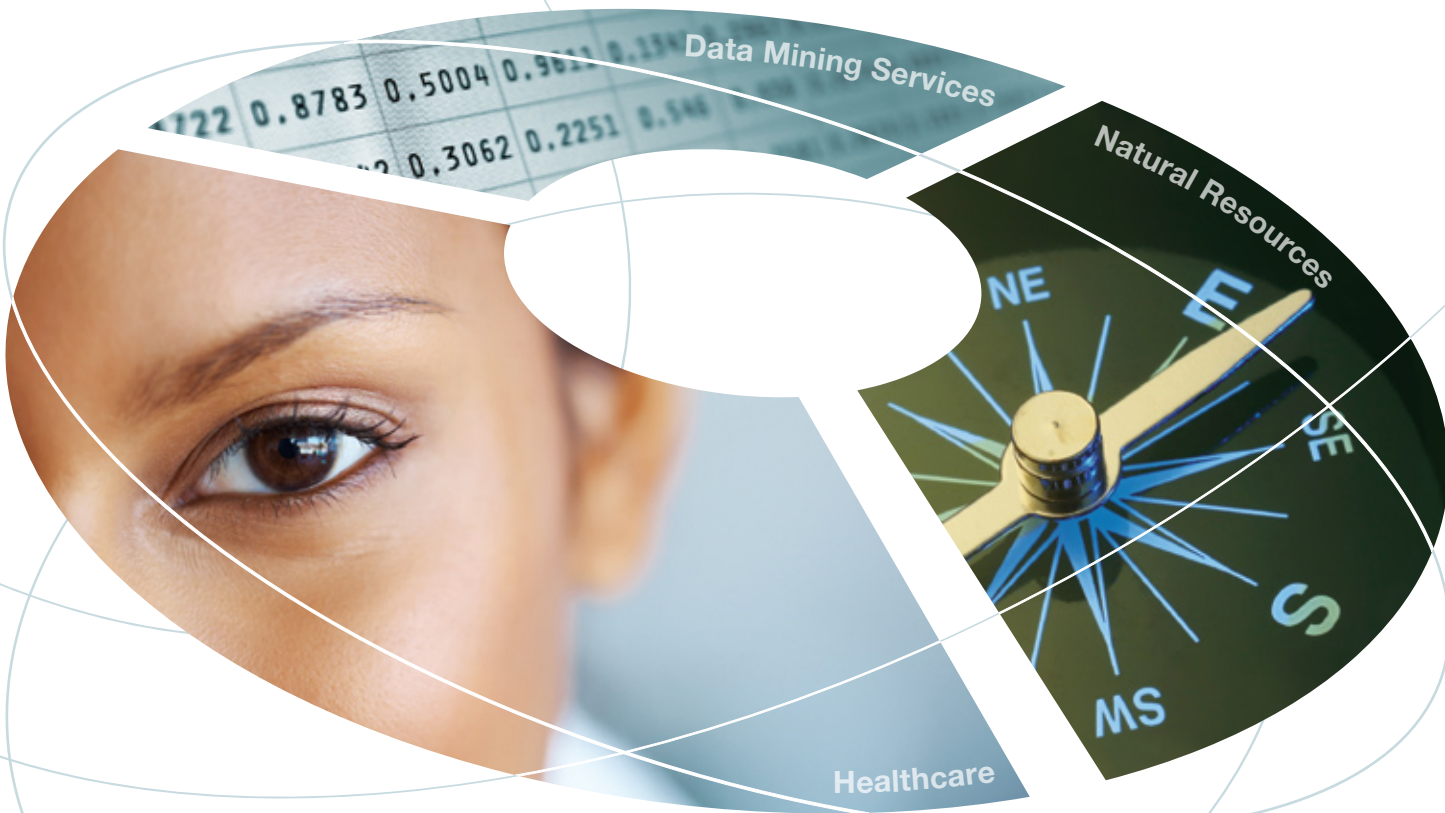


Q1-2012

Management Discussion & Analysis (MD&A)

Interim period ended June 30, 2011



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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:

- Natural resources: Data mining consulting services through CARDS (Computer Aided Resource Detection System), a software tool which is currently used to assist exploration companies 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 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 and support revenue from an application developed by DIAGNOS, named DHS (Dynamic Hit Scoring). DHS algorithms mine data from patterns which exist in new songs, and compare those patterns to those songs that have been recent hits in the US. Currently, DHS is showcased on the website Hitlab.com; 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 September 20, 2011, analyses the financial situation of the Corporation as at June 30, 2011 and should be read in conjunction with the interim consolidated financial statements and accompanying notes. These interim consolidated financial statements have been prepared in accordance with International Auditing Standard 34. These interim financial statements were not reviewed or audited by the Corporation's independent auditor. The currency used is the Canadian dollar.

The information contained in this management discussion and analysis report was approved by the Board of Directors on September 20, 2011.

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*

	2012	2011				2010		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	June 30, 2011	March 31, 2011	Dec. 31, 2010	Sept. 30, 2010	June 30, 2010	March 31, 2010	Dec. 31, 2009	Sept. 30, 2009
	\$							
Revenue	131,594	441,002	224,272	273,939	135,300	141,193	142,495	21,507
Net (loss) income	(722,804)	16,974	(265,198)	(540,906)	(518,325)	(439,223)	(485,261)	(591,150)
Comprehensive (loss) income	(778,387)	(315,590)	53,718	(513,848)	(497,210)	(370,342)	(416,660)	(574,050)
Comprehensive (loss) income per share	(0.01)	(0.01)	0.00	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)

Bookings

Bookings are defined as new sales orders received during a period of time. During the quarter ended June 30, 2011, bookings amounted to \$93,694 compared to \$60,700 for the quarter ended June 30, 2010. The following table shows the comparative bookings and revenues for the quarters ended June 30, 2011 and 2010:

	Quarter ended June 30,	
	2011	2010
	\$	
Opening backlog	360,334	141,234
Bookings	93,694	60,700
Forfeitures	(150,800)	-
Revenues	(131,594)	(135,300)
Ending backlog	171,634	66,634

Results analysis

Net income results

For the quarter ended June 30, 2011, the net loss amounted to \$722,804, an increase of \$204,479 over the net loss amount of \$518,325 for the comparative quarter which ended June 30, 2010. This negative variance of \$204,479 is mainly ascribable to (1), the increase of \$70,704 in sales commissions due to the increase in receipts from clients, (2) the increase of \$62,346 in business development expenses related to the market introduction of CARA, (3) the increase of \$40,830 in general administrative expenses, and (4) the decrease of \$34,100 in reversals of bad debts.

* in accordance with International Financial Reporting Standards (IFRS)

Revenue

For the quarter ended June 30, 2011, revenues amounted to \$131,594, a decrease of \$3,706 or 2.7% over the amount of \$135,300 for the comparative quarter ended June 30, 2010. Comparative revenue figures, per business segment, for the quarters ended June 30, 2011 and 2010 are detailed as follows:

Business segment	Quarter ended June 30,		
	2011	2010	Variance
	\$		
Natural resources	118,800	26,800	92,000
Healthcare – Equipments	12,794	-	12,794
Media	-	50,000	(50,000)
Consulting	-	58,500	(58,500)
Total	131,594	135,300	(3,706)

General, sales and administrative (GS&A)

For the quarter ended June 30, 2011, GS&A expenses amounted to \$628,789, an increase of \$168,142 or 37% over the amount of \$460,647 for the comparative quarter ended June 30, 2010. This increase is mainly due to (1), the increase of \$70,704 in sales commissions due to the increase in receipts from clients, (2) the increase of \$62,346 in business development expenses related to the market introduction of CARA, (3) the increase of \$40,830 in general administrative expenses, and (4) the decrease of \$34,100 in reversals of bad debts.

The compensation expense related to the stock option plan amounts to \$55,622 for the quarter ended June 30, 2011 compared to \$88,707 for the quarter ended June 30, 2010. This decrease of \$33,085 is mainly due to a lower number of options granted in the current quarter compared to the quarter ended June 30, 2010.

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

For the quarter ended June 30, 2011, R&D expenses amounted to \$179,099, an increase of \$32,564 over the amount of \$146,535 for the comparative quarter ended June 30, 2010. This increase of \$32,564 is mainly due to an increase in consultants' fees relating to the development of CARA and an increase in salaries.

Refundable tax credits provisions related to these R&D expenses in the amounts of \$44,550 for the quarter ended June 30, 2011 and of \$24,750 for the quarter ended June 30, 2010, were accrued according to the eligibility conditions regarding refundable governmental investment tax credits programs. During these periods, our team of scientists continued their work on the improvement of CARDS and CARA, 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 June 30, 2011, geology expenses amounted to \$57,575, an increase of \$17,038 or 42% over the amount of \$40,537 for the comparative quarter ended June 30, 2010. This increase is mainly due to the increase in the number of employees and travel and subcontractors expenses amid the increase in new exploration sales contracts in the last year.

Interest income

Interest income amounted to \$442 for the quarter ended June 30, 2011 compared to \$1,210 for the quarter ended June 30, 2010. The decrease of \$768 or 63% in the current quarter is mainly explained by lower returns from short term investment instruments.

Cash flows analysis

Working capital, cash flows and liquidity

As at June 30, 2011, the working capital, defined by the current assets less the current liabilities, amounts to \$3,290,585 compared to \$870,797 as at March 31, 2011.

The net changes in cash for the current and the comparative quarters ended June 30, 2011 and 2010 can be summarized by increases (decreases) in cash from:

	Quarter ended June 30,	
	2011	2010
	\$	
Operating activities	(844,089)	(401,538)
Investing activities	(2,313,364)	183,340
Financing activities	3,076,135	110,100
	(81,318)	(108,098)

Cash flows from operating activities: The net loss of \$722,804 is the main contributor to the decrease in cash from operating activities of \$844,089 for the quarter ended June 30, 2011.

Cash flows from investing activities: The net decrease in cash from investing activities of \$2,313,364 for the quarter ended June 30, 2011 arose mainly from the acquisition of temporary investments following the closing of a private placement in the amount of \$3,216,200 on May 26, 2011.

Cash flows from financing activities: The net increase of \$3,076,135 in cash from financing activities for the quarter ended June 30, 2011 arose mainly from closing of a private placement in the amount of \$3,216,200 on May 26, 2011.

Statements of financial position analysis

Temporary investments

Temporary investments in the amount of \$2,758,714, as at June 30, 2011, consist of guaranteed investment certificates. From March 31, 2011 to June 30, 2011, temporary investments increased by \$2,303,485 due mainly to the acquisition of guaranteed investment certificates following the closing of a private placement in the amount of \$3,216,200 on May 26, 2011.

Amounts receivable and allowance for doubtful accounts

As at June 30, 2011, amounts receivable of \$395,335 include refundable R&D tax credits in the amount of \$231,250 and customer receivables in the amount of \$122,275. Management has stated that no allowance for doubtful accounts was needed to be recorded at June 30, 2011.

Inventories

Inventories in the amount of \$73,670 as at June 30, 2011 are comprised of fundus cameras. The corporation is active in the healthcare sector through CARA, an in-house hosted web-based application that integrates fundus cameras with an image processing engine over a secure connection. To accommodate those clients who do not own a fundus camera, DIAGNOS has signed reseller agreements with two recognized manufacturers of fundus cameras.

Investments

The amount of \$145,003, presented under "Investments" on the interim consolidated statement of financial position as at June 30, 2011, reflects the value of shares of private and publicly 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 comprehensive income (loss)" on the interim consolidated statements of earnings and comprehensive income.

The following table presents the value of those shares per sector:

Business segment	As at	
	June 30, 2011	June 30, 2010
	\$	
Natural resources	145,003	356,079
Healthcare	-	13,218
Total	145,003	369,297

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.

Capital assets

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

For the quarter ended June 30, 2011, additions to capital assets amounted to \$3,699 compared to \$48,000 for the quarter ended June 30, 2010. The additions of \$48,000 for the quarter ended June 30, 2010 were mainly comprised of three fundus cameras used to help develop and demonstrate the CARA technology in the detection of diabetic retinopathy. The additions of \$3,699 for the current quarter ended June 30, 2011 are mainly related to the replacement of computer equipments.

Amortization of capital assets amounted to \$16,788 for the quarter ended June 30, 2011 compared to \$16,858 for the quarter ended June 30, 2010. The decrease of \$70 is mainly due to the decrease in purchases of fixed assets during the last two quarters of fiscal year ended March 31, 2011.

Intangible assets

Intangible assets consist of computer software and mineral claims. As part of its business strategy, DIAGNOS uses its proprietary software application named CARDS (Computer Aided Resources Detection System) to help identify areas of similarity to known areas of mineralization with a high statistical probability. DIAGNOS then acquires mining claims in those areas with the goal of reselling these claims along with the results from CARDS.

For the quarter ended June 30, 2011, additions to intangible assets amounted to \$9,887 compared to \$17,560 for the quarter ended June 30, 2010. The decrease of \$7,673 is mainly related to the non-renewal of certain low potential mining claims.

Amortization of intangible assets amounted to \$7,633 for the quarter ended June 30, 2011 compared to \$15,008 for the quarter ended June 30, 2010. The decrease of \$7,373 is mainly related to the non-renewal of certain low potential mining claims.

Deferred revenue

The amount of \$45,034, presented under "Deferred revenue" on the interim consolidated statement of financial position as at June 30, 2011, is comprised of services or goods invoiced before the services are rendered or the goods are delivered.

Commitments

Commitments consist of office space lease for a total obligation of \$751,500 for the next five years starting April 1, 2011. As at June 30, 2011, the Corporation has not entered into any other off-balance sheet arrangement.

Contingencies

As at June 30, 2011, the Corporation is not party to any legal proceedings or disputes.

Royalty agreements

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 June 30, 2011, 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 June 30, 2011, cumulative earned royalties under this agreement amounted to \$8,063.

Share information

As at June 30, 2011, the Corporation had the following number of common shares and convertible securities outstanding:

Common shares	63,560,356
Stock options	5,710,353
Stock warrants	8,745,176
	<u>78,015,885</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 collection is reasonably assured. Revenue derived from products is recognized upon delivery to the customer. Any unbilled services rendered are presented under "Work in progress" on the interim consolidated statement of financial position. Any amount invoiced before the delivery of services or goods is presented under "Deferred revenue" on the interim consolidated statement of financial position.

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 interim consolidated statement of financial position.

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 interim consolidated statement of financial position.

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. The compensation expense arising from stock options granted is amortized according to the graded vesting method and is reported under "General, sales and administrative" with a corresponding accretion to contributed surplus. Upon exercise of stock 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.

Transition to International Financial Reporting Standards (IFRS)

For all periods up to and including the year ended March 31, 2011, the consolidated financial statements were prepared in accordance with Canadian Generally Accepted Accounting Standards (CGAAP). The unaudited interim consolidated financial statements for the quarter ended June 30, 2011 are the first prepared in accordance to International Financial Reporting Standards (IFRS) which comprise International Accounting Standards (IAS).

a) Application of IFRS 1

The Corporation's consolidated financial statements for the period ended June 30, 2011 are the first interim financial statements to be prepared in accordance with International Financial Reporting Standards (IFRS). The Corporation applied IFRS 1 in the preparation of these interim financial statements.

The Corporation's date of transition to IFRS is April 1, 2010, i.e. the date of the beginning of the earliest comparative period. The Corporation prepared its opening statement of financial position as at that date. The end of the reporting period for these interim consolidated financial statements is June 30, 2011. The date of IFRS adoption by the Corporation is April 1, 2011.

IFRS 1 general rule is to apply retrospectively all standards effective as at March 31, 2012. IFRS 1 provides for some exemptions and exceptions to this general rule.

b) Exemption to the retrospective application

The Corporation decided to apply the following exemption:

i. Business combinations

The Corporation applied the exemption provided for under IFRS 1. Business combinations that occurred before the date of transition to IFRS were not restated. The classification determined in accordance with Canadian GAAP has been maintained. Assets and liabilities acquired in past business combinations were recognized at the date of transition to IFRS.

c) Exception to the retrospective application

The Corporation applied the following mandatory exception to the retrospective application of other IFRS:

i. Estimates

Estimates under IFRS are consistent with those made for the same date according to Canadian GAAP.

d) Reconciliation between IFRS and Canadian GAAP (CGAAP)

The following reconciliations demonstrate the effect of the transition to IFRS:

- Equity at April 1, 2010
- Equity at March 31, 2011
- Equity at June 30, 2010
- Comprehensive income for the year ended March 31, 2011
- Comprehensive income for the period ended June 30, 2010

Reconciliation of equity at April 1, 2010:

	CGAAP As at April 1, 2010	Note	IFRS adjustment	IFRS As at April 1, 2010
			\$	
Share capital	12,446,792			12,446,792
Contributed surplus	2,775,874	i	447,032	3,222,906
Deficit	(13,382,706)	i	(447,032)	(13,829,738)
Investments revaluation reserve	141,892			141,892
	<u>1,981,852</u>		-	<u>1,981,852</u>

Reconciliation of equity at March 31, 2011:

	CGAAP As at March 31, 2011	Note	IFRS adjustment	IFRS As at March 31, 2011
			\$	
Share capital	12,640,362			12,640,362
Contributed surplus	2,822,377	i	680,216	3,502,593
Deficit	(14,456,977)	i	(680,216)	(15,137,193)
Investments revaluation reserve	176,417			176,417
	<u>1,182,179</u>		-	<u>1,182,179</u>

- i. Cumulative adjustment required to retrospectively apply IFRS 2 – Share-Based Payment for outstanding and non-vested options under the Corporation’s stock option plan. Under CGAAP, the company was permitted to elect to treat the stock options issued as a pool and determine fair value using the average life of the instruments, provided that compensation was then recognized on a straight-line basis. Under IFRS 2, the Corporation is required to use the graded vesting method in valuing stock options and use an estimated forfeiture rate, resulting in an accelerated compensation expense for these awards under IFRS.

Reconciliation of equity at June 30, 2010:

	CGAAP As at June 30, 2010	Note	IFRS adjustment	IFRS As at June 30, 2010
	\$			
Share capital	12,556,892			12,556,892
Contributed surplus	2,806,287	i	505,326	3,311,613
Deficit	(13,842,737)	i	(505,326)	(14,348,063)
Investments revaluation reserve	163,007			163,007
	<u>1,683,449</u>		-	<u>1,683,449</u>

i. Cumulative adjustment required to retrospectively apply IFRS 2 – Share-Based Payment for outstanding and non-vested options under the Corporation’s stock option plan. Under CGAAP, the company was permitted to elect to treat the stock options issued as a pool and determine fair value using the average life of the instruments, provided that compensation was then recognized on a straight-line basis. Under IFRS 2, the Corporation is required to use the graded vesting method in valuing stock options and use an estimated forfeiture rate, resulting in an accelerated compensation expense for these awards under IFRS.

Comprehensive income for the year ended March 31, 2011

	CGAAP year ended March 31, 2011	Note	IFRS adjustment \$	IFRS year ended March 31, 2011
Revenue	1,074,513			1,074,513
Cost of goods sold	24,950			24,950
Gross profit	1,049,563			1,049,563
Expenses				
General, sales and administrative	1,866,252	ii	233,184	2,099,436
Research and development	614,125			614,125
Tax credits on research and development expenses	(178,206)			(178,206)
Geology	204,533			204,533
Amortization of capital assets	64,550			64,550
Amortization of intangible assets	61,390			61,390
	2,632,644		233,184	2,865,828
Loss before other income	(1,583,081)		(233,184)	(1,816,265)
Interest income	8,790			8,790
Gain on disposal of investments	500,020			500,020
	508,810			508,810
Net loss	(1,074,271)		(233,184)	(1,307,455)
Other element of comprehensive loss				
Variance in fair value of investments	536,510			536,510
Accumulated variances in fair value of investments at time of disposals	(501,985)			(501,985)
	34,525			34,525
Comprehensive loss	(1,039,746)		(233,184)	(1,272,930)

ii Adjustment required to retrospectively apply IFRS 2 – Share-Based Payment for outstanding and non-vested options under the Corporation’s stock option plan. Under CGAAP, the company was permitted to elect to treat the stock options issued as a pool and determine fair value using the average life of the instruments, provided that compensation was then recognized on a straight-line basis. Under IFRS 2, the Corporation is required to use the graded vesting method in valuing stock options and use an estimated forfeiture rate, resulting in an accelerated compensation expense for these awards under IFRS.

Comprehensive income for the period ended June 30, 2010

	CGAAP period ended June 30, 2010	Note	IFRS adjustment \$	IFRS period ended June 30, 2010
Revenue	135,300			135,300
Cost of goods sold	-			-
Gross profit	135,300			135,300
Expenses				
General, sales and administrative	402,353	iii	58,294	460,647
Research and development	146,535			146,535
Tax credits on research and development expenses	(24,750)			(24,750)
Geology	40,537			40,537
Amortization of capital assets	16,858			16,858
Amortization of intangible assets	15,008			15,008
	596,541		58,294	654,835
Loss before other income	(461,241)		(58,294)	(519,535)
Interest income	1,210			1,210
Net loss	(460,031)		(58,294)	(518,325)
Other element of comprehensive loss				
Variance in fair value of investments	21,115			21,115
Comprehensive loss	(438,916)		(58,294)	(497,210)

iii Adjustment required to retrospectively apply IFRS 2 – Share-Based Payment for outstanding and non-vested options under the Corporation’s stock option plan. Under CGAAP, the company was permitted to elect to treat the stock options issued as a pool and determine fair value using the average life of the instruments, provided that compensation was then recognized on a straight-line basis. Under IFRS 2, the Corporation is required to use the graded vesting method in valuing stock options and use an estimated forfeiture rate, resulting in an accelerated compensation expense for these awards under IFRS.

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.
- Litigation 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 collection is reasonably assured. 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 statement of financial position.
- 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.

- 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.
- Human resources – The Corporation must attract and retain highly skilled employees and partners with software development and data mining knowledge to be able to stay ahead of competition and up to date with technology changes.

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 healthcare 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 leading camera suppliers 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 leading 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.
- Reimbursement of healthcare costs – Depending on the country's regulations with regard to the reimbursement of healthcare costs by public or private organizations, services from CARA might not be approved for reimbursement or be subject to specific limits.
- Budgets and forecasts – Sales forecasts are currently prepared, for the most part, from our appreciation and interpretation of the addressable screening markets for retinopathy. 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.

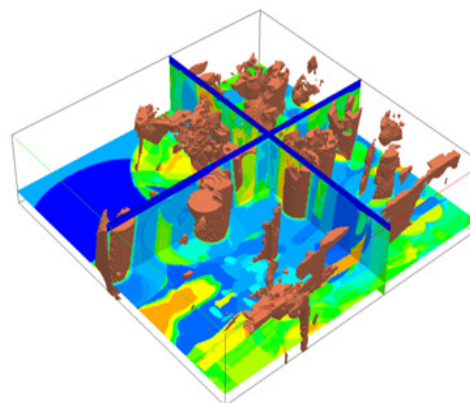
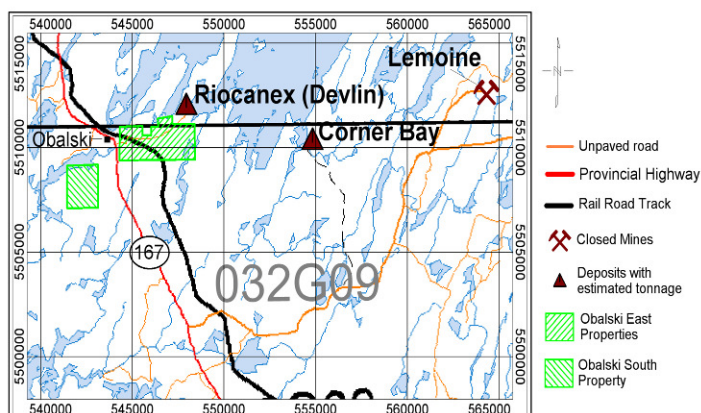
Outlook

Natural resources (CARDS)

The majority of DIAGNOS' revenues are generated from services rendered to exploration companies active in the mining industry. DIAGNOS uses its proprietary software application named CARDS (Computer Aided Resources Detection System) to help mineral exploration professionals identify areas of similarity to known areas of mineralization with a high statistical probability. 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 2D

Illustration of CARDS 3D



On May 9, 2011, the Quebec government announced a major economic development project: the “Plan Nord”. This project, quoted by Quebec Premier Jean Charest, as “the project of a generation”, will be carried out over a period of 25 years. It will lead to over \$80 billion in investments during that time and create or consolidate, on average, 20,000 jobs a year. The territory that the Plan Nord covers encompasses all of Quebec’s territory north of the 49th parallel. It covers nearly 1.2 million km² and accounts for roughly 72% of Quebec’s geographic area. All sorts of mineral ore abound in Northern Quebec: nickel, cobalt, platinum group metals, zinc, iron ore and ilmenite. The territory also accounts for a significant portion of gold production. Lithium, vanadium and rare-earth metals, for which international demand is growing since they are used increasingly in the energy, transportation and high-technology sectors, are also found there. Considering that this territory was less explored in the past, the CARDS solution can help guide the explorations crews to the mineral zones with the highest potential.

For the next several years, we will focus our efforts on showcasing and demonstrating our CARDS technology to exploration companies active in Northern Quebec. We will also continue to acquire mining claims based on the results from our CARDS technology on the data related to these claims. The most interesting properties will then be promoted to our prospects and existing clients.

Healthcare (CARA)

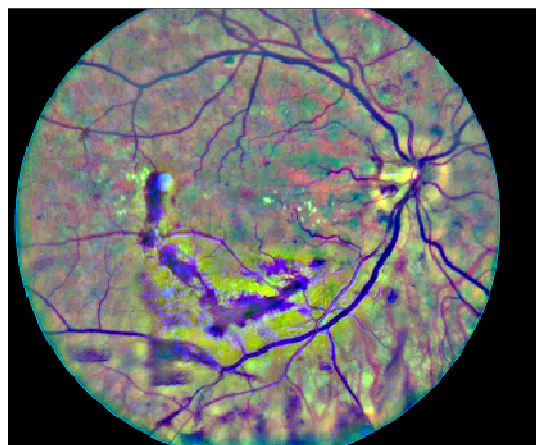
According to a recent study published in the British journal Lancet, the number of adults with diabetes has doubled world-wide over the last three decades to nearly 350 million today. The disease is growing dramatically in emerging countries, and the number of diabetics could reach 438 million in 20 years according to the International Diabetes Federation. Diabetes causes vascular complications not only in the heart and kidneys, but also in the retina of the eye. The disease is the leading cause of blindness among adults under 65. Retinopathy, which affects the blood vessels in the eye, is the most serious and most frequent of eye diseases among diabetics.

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 healthcare 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 has 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;
- Sign sales distribution agreements with local representatives who know the intricacies of their local markets;
- Actively support resellers in particular assisting them with trials 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; and
- Prepare formal scientific publications of CARA results in peer-reviewed journals through the execution of formal external clinical trials.

During fiscal year 2012, DIAGNOS’ healthcare business unit will continue refining the CARA technology platform including continued improvement and testing of algorithms, improvement of the web interface, preparation for the start of formal clinical trials, and continued execution of our regulatory strategy, as well as on business development activities including successful execution of field trials with prospective customers, presence at medical conferences, development of relationships with governments and NGOs, identification and training of resellers. DIAGNOS now has a presence either directly or through resellers in North America (Canada, USA and Mexico) and Asia (China, India, Vietnam and most countries of the Gulf Cooperation Council).

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.

General information

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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 Information 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

Please visit DIAGNOS' corporate website at <http://www.diagnos.com> or the SEDAR website at <http://www.sedar.com>

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.