under "Deferred revenue" on the consolidated balance sheets.

Revenue from the sale of options on mineral exploration claims is recognized upon transfer of rights to the customer. Any amount invoiced which does not meet the revenue recognition conditions related to this type of sale is presented under "Deferred revenue" on the consolidated balance sheets.

Gain or loss from the sale of mineral claims is recognized when the title of ownership is transferred to the customer. Any amount invoiced which does not meet the revenue recognition conditions related to this type of sale is presented under "Deferred revenue" on the consolidated balance sheets.

Where the arrangement includes multiple separate elements, the Corporation evaluates these arrangements to determine whether the multiple elements have value to the customer. In these cases, revenue is allocated to each element based on their fair values and recognized when the above-noted revenue recognition criteria have been met.

In any situation, when the anticipated costs of a contract are more likely than not to exceed the total revenue from the contract, then a provision for the anticipated loss is recognized in the period in which it occurs.

Revenue recognition requires making significant estimates when revenue is recognized over a period of time or when the arrangement includes multiple elements. For revenue recognized over a period of time, management makes estimates concerning the projected costs, the projected profit margin and the percentage of completion. When the arrangement includes multiple elements, management makes estimates concerning the fair value of each element based on the characteristics of each arrangement and the market conditions. Estimates are regularly reviewed and revised by the management to ensure their accuracy.

b) Stock-based compensation and warrant valuation

The Corporation recognizes the fair value of 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. Upon exercise of options, the accumulated compensation is reduced from the contributed surplus and added to share capital.

The fair value of warrants issued is measured and accounted for using the Black - Scholes valuation model with a corresponding adjustment to contributed surplus. Upon exercise of warrants, the value of those warrants is reduced from the contributed surplus and added to share capital.

c) International Financial Reporting Standards (IFRS)

The Accounting Standards Board of Canada has announced that accounting standards in Canada (GAAP), as used by public companies will be converged to IFRS. IFRS are based on a similar conceptual framework to Canadian GAAP. However there are significant differences in recognition, measurement and disclosures.

The changeover date for DIAGNOS from current Canadian GAAP to IFRS will be April 1, 2011. Thus, the first interim reporting under IFRS will be for the three months ending June 30, 2011, for which comparative figures will be prepared under IFRS as well as opening IFRS balance sheet as at April 1, 2010.

The information contained in this section is provided to allow investors and others to obtain a better understanding of our IFRS changeover plan. Readers are cautioned, however, that it may not be appropriate to use such information for any other purpose. This information also reflects our most recent assumptions and expectations; circumstances may arise, such as changes in IFRS, regulations or economic conditions, which could have an impact on these assumptions or expectations.

The Corporation's transition plan objective is to perform a comprehensive conversion from Canadian GAAP to IFRS. The plan is comprised of three phases:

- Scope and plan;
- Convergence;
- Implementation and review.

The main activities related to the key elements of each phase are detailed as follows:

Key elements	Phase 1: Scope and plan	Phase 2: Convergence	Phase 3: Implementation and review
	Activities		
Accounting and reporting	<ul style="list-style-type: none"> • Determine impact of IFRS to current reporting • Determine impact of IFRS on the entire organization 	<ul style="list-style-type: none"> • Prepare for IFRS conversion by making policy and disclosure choices • Design IFRS compliant internal/external reporting 	<ul style="list-style-type: none"> • Prepare IFRS compliant financial statements and reporting • Deploy procedure to monitor changes in IFRS standards
Internal controls	<ul style="list-style-type: none"> • Determine the impact of IFRS on controls and governance 	<ul style="list-style-type: none"> • Design controls to align with IFRS conversion requirements and to ensure accuracy of reporting and adherence to timelines 	<ul style="list-style-type: none"> • Develop approach for maintaining and updating control framework
Process and Systems	<ul style="list-style-type: none"> • Analyze IFRS impacts to accounting, reporting, consolidation, and reconciliation processes • Evaluate the impact on financial systems and architecture 	<ul style="list-style-type: none"> • Design future state accounting, reporting, consolidation, and reconciliation processes • Design future state IT systems to incorporate IFRS reporting 	<ul style="list-style-type: none"> • Configure, convert, test, and deploy system enhancements
Training / education	<ul style="list-style-type: none"> • Assess IFRS impacts on training and learning needs 	<ul style="list-style-type: none"> • Design new training/education services to preparers and end-users of financial information under IFRS 	<ul style="list-style-type: none"> • Make available and deliver ongoing training/education services to internal and external parties
Timeline	<ul style="list-style-type: none"> • From April 1, 2009 to March 31, 2011 	<ul style="list-style-type: none"> • From April 1, 2010 to June 30, 2011 	<ul style="list-style-type: none"> • From April 1, 2011 to March 31, 2012

As at September 30, 2010, the Corporation is progressing according to schedule and has completed the diagnosis of the principal differences and impacts between Canadian GAAP and IFRS. At this time, it is not possible to precisely quantify the impacts of such changes on the financial statements. However, from our analysis and comprehension of these new standards, we can categorize these impacts as "High" (important), "Medium" (less important) or "Low" (less significant) as described in the below table:

Topic	Category	Description / comments	Impacts
IFRS 1 – First-time adoption of IFRS	<ul style="list-style-type: none"> • High 	<ul style="list-style-type: none"> • Mandatory for first-time adopters of IFRS standards • Provides guidance, rules, exceptions and exemptions. For example, full retrospective application of IFRS 2 "Share-based Payment" may be avoided for certain share-based instruments depending on the grant date, vesting terms and settlement of any related liabilities. 	<ul style="list-style-type: none"> • Preparation of an opening IFRS statement of financial position (balance sheet) as at April 1, 2010 • Key decisions will have to be made around which exemption(s) to select

Topic	Category	Description / comments	Impacts
IFRS 2 – Share-based payment transactions	• High	<ul style="list-style-type: none"> • The Corporation has a stock option plan with vesting conditions • IFRS 2 requires that an estimate of forfeitures (e.g. due to employees leaving the company) be factored into the determination of the expense • IFRS 2 requires that when share-based payments vest in instalments, each instalment is treated as a separate arrangement and will impact the compensation expense calculation 	<ul style="list-style-type: none"> • Current models in place will need to be revised in order to ensure that an estimate of forfeitures is implicit in the calculation of the expense under IFRS • Retrospective application of IFRS 2 will require some efforts due to the fact that the plan was put in place several years ago
IAS 34 – Interim financial reporting	• Medium	<ul style="list-style-type: none"> • The first interim financial statements for the period of April 1, 2011 to June 30, 2011 will require IFRS financial figures for the comparative period ended June 30, 2010 • Financial statements and notes to financial statements prepared under IFRS typically look a little different from those under Canadian GAAP and contain more information such as reconciliations and continuity analysis, qualitative information on the justifications behind the choices of standards made by the Corporation 	<ul style="list-style-type: none"> • The Corporation will have to put in place processes to gather all required information including those required for reconciliation purposes
IAS 37 – Provisions, contingent liabilities and contingent assets	• Medium	<ul style="list-style-type: none"> • IAS 37 covers a number of areas which are addressed in different standards under Canadian GAAP • A contingent liability is an item that is not recognized under IFRS. A contingent loss that is accrued for under Canadian GAAP would be classified as a provision under IFRS 	<ul style="list-style-type: none"> • Legal counsel will need to be made aware of revised terminology and consider impacts on liability recognition • Judgment will be required in determining whether certain previously unrecognized items should be provided for under IAS 37. Controls and processes will need to be established to capture such items
<ul style="list-style-type: none"> • IFRS 6 – Exploration for and evaluation of mineral resources • IAS 18 – Revenue • IAS 32 – Financial instruments: Presentation • IAS 39 – Financial instruments: Recognition • IFRS 7 – Financial instruments: Disclosures • IAS 7 – Statement of cash flows • IAS 36 – Impairment of assets • IAS 16 – Property, plant and equipment • IAS 11 – Construction contracts 	• Low	<ul style="list-style-type: none"> • While some differences may exist, the relative significance of these differences on the Corporation is expected to be less pervasive than for the medium and high impact areas already identified above • For instance, revenue from long term service contracts is recognized using the percentage-of-completion method. IAS 18 – Revenue states that when reliable estimates of progress cannot be made, revenue is recognized up to the corresponding expenses whereas, per Canadian GAAP, revenue would be recognized only when delivery has occurred 	

Risk analysis

With regards to the Corporation's general activities:

- Profitability - The Corporation has not realized any profits from its operations since its inception. However, the Corporation has been able to operate on a continuous basis. The Corporation's ability to continue is dependent on financing and on achieving and maintaining profitable operations.
- Nature of services – The Corporation offers data mining and interpretation services based on proprietary data mining software applications. Data mining is mainly used to extract knowledge from a set of data. This extraction of knowledge is an interpretation of a given situation with the assistance of a software program. As with many software applications, the results have to be reviewed and validated by the client's staff. When rendering data mining services to its clients, DIAGNOS mitigates the perception of risk by including disclaimer clauses and warranty limitations to indicate clearly the client's responsibility towards the results.
- Intellectual Property – The market in which the Corporation competes may include new or existing entrants that own, or claim to own, intellectual property, and the Corporation may have to defend itself which can be time-consuming and costly. In some cases, DIAGNOS may be unable to protect its proprietary technology adequately against unauthorized third-party use or copying through reverse-engineering processes which could adversely affect its competitive position. Additionally, DIAGNOS may be faced with individuals and groups who have purchased intellectual property assets for the sole purpose of making claims of infringement and attempting to extract substantive settlements from established companies.
- Litigations and disputes – In the normal course of its activities, the Corporation may be party to various legal proceedings and disputes with customers and suppliers. Legal proceedings may include undetected errors or malfunctions of our services and products, or claims relating to applicable securities laws. A product liability or securities class action could negatively impact our business because of the costs of defending the lawsuit, diversion of employees' time and attention, and potential damage to our reputation. Our insurance policy may not cover all potential claims, or may not be adequate to cover all costs incurred in defence of potential claims or to indemnify us for all liability that may be imposed.
- Revenue recognition – Most sales (greater than 80%) involve the delivery of services exceeding three months which has an impact on the revenue amount presented in the financial statements of the Corporation. Revenue is recognized over the period in which the services are rendered when there is no uncertainty regarding collection. Where the arrangement includes multiple separate elements, the Corporation evaluates these arrangements to determine whether the multiple elements have value to the customer. In these cases, revenue is allocated to each element based on their fair values and recognized when the above-noted revenue recognition criteria have been met. Revenue recognition requires making significant estimates when revenue is recognized over a period of time or when the arrangement includes multiple elements. For revenue recognized over a period of time, management makes estimates concerning the projected costs, the projected profit margin and the percentage of completion. When the arrangement includes multiple elements, management makes estimates concerning the fair value of each element based on the characteristics of each arrangement and the market conditions. Estimates are regularly reviewed and revised by the management to ensure their accuracy. In any situation, when the anticipated costs of a contract are more likely than not to exceed the total revenue from the contract, then a provision for the anticipated loss is recognized in the period in which it occurs.
- Tax credits programs – DIAGNOS benefits from research and development (R&D) tax credits where approximately 25% of its R&D expenses are refunded under a specific program sponsored by the government of the province of Quebec. Amendments to this program which would reduce the scope of expenses eligible for refund, or its termination, will result in net increases in R&D expenses. Additionally, audits by tax authorities are performed from time to time and may result in negative impacts on our balance sheet.
- Investing activities – The Corporation accepts payment in shares from clients for services rendered. Shares traded on a public or private market are subject to market volatility. The Corporation's policy regarding investments in shares is to benefit from increases in their value. The Corporation sells shares when there are clear indications that any decrease in value is permanent. The Corporation may also sell or liquidate those investments to fund operating activities.
- Securities Analysts – The trading market for DIAGNOS' common stock is in part affected by the research and reports that independent industry or financial analysts publish about DIAGNOS or its business. If one or more of the analysts who publish reports on DIAGNOS were to downgrade DIAGNOS' stock or lower future stock price targets or estimates of operating results, DIAGNOS' stock price could be adversely affected.
- Volatility of markets – The shares of the Corporation are traded on the TSX Venture market and, as with any shares traded on a public market, are subject to volatility. Over a period of two years ended September 30, 2010, the closing price of the DIAGNOS shares has ranged from \$0.07 to \$0.52.

With regards to the introduction of CARA:

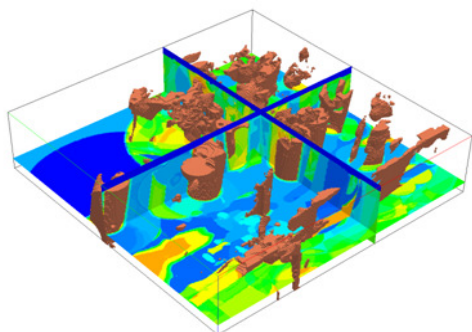
- Market acceptance – CARA success will depend upon achieving market acceptance in a changing healthcare environment. There can be no assurance that CARA will be accepted and that DIAGNOS will be able to respond effectively to changes in technology or customers demands.
- Regulatory approvals – Numerous statutes and regulations govern the manufacture and sale of medical or health care products in Canada, the United States and other countries. The process of obtaining necessary regulatory approvals can be lengthy, expensive, and uncertain.
- Product interaction and product support – CARA is an in-house hosted web-based application that integrates fundus cameras from major camera suppliers, such as CZC and Topcon, with an image processing engine over a secure connection. New camera products or new features on existing products may affect compatibility of CARA and may require additional development work or support to insure adaptability. Lack of support or termination of relationships with the major fundus camera manufacturers would negatively impact our business.
- Sales strategy – The Corporation marketing plan is to market services from CARA worldwide. To achieve this goal, DIAGNOS has chosen to rely mainly on resellers. If the Corporation is unable to build and support effective distribution channels, sales will most likely be negatively impacted or delayed and the Corporation may have to review its sales strategy.
- Foreign market environment – International operations carry certain risks and associated costs in managing a business abroad, such as complications in compliance with, and unexpected changes in, legal and regulatory restrictions or requirements, matters governing privacy of personal information, foreign currency fluctuations, difficulties in collecting accounts receivable, withholding taxes regulations, uncertainties of laws and enforcement relating to intellectual property and privacy rights and unauthorized copying of software.
- Budgets and Forecasts – Sales forecasts are currently prepared from our appreciation and interpretation of the addressable screening markets for retinopathy and are not based on firm orders. Additionally, the Corporation is assuming that it will benefit from repetitive revenues based on the fact that patients screened for retinopathy need to be followed up on a regular basis. Actual results and renewal rates may differ from anticipated levels and any decline will negatively impact our business.

Outlook

Natural resources (CARDS)

In the past few years, the majority of our revenues were generated from services rendered to exploration companies active in the mining industry. DIAGNOS uses its proprietary CARDS (Computer Aided Resources Detection System) to help mineral exploration professionals identify areas with a high statistical probability of similarity to known areas of mineralization. In combination with modern exploration techniques, CARDS is a useful tool to save both money and time by limiting target areas for exploration. These target areas are presented either in two dimensions (2D) or in three dimensions (3D). In addition to target generation, DIAGNOS offers project management services including geological consulting services.

Illustration of CARDS 3D



The natural resources sector continues to be part of our marketing efforts and management remain hopeful that sales will return to previous levels following the steady recovery taking place in the natural resources sector. As at November 15, 2010, the backlog of services to be rendered in the natural resources sector was:

	\$
Opening backlog for the current fiscal year, as at April 1, 2010	31,250
New contracts signed from April 1, 2010 to November 15, 2010	357,500
Re-activation of a contract signed in a prior period	65,000
Services rendered from April 1, 2010 to November 15, 2010	(254,000)
Backlog as at November 15, 2010	<u>199,750</u>

Healthcare (CARA)

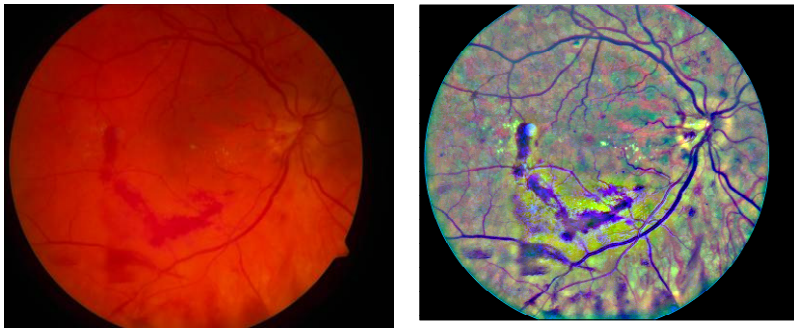
The Corporation has developed a proprietary set of algorithms and associated platforms to assist eye specialists in the detection of diabetic retinopathy. This new application is named CARA which stands for "Computer Aided Retinal Analysis".

The Corporation's management is confident that this application will generate new streams of revenues based on the following factors:

- All diabetics need to be screened for diabetic retinopathy to reduce the risk of blindness and to monitor for progression of disease;
- Screening of diabetics for diabetic retinopathy is currently done, for the most part, manually and therefore is inefficient;
- Automating the process leads to better outcomes for diabetics and savings to the health care system.

The CARA suite of applications allows an eye care specialist to more clearly visualize both normal retinal landmarks (optic nerve, vascular system, macula, fovea), as well as pathological changes (exudates, haemorrhages, micro-aneurisms, neo-vascularisation).

Left: Regular image from standard mydriatic or non-mydriatic camera. Right: CARA enhanced image.



CARA is not intended to diagnose diabetes, and DIAGNOS does not and will not be providing any diagnostic medical service. CARA does however highlight all physical features on a diagnostic image of the retina to make a diagnosis more obvious to the appropriate professionals, or to triage images of patients who should consult a qualified specialist without delay. As such CARA is conceived and calibrated to fill a large and growing need in the global healthcare marketplace by playing a critical role in national diabetic screening programs.

Given the nature of healthcare systems and of the technology we are marketing, management have taken the following approach to build an effective sales pipeline:

- Generate direct sales to field-prove the product and service;
- Generate CARA trials with influencers and key opinion leaders (e.g. prominent ophthalmologists, important hospitals, etc.);
- Sign sales distribution agreements with local representatives who know the intricacies of their local markets (e.g. Mexico, Oman);
- Actively support resellers in particular assisting them with trails and closing sales thereby greatly extending the territory covered without a large internal team;
- Sign channel agreements with key equipment manufacturers and other "vertical" partners capable of jointly offering a turn-key solution to clients;
- Comply with regulatory bodies such as the US FDA in 2011, and with European requirements in 2012; and finally
- Prepare formal scientific publications of CARA results in peer-reviewed journals in 2010 and 2011 through the execution of formal external clinical trials.

During the first half of fiscal year 2011 DIAGNOS' Healthcare business unit focused on refining the CARA technology platform including continued improvement and testing of algorithms, completion of a web interface and image transfer software, preparation for the start of 2 formal clinical trials, and continued execution of our regulatory strategy as well as on business development activities including successful execution of 16 Field Trials with prospective customers, presence at medical conferences, development of relationships with governments and NGOs, identification and training of 5 resellers, putting in place 2 channel agreements.

Media (DHS)

The Corporation has developed a set of algorithms that can predict if a song has the potential to become a commercial hit. This technology is called DHS which stands for "Dynamic Hit Scoring". DHS breaks down a song into variables such as pitch, tempo, etc. and compares its structure to the songs from the top 100 *Billboard* @ charts over a period of six years. The more the song's patterns resemble the ones of hits, the higher it scores. DHS technology is showcased on the website Hitlab.com. Hitlab is an online lab where musicians can come and test out their songs to find out if they have a potential hit on their hands.

Consulting services

DIAGNOS provides a broad range of statistical and software consulting services to corporations in multimedia, natural resources, healthcare and other sectors, for such purposes as segmentation, profiling, prediction and targeting. DIAGNOS also develops custom data mining applications and solutions based on the client needs.

From January 2010 to September 2010, the Corporation assisted a major Canadian chartered bank in analyzing patterns related to the laundering of money. The Corporation is currently discussing the renewal of this mandate with the client.

Interim Consolidated Balance Sheets

		As at September 30, 2010 (Unaudited)	As at March 31, 2010 (Audited)
	Note	\$	
ASSETS			
Current assets			
Cash		142,326	256,313
Temporary investments	4	592,528	1,286,766
Amounts receivable	5	372,069	251,839
Prepaid expenses		6,671	25,027
		1,113,594	1,819,945
Investments	6	396,355	348,182
Capital assets	7	82,273	61,859
Intangible assets	8	44,235	43,705
		1,636,457	2,273,691
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	9	278,379	203,855
Deferred revenue		78,384	87,984
		356,763	291,839
Commitments & contingencies	12		
SHAREHOLDERS' EQUITY			
Share capital	10	12,558,742	12,446,792
Contributed surplus	11	2,856,233	2,775,874
Deficit		(14,325,346)	(13,382,706)
Accumulated other comprehensive income		190,065	141,892
		1,279,694	1,981,852
		1,636,457	2,273,691

SEE ACCOMPANYING NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

These interim consolidated financial statements were approved by the Board of Directors on November 19, 2010.



Philip Renaud
Chairman



Olivier Lerolle
Director

Interim Consolidated Statements of Earnings and Comprehensive Loss

	For the three-month period ended September 30,		For the six-month period ended September 30,	
	2010	2009	2010	2009
	(Unaudited)		(Unaudited)	
	\$		\$	
Revenue	273,939	21,507	409,239	74,385
Cost of Goods Sold	(24,000)	-	(24,000)	-
Gross profit	249,939	21,507	385,239	74,385
Expenses				
General, sales and administrative	512,774	384,924	915,127	710,926
Research and development	161,320	129,915	307,855	299,240
Tax credits on research and development expenses	(22,275)	(32,400)	(47,025)	(67,900)
Geology	63,391	35,445	103,928	91,171
Amortization of capital assets	17,934	19,252	34,792	45,900
Amortization of intangible assets	4,206	35,750	19,214	72,500
	737,350	572,886	1,333,891	1,151,837
Loss before other income	(487,411)	(551,379)	(948,652)	(1,077,452)
Interest income	4,802	2,290	6,012	6,977
Net loss	(482,609)	(549,089)	(942,640)	(1,070,475)
Other element of comprehensive loss				
Variance in fair value of investments	27,058	17,100	48,173	24,200
Comprehensive loss	(455,551)	(531,989)	(894,467)	(1,046,275)
Basic and diluted loss per share	(0.01)	(0.01)	(0.02)	(0.02)
Weighted average number of common shares outstanding	52,280,101	45,615,010	52,195,674	45,615,010

SEE ACCOMPANYING NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Interim Consolidated Statements of Deficit

	For the three-month period ended September 30,		For the six-month period ended September 30,	
	2010	2009	2010	2009
	(Unaudited)		(Unaudited)	
	\$		\$	
Balance, beginning of the period	(13,842,737)	(11,993,254)	(13,382,706)	(11,471,868)
Net loss	(482,609)	(549,089)	(942,640)	(1,070,475)
Balance, end of the period	(14,325,346)	(12,542,343)	(14,325,346)	(12,542,343)

SEE ACCOMPANYING NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Interim Consolidated Statements of Cash Flows

	For the three-month period ended September 30,		For the six-month period ended September 30,	
	2010	2009	2010	2009
	(Unaudited)		(Unaudited)	
	\$		\$	
Cash flows from operating activities				
Net loss	(482,609)	(549,089)	(942,640)	(1,070,475)
Items not affecting cash				
Amortization of capital assets	17,934	19,252	34,792	45,900
Amortization of intangible assets	4,206	35,750	19,214	72,500
Stock-based compensation expense	49,946	23,680	80,359	50,350
	(410,523)	(470,407)	(808,275)	(901,725)
Net change in non-cash operating working capital items	(33,164)	(16,534)	(36,950)	31,194
	(443,687)	(486,941)	(845,225)	(870,531)
Cash flows from investing activities				
Proceeds from disposals of temporary investments	445,338	597,713	694,238	943,026
Additions to capital assets	(7,206)	-	(55,206)	(11,533)
Additions to intangible assets	(2,184)	(177)	(19,744)	(8,615)
	435,948	597,536	619,288	922,878
Cash flows from financing activities				
Issuance of shares and warrants, net of issue expenses	1,850	-	111,950	-
Net change in cash	(5,889)	110,595	(113,987)	52,347
Cash, beginning of period	148,215	71,862	256,313	130,110
Cash, end of period	142,326	182,457	142,326	182,457

SEE ACCOMPANYING NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Notes to the unaudited Interim Consolidated Financial Statements

As at September 30, 2010

1. Statutes and nature of activities

The shares of the Corporation are listed on the TSX Venture Exchange. The Corporation provides data mining and interpretation services based on its proprietary suite of data mining software capable of extracting knowledge from historical data. The current main applications are used:

- to predict economical mining deposits;
- to assist health specialists in the detection of diabetic retinopathy;
- to predict if a song has the potential to become a commercial hit.

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 annual 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's ability to continue as a going concern is dependent on financing and on 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

a) International Financial Reporting Standards ("IFRS")

The Accounting Standards Board of Canada has announced that generally accepted accounting principles ("GAAP") in Canada, as used by public companies will be converged to IFRS. The changeover date from current Canadian GAAP to IFRS, for the Corporation, is for the fiscal year beginning on April 1, 2011. IFRS are based on a similar conceptual framework to Canadian GAAP. However there are significant differences in recognition, measurement and disclosures. The Corporation will convert to these new standards according to the timetable set with these new rules. As at September 30, 2010, the Corporation has completed the planning of its transition plan and the diagnosis of the principal differences between Canadian GAAP and IFRS. At this time it is not possible to precisely evaluate the impact of such changes on the financial statements.

b) Business combinations

In January 2009, the CICA issued three new standards: Section 1582, "Business combinations", Section 1601, "Consolidated financial statements", and Section 1602, "Non-controlling interests". These new standards will be effective for quarterly and annual reporting periods beginning on or after January 1, 2011. The Corporation will adopt these Sections in the fiscal year beginning April 1, 2011. Early adoption of these Sections is permitted as long as they are adopted simultaneously. These new accounting standards are intended to harmonize Canadian accounting standards with international financial reporting standards.

c) Revenue Arrangements with Multiple Deliverables

In December 2009, the CICA issued Emerging Issue Committee Abstract ("EIC") 175, "Revenue Arrangements with Multiple Deliverables", replacing EIC 142, "Revenue Arrangements with Multiple Deliverables". EIC 175 provides guidance on certain aspects of the accounting for arrangements under which the Corporation will perform multiple revenue-generating activities. Under the new guidance, when vendor specific evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price methods. EIC 175 also includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. EIC 175 is effective prospectively, with retrospective adoption permitted, for revenue arrangements entered into or materially modified in fiscal years beginning on or after January 1, 2011. Early adoption is also permitted; however, early adoption during an interim period requires retrospective application from the beginning of the fiscal year. At this time it is not possible to precisely evaluate the impact of such changes on the financial statements.

3. Summary of significant accounting policies

These interim consolidated financial statements have been prepared in accordance with GAAP. However, they do not include all information required under GAAP and, accordingly, should be read in conjunction with the consolidated financial statements included in the latest annual report. Additionally, they have not been reviewed or audited by the Corporation's external auditors.

a) Use of estimates

The preparation of consolidated financial statements 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. Management makes estimates related to allowance for doubtful accounts, refundable income tax credits, useful lives of capital and intangible assets, stock based compensation, revenue recognition, fair value determinations and certain accrued liabilities. Actual results could differ from these estimates.

b) Consolidation

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

c) Revenue recognition

Data mining and project management services generally involve the delivery of services and products. Revenue derived from services is recognized over the period in which the services are rendered, when there is no uncertainty regarding collection. Revenue derived from products is recognized upon delivery to the customer. Any unbilled services rendered are presented under "Work in progress" on the consolidated balance sheets. Any amount invoiced before the delivery of services or goods is presented under "Deferred revenue" on the consolidated balance sheets.

Revenue from the sale of options on mineral exploration claims is recognized upon transfer of rights to the customer. Any amount invoiced which does not meet the revenue recognition conditions related to this type of sale is presented under "Deferred revenue" on the consolidated balance sheets.

Gain or loss from the sale of mineral claims is recognized when the title of ownership is transferred to the customer. Any amount invoiced which does not meet the revenue recognition conditions related to this type of sale is presented under "Deferred revenue" on the consolidated balance sheets.

Where the arrangement includes multiple separate elements, the Corporation evaluates these arrangements to determine whether the multiple elements have value to the customer. In these cases, revenue is allocated to each element based on their fair values and recognized when the above-noted revenue recognition criteria have been met.

In any situation, when the anticipated costs of a contract are more likely than not to exceed the total revenue from the contract, then a provision for the anticipated loss is recognized in the period in which it occurs.

Revenue recognition requires making significant estimates when revenue is recognized over a period of time or when the arrangement includes multiple elements. For revenue recognized over a period of time, management makes estimates concerning the projected costs, the projected profit margin and the percentage of completion. When the arrangement includes multiple elements, management makes estimates concerning the fair value of each element based on the characteristics of each arrangement and the market conditions. Estimates are regularly reviewed and revised by the management to ensure their accuracy.

d) 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. Gains and losses resulting from translation are reflected in the consolidated statements of earnings and comprehensive income.

e) Investment tax credits

The Corporation records investment tax credits when it believes it has complied with the eligibility requirements as set out in the income tax legislation of Canada and its provinces and collection is reasonably assured. Investment tax credits are recorded in reduction of research and development expenses in the consolidated statements of earnings and comprehensive income.

f) Capital assets and amortization

Capital assets are recorded at cost less accumulated amortization and related tax credits. Amortization is calculated on their useful life using the straight-line method.

	<u>Annual rates</u>
Office furniture and equipment	20%
Computer equipment	50%
Leasehold improvements	Lesser of the lease term and the useful life

g) Intangible assets and amortization

- i) The mining assets, consisting of mineral claims, are amortized using the straight-line method over the useful life of two years.
- ii) Software is amortized using the straight-line method over the estimated useful life of two years.

h) Impairment of long-lived assets

Long-lived assets, including capital assets and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying amount exceeds its undiscounted estimated future cash flows, an impairment charge representing the difference between the fair value and the carrying amount of the asset is then recognized.

Assets to be disposed of are presented separately in the notes of the consolidated financial statements and are presented at the lower of the carrying amount or fair value less selling costs and are no longer amortized.

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 period 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 expenses 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. For the comparative periods presented in these financial statements, all expenses related to development activities were expensed as incurred.

k) Loss per share

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

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

l) Shares and warrants issue costs

Shares and warrants issue costs have been applied against the proceeds from the issuance of share capital.

m) Stock-based compensation plan

Stock-based compensation is recorded as a charge to income, using the fair value obtained by applying the Black - Scholes option pricing model, with a corresponding credit to contributed surplus. The compensation expense is recognized over the vesting period. Upon exercise of options, the accumulated compensation is reduced from the contributed surplus and added to share capital.

n) Financial Instruments

CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement", establishes standards for recognizing and measuring financial instruments, notably, the classification of financial assets in one of the following categories: "Held to maturity", "Held for trading", "Available for sale" or "Loans and receivables", and of financial liabilities in one of the following categories: "Held for trading" or "Other financial liabilities". Consequently, the Corporation classified its financial assets and liabilities as follows:

- Cash and temporary investments are classified as assets held for trading and are measured at fair value. Gains and losses from periodic revaluation are recognized in net earnings;
- Amounts receivable are classified as loans and receivables and are measured at amortized cost using the effective interest rate method;
- Investments are classified as available for sale and are measured at fair value. Variations in fair value are recognized in other comprehensive income (loss). In the case where the fair value cannot be determined, investments are measured and presented at cost. Investments in the form of securities from payment of trade receivables are measured at the receivable amount. Any difference between the receivable amount, at settlement date, and the fair value of the shares received is recognized in the statement of earnings (loss). Securities of privately-held companies are initially measured at cost and then valued at \$1 due to the fact that the appraisal of these shares is not possible with available information; and,
- Accounts payable and accrued liabilities are classified as other liabilities and are measured at amortized cost using the effective interest rate method.

Transaction costs related to held-for-trading financial assets are expensed as incurred. Transaction costs related to available-for-sale financial assets, held-to-maturity financial assets, other liabilities and loans and receivables are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the effective interest method.

The Corporation did not classify any financial asset as "Held to maturity", nor any financial liabilities as "Held for trading".

4. Temporary investments

Temporary investments consist of cashable guaranteed investment certificates and bear interests at rates of 1.25% and 1.32% and mature from November 16 to December 7, 2010.

	As at September 30, 2010	As at March 31, 2010
	\$	
Guaranteed investment certificates	592,528	1,286,625
Money market funds	-	141
	<u>592,528</u>	<u>1,286,766</u>

5. Amounts receivable

Customers, net of allowance for doubtful accounts of \$42,405 (March 31, 2010 - \$76,505)	130,775	44,530
Tax credits on research and development expenses	240,364	193,339
Sales taxes	-	13,040
Other	930	930
	<u>372,069</u>	<u>251,839</u>

6. Investments

1,691,079 shares of publically-traded companies	396,352	348,179
2,084,472 shares of private companies	3	3
	<u>396,355</u>	<u>348,182</u>

These investments arose from payments in the form of securities from clients for services rendered or products delivered. The Corporation does not hold enough shares to have a significant influence over these companies.

Investments are classified as available for sale and are measured at fair value. Variations in fair value are presented under "Other element of comprehensive loss" on the consolidated statements of earnings and comprehensive loss. The following table presents the changes which have occurred during the six-month period ended September 30, 2010.

	Number of shares	\$
Balance, beginning of period	3,775,551	348,182
Variance in fair value	-	48,173
Balance, end of period	<u>3,775,551</u>	<u>396,355</u>

Shares certificates for 312,500 shares, representing a value of \$87,500 as at September 30, 2010, carry trading conditions limiting the Corporation to trade up to 62,500 shares per month, on a cumulative basis.

7. Capital assets

**As at
September 30,
2010**

	Cost	Accumulated amortization	Net Book Value
	\$		
Office furniture and equipment	101,414	77,292	24,122
Computer equipment	368,950	310,799	58,151
Leasehold improvements	27,813	27,813	-
	<u>498,177</u>	<u>415,904</u>	<u>82,273</u>

**As at
March 31,
2010**

	Cost	Accumulated amortization	Net Book Value
	\$		
Office furniture and equipment	101,414	71,710	29,704
Computer equipment	313,744	281,589	32,155
Leasehold improvements	27,813	27,813	-
	<u>442,971</u>	<u>381,112</u>	<u>61,859</u>

8. Intangible assets

**As at
September 30,
2010**

	Cost	Accumulated amortization	Net Book Value
	\$		
Mining assets	242,550	198,562	43,988
Software	79,505	79,258	247
	<u>322,055</u>	<u>277,820</u>	<u>44,235</u>

**As at
March 31,
2010**

	Cost	Accumulated amortization	Net Book Value
	\$		
Mining assets	223,367	184,792	38,575
Software	78,945	73,815	5,130
	<u>302,312</u>	<u>258,607</u>	<u>43,705</u>

	As at September 30, 2010	As at March 31, 2010
	\$	
9. Accounts payable and accrued liabilities		
Accounts payable and accrued liabilities	105,697	85,946
Salaries and benefits	166,750	117,909
Sales taxes	5,932	-
	<u>278,379</u>	<u>203,855</u>

10. Share capital

Authorized		
Unlimited number of common shares, without par value, voting and participating		
Subscribed and issued: 52,288,343 shares (March 31, 2010 - 51,857,510 shares)	<u>12,558,742</u>	<u>12,446,792</u>

During the six-month periods ended September 30, 2010 & 2009, the issued share capital varied as follows:

	Six-month period ended September 30, 2010		Six-month period ended September 30, 2009	
	Number	\$	Number	\$
Balance, beginning of period	51,857,510	12,446,792	45,615,010	11,388,644
Exercise of options	430,833	111,950	-	-
Balance, end of period	<u>52,288,343</u>	<u>12,558,742</u>	<u>45,615,010</u>	<u>11,388,644</u>

Capital disclosures

The Corporation closely manages its capital structure in conjunction with economic conditions in order to produce adequate returns on investments to its Shareholders. The key capital performance measures of the Corporation reside in its capability to meet its financial obligations and to invest in the development of its technology to stay competitive.

To improve its performance and flexibility, the Corporation may, from time to time, issue new shares, repurchase issued shares, amend its stock option plan and sell assets.

Stock option plan

The Corporation maintains a stock option plan for its directors, key 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 close of the stock 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 participant 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, is 8,000,000. As at September 30, 2010, the Corporation has issued a total of 6,147,191 options.

The following table presents the changes which have occurred during the six-month periods ended September 30, 2010 & 2009 with regard to the stock option plan.

	Six-month period ended September 30, 2010		Six-month period ended September 30, 2009	
	Number of stock options	Weighted average exercise price (\$)	Number of stock options	Weighted average exercise price (\$)
Outstanding, beginning of period	5,417,857	0.30	4,795,357	0.31
Granted	1,409,000	0.37	60,000	0.14
Exercised	(430,833)	0.24	-	-
Cancelled	(700,000)	0.47	(35,000)	0.80
Outstanding, end of the period	<u>5,696,024</u>	<u>0.31</u>	<u>4,820,357</u>	<u>0.31</u>

The compensation expense that has been charged to earnings for the current quarter is \$49,946 (September 30, 2009 – \$23,680) and the counterpart has been credited to contributed surplus in the Shareholders' equity.

Grants of options vest at 33.33% per year, commencing with the first anniversary of the grant. The outstanding options can be exercised up to July 1, 2015.

The weighted average fair value of each stock option grant is estimated at \$0.27 for the six-month period ended September 30, 2010 (September 30, 2009 - \$0.11) and is calculated using the Black - Scholes option pricing model with the following weighted average assumptions:

Expected life	5 years (2009 – 5 years)	Risk-free interest rate	2.67% (2009 – 2.61%)
Dividend yield	0% (2009 – 0%)	Volatility	91.7% (2009 – 104.7%)

11. Contributed surplus

	<u>Six-month period ended September 30,</u>	
	<u>2010</u>	<u>2009</u>
	<u>\$</u>	
Balance, beginning of period	2,775,874	2,513,070
Stock-based compensation	80,359	50,350
Balance, end of period	<u>2,856,233</u>	<u>2,563,420</u>

12. Commitments and contingencies

Under the terms of operating lease agreements for its offices, the Corporation is committed to make payments of \$738,500, allocated as follows, for the next five years starting April 1st, 2010:

2011	154,000
2012	167,000
2013	167,000
2014	167,000
2015	83,500
	<u>738,500</u>

In the normal course of its activities, the Corporation may be party to various legal proceedings and disputes with customers and suppliers. Although it is not possible to determine the ultimate outcome of such proceedings, management is of the opinion that they will be resolved without material effect on the Corporation's financial position.

13. Financial instruments

The Corporation is exposed to risks which could have an impact on its capacity to reach its strategic growth objectives. The Corporation strives to control and mitigate its financial risks through management practices that require the identification and analysis of the risks related to its operations.

The following describes the Corporation's main financial risks:

a) Fair value hierarchy

Financial instruments recorded at fair value on the consolidated balance sheets are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the consolidated balance sheets, classified using the fair value hierarchy described above:

	Level 1	Level 2	Level 3	Total financial assets and financial liabilities at fair value
				\$
Financial assets				
Cash	142,326	-	-	142,326
Temporary investments	592,528	-	-	592,528
Investments – shares	396,355	-	-	396,355
Total financial assets	1,131,209	-	-	1,131,209

During the period, there has been no transfer of amounts between Level 1 and Level 2.

b) Risks

The Corporation is exposed to risks which could have an impact on its capacity to reach its strategic growth objectives. The Corporation strives to control and mitigate its financial risks through management practices that require the identification and analysis of the risks related to its operations.

The following describes the Corporation's main financial risks:

i. Credit Risks

In the normal course of business, the Corporation's exposure to credit risk results from the possibility that a client or financial institution may default, in part or in whole, on their financial obligations, as they come due.

Cash and temporary investments

Cash as well as temporary investments are mainly risk-free or low risk investments, such as term deposits and money market mutual funds held with recognized financial institutions. None of these short-term investments consist of asset-backed commercial paper. Consequently, management considers the concentration of risk related to temporary investments to be minimal.

Clients

In the normal course of business, the Corporation grants credit to its clients. The Corporation carries out credit checks on its clients and establishes allowances for doubtful accounts. For other accounts receivable, the Corporation determines, on a continuing basis, the probable losses and establishes a provision for losses based on the estimated realizable value. Consequently, management considers the concentration of risk related to amounts receivable to be nominal.

During the six-month period, the allowance for doubtful accounts varied as follows:

	\$
Balance, beginning of period	76,505
Payments received	<u>(34,100)</u>
Balance, end of period	<u>42,405</u>

ii. Liquidity Risks

The liquidity risk is the risk that the Corporation cannot meet its obligations as they come due. To fund its liquidity requirements, the Corporation uses cash flows from operations and issuance of shares. In addition, the Corporation has for policy to target contracts that will generate positive cash flows throughout their execution.

As at September 30, 2010, accounts payable and accrued liabilities that were due in the next 12 months totalled \$278,379. Considering the available liquidities to meet its obligations, the Corporation's exposure to liquidity risk is nominal.

iii. Interest Rate Risk

As at September 30, 2010, the Corporation's exposure to interest rate risk is summarized as follows:

Temporary investments	Fixed interest rate
Amounts receivable	Non-interest bearing
Accounts payable and accrued liabilities	Non-interest bearing

Temporary investments bear interest at fixed interest rates and are held with high-credit quality financial institutions. Consequently, management considers the interest rate risk to be minimal.

iv. Market Risk related to Exchange Rate Fluctuations Risk

During the quarter, all of the sales and almost all of the purchases were made using the Canadian dollar. Consequently, management considers the exchange rate fluctuation risk to be minimal.

14. Income taxes

The non-capital losses (Federal amounts shown hereafter), continual and available, will expire as follows:

2014	246,255	2028	93,504
2015	735,735	2029	1,585,740
2026	9,342	2030	1,557,531
2027	177,589	<u>Total</u>	<u>4,405,696</u>

Share issue expenses will expire as follows:

2011	29,452	2013	1,526
2012	29,452	2014	1,526
		<u>Total</u>	<u>61,956</u>

Investment tax credits (Federal amounts shown hereafter) will expire as follows:

2013	34,386	2016	86,448	2029	94,288
2014	25,481	2017	87,193	2030	132,055
2015	161,868	2028	91,820	<u>Total</u>	<u>713,539</u>

15. Segment information

The Corporation operates one material reportable segment; data interpretation services. Revenue by geographic area is presented below on the basis of the country of delivery. For the six-month period ended September 30, 2010, all deliveries were to clients located in Canada. All capital and intangible assets are located in Canada.

General information

Stock Exchange Listing

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

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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

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Annual General Meeting

The 2010 Annual General Meeting of Shareholders was held September 9, 2010 at the Delta Montreal Hotel.

Others

Currency used is the Canadian dollar, unless specified.

Additional copies of this report are available upon request.

Un exemplaire français du présent rapport est disponible sur demande.

In case of discrepancies between this document and its French version, this version shall prevail.

The
power
of
information
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in
the
knowledge
drawn
from
it.