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to continue...*



DIAGNOCURE

QUARTERLY REPORT 3 ▶

For the Period Ended **July 31, 2006**

MESSAGE TO SHAREHOLDERS

We are pleased to present the results of the third quarter for the fiscal 2006. As in the past quarter, these results were substantially in line with management expectations. Activities undertaken during the quarter were in line with our plans and DiagnoCure's on-going commitment to develop testing platforms for cancer diagnosis.

Our new CEO

On March 16, 2006, Pierre Désy, then President and Chief Executive Officer of the Company, announced his intention to retire in the coming fiscal year. Mr. Paul Gobeil, Chairman of the Board of Directors of DiagnoCure had then stated that, "under the leadership of Mr. Désy, DiagnoCure has developed into a world-class diagnostics company with a strong and experienced management team, solid intellectual property, a good potential future revenue stream, and a strong current cash position".

On August 1, 2006, Mr. Gobeil announced the appointment of Mr. John C. Schafer to the position of President and Chief Executive Office of DiagnoCure Inc. to take effect on August 23, 2006. Mr. Schafer was also nominated as member of DiagnoCure's Board of Directors on September 11, 2006.

Mr. Schafer brings to DiagnoCure more than 30 years experience in the field of diagnostics, along with an excellent track record in management and growth of high technology diagnostics companies. He has the credentials, the knowledge and the demonstrated ability to realize our significant potential in prostate cancer diagnostics and to broaden our base in the field of diagnostics with emerging technologies.

Upon his appointment Mr. Schafer remarked that the PCA3 marker is the undisputed leading technology in prostate cancer diagnostics. Working with our partner Gen-Probe, he is looking forward to delivering the full potential of that technology to our shareholders over the medium term. He went on to state that he is equally excited about the undiscovered diagnostic and therapeutic potential of molecular markers combined with the skills sets and demonstrated expertise of DiagnoCure's people in taking this technology from theory to practice in the battle against cancer.

Specifically Mr. Schafer expressed confidence in DiagnoCure's productive relationship with Gen-Probe and their recent joint announcements. He cited the fact that the PCA3 prostate cancer test is now being available in the US, with royalties starting to flow to DiagnoCure this third quarter. With the pending launch of PCA3 in Europe later this year and the new funded collaboration agreement with Gen-Probe to evaluate the diagnostic utility of certain molecular markers for lung cancer, these are all very positive events confirming DiagnoCure's potential for future success.

Mr. Schafer has taken up his new position on August 23, 2006, and will be located at the company's head office in Quebec City.

Prostate Cancer-PCA3

As a consequence of our exclusive partnership with Gen-Probe and their use of the PCA3 technology in the diagnosis of prostate cancer, 2006 is a year of great importance. After the transfer of the PCA3 technology to their APTIMA® platform, Gen-Probe has successfully completed the development of the PCA3 prostate cancer test in a quantitative format, as a

second-generation detection test from the PCA3 gene. During the second half of 2005, while completing the production validation of the PCA3 test, Gen-Probe diligently developed the necessary infrastructure for the introduction in the US market of the ASR format of the test before the end of 2005, an objective that was attained in December 2005 with the introduction of the ASR format of the test to selected reference laboratories in the United States. In May 2006, two of these laboratories, Bostwick Laboratories and AmeriPath, in conjunction with Molecular Profiling Institute, announced the commercial availability of the PCA3 assay in the ASR format based on Gen-Probe's technology.

Gen-Probe further confirmed in July that the June 2006 *Clinical Chemistry* article about PCA3 titled "APTIMA PCA3 Molecular Urine Test: Development of a Method to Aid in the Diagnosis of Prostate Cancer", and the four Gen-Probe posters at recent international urological conferences have increased the visibility of PCA3 from a scientific point of view. They also have begun talking to larger US labs and potential "second phase partners" for PCA3 in the United States. Gen-Probe has finally announced that clinical studies to support full FDA clearance for the test in the US should start in late 2006.

Now that the assay has been made commercially available in the US, DiagnoCure accrued its first royalty payment from Gen-Probe PCA3 tests sales in the past quarter.

Gen-Probe has confirmed publicly that the European launch of PCA3 remains on track to introduce a full CE-marked product for commercial sale by this year-end. Seven sites across Europe have already signed on to participate in the EU PCA3 Performance Evaluations.

During the month of July 2006, *The Urology Times*, the leading news source for urologists, published an article citing recent AUA presentations and the new PCA3 assay as an aid to critical diagnostic decisions in prostate cancer.

PCA3 remains the cornerstone of Gen-Probe's and DiagnoCure's oncology efforts. It is characterized as the most specific prostate cancer marker yet discovered and given the major unmet medical needs due to the limitations and low specificity of the PSA test and the estimated 10 million men with negative prostate biopsies in the US, PCA3 presents Gen-Probe and DiagnoCure with a significant commercial opportunity.

On May 30, 2006, DiagnoCure and Gen-Probe jointly announced they had amended and expanded the terms of their license and collaboration agreement. Under the revised terms of the collaboration, Gen-Probe and DiagnoCure have agreed that submitting a US regulatory application for a PCA3 product in early 2008 will satisfy Gen-Probe's previously agreed development obligations. In addition, in order to maximize the market potential of PCA3, Gen-Probe has granted DiagnoCure exclusive rights to develop *in vivo* products, and co-exclusive rights to develop fluorescence in situ hybridization (FISH) products, based on the PCA3 gene. Finally, DiagnoCure will enter into a funded collaboration with Gen-Probe to evaluate the diagnostic utility of certain genetic markers for lung cancer over the next 12 months. Gen-Probe acquired these markers from Corixa in early 2005.

ImmunoCyt™ / uCyt+™

During the quarter, work continued on the implementation of a new business strategy for our bladder cancer test. This business strategy will allow DiagnoCure to confirm through a commissioned market research the current market size and potential for the USA, optimal product positioning and product improvements requirements. It is the opinion of management that the manual version of the test is still viable and has potential for increased sales in the US

and Europe if positioned correctly in the market and supported by credible clinical studies and publications as well as outstanding market development program. The company continues to work this business strategy. DiagnoCure continued the development of an automated image analysis software for its ImmunoCyt™ test. This software is to be used with our image analysis platform on a stand alone basis or as part of a fully integrated system along with four other Samba Technologies software (DNA Ploidy, ImmunoQuantification, TMA, and TPS image live). The combined efforts of the DiagnoCure and Samba teams has allowed completion of an initial version of the software. This version was field-tested to evaluate its performance outside DiagnoCure's R&D environment. However, changes in competitor's strategies and difficulties seen in the automated image analysis market have prompted us to defer any additional spending on this project pending a further review of the marketability of this type of image analysis platform. In the interim periods, presentations and publications made during the past year contributed to confirm and strengthen the credibility of the stand alone ImmunoCyt™ test in the pathology and cytology fields. Robustness, reliability and precision of the test were underscored in a paper published in the Journal of Urology of October 2005, reporting the results from an American study performed on 341 patients. With its ability to detect low grade, small superficial tumours, ImmunoCyt™ is unquestionably the most suitable available assay on the market to monitor strategies in patients at high risk of bladder cancer. Additionally, two prominent and very favourable publications were published in Urology (May 2006) and Cancer Cytopathology (February 2006) Journals. The first paper titled "The uCyt+™ test: An alternative to cystoscopy for a less invasive follow-up with low risk of urothelial carcinomas" from D^{rs} Lodde et al., highlights the value of uCyt+™ to reduce morbidity and the cost of monitoring low risk patients without compromising the outcome of the patients. The second paper titled; "uCyt+™/ImmunoCyt™ in the detection of recurrent urothelial carcinoma: an update on 1991 analyses" from D^{rs} Mian et al., confirms the clinical usefulness of ImmunoCyt™ in the detection and monitoring of bladder cancer patients. Moreover, at a recent meeting of the American Urological Association, a German study on 189 patients with newly diagnosed painless hematuria was presented by Dr Schmidt-Drager, showing a 87% sensitivity and 90% specificity on this patient population. The study has confirmed savings on 165 costly and invasive diagnostic procedures while 17 out of 170 individuals underwent unnecessarily examinations.

Business development

Our growth strategy is based both on internal scientific development and on the continued pursuit of external opportunities of collaboration agreements, partnerships and potential acquisition targets. One of our internal strengths is our permanent research and validation program in the areas of molecular and cell-based markers for the detection of cancer. We continue to invest in the search and development of new technologies for the diagnosis of cancer. The search for new markers and potential partners continues.

MANAGEMENT'S DISCUSSIONS AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information should be read in conjunction with the company's unaudited consolidated financial statements and related notes included herein, together with our audited consolidated financial statements for the year ended October 31, 2005, and related notes. Management's comments were prepared to explain the Company's operations, performance and financial position as of July 31, 2006. They compare this third quarter and the nine-month period of operating results and cash position with those of the third quarter and the nine-month period ended July 31, 2005. Amounts are in Canadian dollars unless otherwise noted. The information contained herein is up to date as of August 31, 2006.

Overview

DiagnoCure Inc. (hereafter called the "Company" or "DiagnoCure"), founded in 1994, is a leading developer and provider of innovative high value immunoassay and molecular diagnostic tests for the detection of cancer. Specifically, the Company specializes in the development of cancer diagnostic kits incorporating gene and monoclonal antibody markers. The first non-invasive test the Company developed was based on proprietary monoclonal antibodies designed to detect bladder cancer, which is presently commercialized under the brand name of ImmunoCyt™ in the United States and uCyt+™ in the rest of the world. In 2003, DiagnoCure completed the development of uPM3™, a first-generation qualitative non-invasive test for the detection of prostate cancer, which was offered by Bostwick Laboratories in the United States under the Analyte Specific Reagent (ASR) format based on the PCA3 gene technology for which the Company holds exclusive worldwide diagnostic and therapeutic rights. In November 2003, DiagnoCure granted an exclusive worldwide license to Gen-Probe Incorporated ("Gen-Probe") of San Diego, CA, for the development and commercialization of diagnostic products using the DiagnoCure PCA3 gene technology for prostate cancer in return for \$14 million to be paid over three years, of which \$11.10 million had been paid to July 31, 2006. The Company will also receive an 8% royalty on the first aggregate amount of US\$50 million of end-user net sales of the PCA3 test by Gen-Probe and a 16% royalty on all subsequent sales. On December 19, 2005, Gen-Probe made available to targeted reference laboratories in the US market the ASR format of its first generation PCA3 assay on its APTIMA® technology platform. In May 2006, two of these laboratories, Bostwick Laboratories and AmeriPath, in conjunction with Molecular Profiling Institute, announced the commercial availability of PCA3 assays in the ASR format based on Gen-Probe's technology. During the past quarter, DiagnoCure received its first royalties from Gen-Probe's sale of the PCA3 test. Given the need to transition and ramp up sales and awareness of PCA3, this first royalty was modest; none the less it reflects the confirmation that the test is now available in the market and being ordered by the labs. As more laboratories offer the test (see reference in Shareholder Message to Gen-Probe discussions with larger labs), and as the PCA3 test is launched in Europe at the end of 2006 with a full CE Marked status, we expect royalties to increase in each future quarter.

2006 First Nine-Month Highlights

Gen-Probe, DiagnoCure's exclusive sub-licensee for diagnostic applications of the PCA3 gene, indicated in December 2005 that it had begun shipping to customers the analyte specific reagents (ASR) for quantifying the expression of the PCA3 gene. As noted above, two laboratories announced in May 2006 the commercial availability of the PCA3 assay. Given the

recent release of the assay, there is not yet any developed sales pattern for the Gen-Probe PCA3 so it is difficult to predict what any quarter to quarter future royalty revenue flow will accrue to DiagnoCure. However, as was anticipated, with the assay now commercially available, DiagnoCure accrued its first royalty revenue from Gen-Probe in the third quarter.

Overall ImmunoCytTM / uCyt+TM sales have decreased this past fiscal year from that of 2005 due principally to competition in the US. European sales of uCyt+TM have continued to increase due to our efforts to expand our overseas distribution network.

Also, during the quarter, DiagnoCure continued the review of a number of new lung cancer markers acquired last year from Genzyme Corporation and added to that review new markers obtained from Gen-Probe. DiagnoCure continues to refine the direction of its lung cancer program, including exploring additional applications of these molecular markers for lung cancer detection using testing medium such as blood, sputum, or biopsy materials.

Financial Results

For the Three-Month Period Ended July 31, 2006

Total revenues for the third quarter of 2006 were \$1,302,485 compared with \$1,683,283 for the third quarter of 2005. Revenue recognition of the continued calendar payments from Gen-Probe were \$743,661 for the period, down \$2,067 from the prior year due to strengthening of the Canadian dollar over that of the US. Sales of DiagnoCure's bladder cancer test, ImmunoCytTM / uCyt+TM were \$81,789 for the third quarter of 2006 versus \$103,881 for the same period a year ago. While uCyt+TM sales outside the U.S. have increased by 8% over last year, US based sales of ImmunoCytTM have suffered from strong competition and reimbursement issues. Every effort is being made to reverse this trend, and the recognition of the worth of ImmunoCytTM / uCyt+TM at the AUA conference earlier this year supports our turn around efforts.

Income from research & development contracts, predominantly with Gen-Probe, has decreased in the third quarter of 2006 by net \$186,496 as was anticipated under the contract terms. A new contract for Gen-Probe research was announced this past June. Also in this quarter, DiagnoCure sold clinical samples to Gen-Probe in support of their prostate cancer testing R&D, for an amount of \$62,586.

Sales of DiagnoCure developed uPM3TM ASR prostate cancer test for the third quarter of 2006 were \$27,520 compared to \$146,784 for the same period of 2005. As we transition over to the Gen-Probe PCA3 assay, we withdrew our DiagnoCure uPM3TM test from the market in June 2006. The final uPM3TM orders were taken in this quarter.

The sales of our subsidiary Samba Technologies SAS, after inter-company elimination of Samba work done for DiagnoCure, were \$148,014 for the third quarter of 2006 compared to \$285,359 a year ago. Euros to Canadian dollar exchange rates have fallen in the past year, contributing to a portion of the decrease. Samba products and services sold to third parties, image analysis, archival and transmission software and hardware, can often have a long or erratic sales cycle and the summer season in France can be particularly barren. While results were disappointing in the quarter the pipeline for fiscal 2006 remains positive, although we are unlikely to meet the sales level of fiscal 2005.

Interest income increased \$37,208 to \$207,965 for the third quarter of 2006 compared to \$170,757 for the third quarter of 2005. The increase is attributable to the increase in the interest rate during the third quarter of 2006.

Cost of sales decreased \$67,663 from \$323,333 for the third quarter of 2005 to \$255,670 for the third quarter of 2006. This decrease is related to lower actual product sales, as noted above, for ImmunoCytTM / uCyt+TM, and lower Samba sales.

Operating expenses rose from \$2,244,149 for the third quarter of 2005 to \$2,660,833 for the same period in 2006, for an increase of \$416,684 primarily as a result of the following:

- Year over year increase in salaries and benefits.
- Research and development expenses, net of investment tax credits, increased by \$218,947, from \$754,290 for the third quarter of 2005 to \$973,237 for the same quarter in 2006. The increase in research and development expenses is in line with the Company's plan, and included increased project spending for enhancements to ImmunoCytTM / uCyt+TM and the related automated platform, the lung cancer project, further potential applications of the PCA3 gene, and other research into potential cancer diagnostic products including lung and kidney.
- General and administrative expenses increased, from \$553,312 for the third quarter of 2005 to \$615,169 for the same quarter in 2006. This increase of \$61,857 is attributable to an increase in professional fees (legal & investor relations), and the increase in administrative employees.
- Selling and business development expenses increased by \$161,314 from \$505,247 for the third quarter of 2005 to \$666,561 for the same quarter in 2006. This increase is attributable to the on-going execution of our marketing plan to promote our products, manage our intellectual property portfolio and support our efforts to identify and conclude new potential strategic alliances and in-licensing agreements.
- Stock-based compensation expenses, a non-cash charge, decrease to \$284,806 for the third quarter of 2006 compared to \$334,245 for the same period in 2005. This decrease is attributable to the updating of the assumptions used to calculate option values under the Black-Scholes method (see below, **Stock-Based Compensation**) and a lower market price of our stock at the time of recent option grants. The disclosure of this non-cash item was initiated in 2005 to comply with the new accounting regulation.

Based on the above, for the third quarter of 2006, DiagnoCure recorded a net loss of \$1,614,018 or \$0.04 per share, compared with \$884,199, or \$0.03 per share, for the third quarter of 2005. These results are in line with management expectations. As was disclosed in the "Use of Proceeds" relative to our July 2004 financing (see below, **Use of Proceeds from July 2004 Financing**) the Company anticipated significantly increasing its ongoing investment in research and development activities and related staff and administrative expenses incurred as our Company grows. Those investments in our future success impact on our current bottom line results.

Third Quarter Results for the Three-Month Period Ended July 31, (Unaudited)

	2006	2005	2004
	\$	\$	\$
Sales	304,345	537,922	413,633
Revenue under research and license agreement	790,175	974,604	1,124,428
Interest	207,965	170,757	32,740
Total revenues	1,302,485	1,683,283	1,570,801
Cost of sales	(255,670)	(323,333)	(312,561)
Gross margin	1,046,815	1,359,950	1,258,240
Operating expense (before stock-based compensation)	2,376,027	1,909,904	1,248,475
Stock-based compensation	284,806	334,245	175,959
Net loss	(1,614,018)	(884,199)	(166,194)
Basic and diluted loss per share	(0.04)	(0.03)	(0.00)
Weighted average number of common shares outstanding	34,424,258	34,242,048	30,850,345

For the Nine-Month Period Ended July 31, 2006

Total revenues for the nine-month period ended July 31, 2006, were \$4,247,278 compared with \$5,426,847 for the same period of 2005. Revenue recognition of the continued calendar payments from Gen-Probe were \$2,217,323 for the period, down \$103,173 from the prior year due to strengthening of the Canadian dollar over that of the US. Sales of DiagnoCure's bladder cancer test, ImmunoCytTM / uCyt+TM, were \$266,392 for the first nine-month of 2006 versus \$346,755 for the same period a year ago. Sales of DiagnoCure developed uPM3TM ASR prostate cancer test for the first nine-month of 2006 were \$376,660 compared to \$443,905 for the same period of 2005. As we transition over to the Gen-Probe PCA3 assay and the withdrawal from the market of the DiagnoCure uPM3TM test, labs filled their final uPM3TM orders in May and we withdrew our test from the market in June.

Income from research & development contracts, predominantly with Gen-Probe, has decreased in 2006 by \$508,432 net as was anticipated under the contract terms. Also in this period, DiagnoCure sold clinical samples to Gen-Probe, in support of their prostate cancer testing R & D, for an amount of \$196,836.

The sales of our subsidiary Samba Technologies SAS, after inter-company elimination of Samba work done for DiagnoCure, were \$563,843 for the first nine-month of 2006 compared to \$1,028,365 a year ago. Euros to Canadian dollar exchange rates have fallen in the past year, contributing to a portion of the decrease. Samba has curtailed its work for DiagnoCure and is now transitioning back to the sale of its products in its traditional markets. Samba products and services sold to third parties, image analysis, archival and transmission software and hardware, can often have a long or erratic sales cycle and the summer season in France can be particularly barren. While results in sales to third parties have been disappointing this year the pipeline for fiscal 2006 remains positive, although we are unlikely to meet the sales level of fiscal 2005.

Interest income was relatively stable to \$591,647 for the first nine-month of 2006 compared to \$591,993 for the same period of 2005. The stability is attributable to the increase in the interest rate during the current period of 2006.

Cost of sales decreased \$324,066 from \$1,252,157 for the first nine-month of 2005 to \$928,091 for the first nine-month of 2006. This decrease is related to lower actual product sales, as noted above, for ImmunoCyt™ / uCyt+™, lower Samba sales and a shift in the mix of sales for Samba in the period to lower margin equipment.

Operating expenses rose from \$6,293,355 for the first nine-month of 2005 to \$8,298,105 for the same period in 2006, for an increase of \$2,004,750 primarily as a result of the following:

- Year over year increase in salaries and benefits.
- Research and development expenses, net of investment tax credits, increased by \$977,165, from \$2,104,835 for the first nine-month of 2005 to \$3,082,000 for the same period in 2006. The increase in research and development expenses is in line with the Company's plan, and includes increases in project spending for enhancements to ImmunoCyt™ / uCyt+™ and the related automated platform, the lung cancer project, further potential applications of the PCA3 gene, and other research into cancer diagnostic products including breast, lung and kidney.
- General and administrative expenses increased, from \$1,392,900 for the first nine-month of 2005 to \$2,041,579 for the same period in 2006. This increase of \$648,679 is attributable to an increase in professional fees (legal & investor relations), higher regulatory and filing fees and an increase in administrative employees.
- Selling and business development expenses increased by \$398,192 from \$1,593,796 for the first nine-month of 2005 to \$1,991,988 for the same period in 2006. This increase is attributable to the on-going execution of our marketing plan to promote our products, manage our intellectual property portfolio and support our efforts to identify and conclude new potential strategic alliances and in-licensing agreements.
- Stock-based compensation expenses, a non-cash charge, decreased by \$102,209, from \$935,499 for the first nine-month of 2005 to \$833,290 for the same period in 2006. This decrease is attributable to the fact that less options were granted during the first nine-month of 2006 compared to the same period of 2005 and those that were granted were at a lower strike price due to a decrease in the stocks market price. Also, in 2006 we updated the assumptions used to calculate option values under the Black-Scholes method (see below, **Stock-Based Compensation**). The disclosure of this non-cash item was initiated in 2005 to comply with the new accounting regulation.

Based on the above, for the nine-month period ended July 31, 2006, DiagnoCure recorded a net loss of \$4,978,918 or \$0.14 per share, compared with \$2,118,665, or \$0.07 per share, for the same period of 2005. These results are in line with management expectations. As was disclosed in the "Use of Proceeds" relative to our July 2004 financing (see below, **Use of Proceeds from July 2004 Financing**) the Company anticipated significantly increasing its ongoing investment in research and development activities and related staff and administrative expenses incurred as our Company grows. Those investments in our future success impact on our current bottom line results. At the end of the quarter, cash, short-term investments and long-term investments stood at \$20,214,024, down \$2,507,681 from the \$22,721,705 reported as at October 31, 2005. That represents an average monthly cash burn of only \$278,632 for the first three quarters. Management is satisfied that it has adequate cash resources to execute its business plan in the near-term and mid-term.

Nine-Month Period Results Ended July 31, (Unaudited)

	2006	2005	2004
	\$	\$	\$
Sales	1,248,753	1,820,923	1,086,807
Revenue under research and license agreement	2,406,878	3,013,931	3,150,611
Interest	591,647	591,993	114,086
Total revenues	4,247,278	5,426,847	4,351,504
Cost of sales	(928,091)	(1,252,157)	(816,820)
Gross margin	3,319,187	4,174,690	3,534,684
Operating expenses (before stock-based compensation)	7,464,815	5,357,856	3,835,322
Stock-based compensation	833,290	935,499	434,026
Net loss	(4,978,918)	(2,118,665)	(734,664)
Basic and diluted loss per share	(0.14)	(0.07)	(0.02)
Weighted average number of common shares outstanding	34,385,170	34,208,933	29,692,706

Total Assets and Shareholders' Equity

Total assets amounted to \$23,274,624 as of July 31, 2006, compared with \$26,895,639 as of October 31, 2005. This decrease is due to the use of cash to finance our operating activities. The book value per Common Share is \$0.62 as of July 31, 2006, compared to \$0.74 per Common Share as of October 31, 2005.

Balance Sheet (Unaudited)

As of July 31

	2006	2005	2004
	\$	\$	\$
Total assets	23,274,624	27,126,416	29,654,331
Shareholders' equity	21,312,643	25,831,697	26,994,082
Number of common shares outstanding	34,449,642	34,277,043	34,178,643

Cash Position and Financing Sources

Cash flow used for operating activities during the third quarter of 2006 was \$1,473,062 compared with \$1,415,261 for the third quarter of 2005, totalling a spread of \$57,801, which is attributable to an increase in the net loss for this quarter and the realization of working capital. Investment activities generated cash flow of \$874,893 for the third quarter of 2006 while, for the same period of 2005, investing activities generated cash flow of \$1,414,523. Cash proceeds from the realization of these investments activities (temporary investments) were made to support operating activities and the purchase of property, plant and equipment. Financing activities generated cash flow of \$49,766 for the third quarter of 2006 compared to \$122,072 for the corresponding quarter of 2005.

Cash Flows for the Third Quarters (Unaudited)

	2006	2005	2004
	\$	\$	\$
Cash flows related to operating activities	(1,473,062)	(1,415,261)	(453,164)
Cash flows related to investing activities	874,893	1,414,523	(2,966,245)
Cash flows related to financing activities	49,766	122,072	22,457,148

Cash flow required for operating activities during the first nine-month of 2006 was \$2,177,305 compared to \$2,358,408 for the same period of 2005, a decrease of \$181,103, which is attributable to the change in non-cash working capital, which includes the receipt of the second instalment from Gen-Probe of \$1,226,840 in November 2004 compared with the third instalment of \$3,545,000 in November 2005. Investment activities generated cash flow of \$1,901,109 for the first nine-month of 2006 while, for the same period of 2005, investing activities generated cash flow of \$2,741,955. During the first nine-month of 2006, the Company acquired \$370,200 of property, plant and equipment, compared to \$483,313 for the same period in 2005. Financing activities generated cash flow of \$145,133, all attributable to the exercise of options for the first nine-month of 2006 compared to \$134,959 for the corresponding period of 2005.

Cash Flows for the Nine-Month Periods Ended July 31, (Unaudited)

	2006	2005	2004
	\$	\$	\$
Cash flows related to operating activities	(2,177,305)	(2,358,408)	1,293,348
Cash flows related to investing activities	1,901,109	2,741,955	(4,804,854)
Cash flows related to financing activities	145,133	134,959	22,619,348

As of July 31, 2006, cash, cash equivalents, temporary investments, and long-term investments amounted to \$20,214,024 compared with \$22,721,705 as of October 31, 2005.

The Company remains confident that given its current cash and investment balances it has sufficient liquid assets to finance its normal, on-going operating activities for the next four to five years without the necessity of returning to the public capital markets. Notwithstanding the foregoing, should a special, non-operating project be initiated, the Company could consider seeking financing for such a special project through a public offering.

Issued and Outstanding Share Capital

As of August 31, 2006, the Company had 34,449,642 commons shares issued and outstanding and 2,309,625 stock options, granting the right to acquire an equal amount of common shares.

Off-Balance Sheet Arrangements

As of July 31, 2006, DiagnoCure has not entered into any off-balance sheet arrangement except for the lease agreements described in the "Contractual Obligations" section presented hereof.

Related Party Transactions

The Company is party to a consultation contract with the management company of one of its directors under which the activities of this manager are available to the Company. Expenses incurred by the Company with respect to this agreement totalled \$137,083 for the nine-month period ended July 31, 2006, compared with \$75,000 in 2005. These services have been charged at fair market value and have been accounted for as research and development expenses.

Use of Proceeds from July 2004 Financing

In July 2004 the Company raised, by way of short form prospectus, net proceeds of \$22,332,108 from the issuance of 5 million common shares, at \$4.75 per share. At that time, estimates were made as to the use of these proceeds. As at July 31, 2006, approximately \$10.90 million of funds from the July 2004 public offering have been spent on specific projects and for general corporate purposes listed in the table below. Since cash flows of the Company are derived from numerous sources, in order to determine how the proceeds of the public offering are spent and allocated, certain assumptions were required. Those assumptions are as follows:

- Day to day administrative and operating expenses for the Company are funded from the licence payments that DiagnoCure receive from Gen-Probe, interest income and gross margin realized on our sales.
- Additional funds over those required to fund items above will be taken from the proceeds of the July 2004 public offering.

Based on these assumptions, a summary of the “Use of proceeds” from the July 2004 public offering is the following:

Description of “Use of Proceeds”	Estimated total use of proceeds as disclosed at time of July 2004 public offering	Amount spent as at July 31, 2006
Improve the uPM3 TM prostate cancer test, develop complementary applications and examine the therapeutic potential of the PCA3	\$4.00 million	\$2.60 million
Support the commercialization and expand the automation of ImmunoCyt+ TM /uCyt+ TM bladder cancer test	\$2.50 million	\$2.30 million
Advance the development of lung cancer and kidney cancer tests and initiate the development of other cancer tests	\$10.50 million	\$3.70 million
Acquire complementary technologies and uses for other general corporate purposes	\$5.33 million	\$2.30 million

Use of Estimates

In preparing its financial statements, management is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. In management’s opinion, the financial statements have been properly prepared using careful judgement within the reasonable limits of materiality and within the framework of the accounting policies described in note 3 of the

audited consolidated financial statements included in the 2005 annual report. The Company periodically evaluates its estimates and assumptions based on its past experience and other pertaining factors. The following paragraphs give details on the use of estimates and hypotheses used.

Investment Tax Credits

The Company incurred research and development expenses, which are eligible for investment tax credits. These credits accounted for as a reduction of research and development expenses, amounted to \$351,432 for the first nine-month of 2006 compared with \$330,918 in 2005 and are based on management estimates on amounts to be recovered. These amounts are subject to audit and acceptance by tax authorities. Management believes that it has made a reasonable estimate of these amounts.

Impairment of Long-Lived Assets

Long-lived assets and certain identifiable intangibles and intellectual properties are regularly reviewed for impairment by management whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset with its expected future net undiscounted cash flows from use together with its residual value [net recoverable value]. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value.

Stock-Based Compensation

The Company determines the fair value of direct awards of stock options made to its employees and directors. The fair value of these options is estimated at the date of grant using the Black-Scholes option pricing model with assumptions for the risk-free interest rates, dividend yields, expected volatility of the market price of the Company's common shares and the expected life of the options.

During the first quarter of 2006, the Company revised certain assumptions to reflect the new expected volatility and the expected life of the options. The Company has evaluated the volatility of the market price of the Company's common shares as being 80% and the expected life of the options as being 8 years.

Derivatives

DiagnoCure is not party to hedging arrangements with regard to foreign exchange risk or any other similar risks.

Contractual Obligations

The Company has incurred contract agreements for the rental of premises for the following amounts:

Required Payment Per Year					
Contractual Obligations	Total	Year one	Year two and three	Year four and five	Year six and up
Lease Agreements	\$1,364,411	\$188,764	\$656,175	\$519,472	---

DiagnoCure currently leases 16,089 sq. ft., with commitments for additional 16,719 sq. ft. of space on an adjacent floor in July 2007, in a building where its head office and research and development laboratories are located under a lease expiring in 2011. Annual payments for the coming year under this lease agreement amount to \$188,764.

Risk Factors

The Company's activities are subject to some risk factors that generally affect biotechnology companies. The profitability of the Company will depend upon its ability to successfully develop its products and technologies, to preserve its intellectual property rights, to maintain its highly qualified personnel, to conclude strategic alliances, research and development partnerships, strategic out-licensing agreements, to obtain satisfactory results as regards clinical studies and to obtain regulatory approvals required to commercialize its products. These activities require important financial investments. Therefore, the Company's ability to obtain necessary liquidities to finance its activities is essential to assure future success and is as such a risk factor.

Cautionary Statement

Management's comments and analysis are intended to facilitate understanding of the unaudited consolidated interim financial statements and accompanying notes and should therefore be read in conjunction with that information. The comments and analysis may include objectives, projections, estimates, expectations and forecasts of the Company or management that are forward-looking. By their very nature, forward-looking statements are based on expectations and hypothesis and also involve risk and uncertainties, known and unknown, many of which are beyond DiagnoCure's control. As a result, readers are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements regarding the outcome of research and development projects and future revenues are based on management expectations. In addition, the reader is referred to the applicable general risk and uncertainties described in DiagnoCure's most recent Annual Information Form under the heading "Risk Factors". DiagnoCure undertakes no obligation to publicly update or revise any forward-looking statements contained herein.

Additional information on the Company may be obtained on the following web site:
www.sedar.com

(Signed)
John C. Schafer
President and Chief Executive Officer

(Signed)
Thom Skinner, CA
Chief Financial Officer

CERTIFICATION OF INTERIM FILINGS DURING TRANSITION PERIOD IN ACCORDANCE WITH MULTILATERAL INSTRUMENT 52-109F2 CERTIFICATION OF DISCLOSURE IN ISSUER ANNUAL AND INTERIM FILING

I, John C. Schafer, President and Chief Executive Officer of DiagnoCure Inc., certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of DiagnoCure Inc., (the issuer) for the interim period ending July 31, 2006;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures for the issuer, and we have:
 - a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the interim filings are being prepared.

Date: August 31, 2006

(Signed)
John C. Schafer
President and Chief Executive Officer

CERTIFICATION OF INTERIM FILINGS DURING TRANSITION PERIOD IN ACCORDANCE WITH MULTILATERAL INSTRUMENT 52-109F2 CERTIFICATION OF DISCLOSURE IN ISSUER ANNUAL AND INTERIM FILING

I, Thom Skinner, Chief Financial Officer of DiagnoCure Inc., certify that:

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of DiagnoCure Inc., (the issuer) for the interim period ending July 31, 2006;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures for the issuer, and we have:
 - a) designed such disclosure controls and procedures, or caused them to be designed under our supervision, to provide reasonable assurance that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the interim filings are being prepared.

Date: August 31, 2006

(Signed)
Thom Skinner
Chief Financial Officer

DIAGNOCURE INC.

NOTICE OF DISCLOSURE OF NON-AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED JULY 31, 2006 AND 2005

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if an auditor has not performed a review of the interim financial statements, the interim financial statements must be accompanied by a notice indicating that they have not been reviewed by the auditor.

The accompanying unaudited interim consolidated financial statements of the Company for the interim periods ended July 31, 2006 and 2005, have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of the company's management.

The Company's independent auditors, Ernst & Young LLP, have not performed a review of these interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Dated this 31st day of August 2006

CONSOLIDATED STATEMENTS

(UNAUDITED)

FOR THE PERIODS ENDED JULY 31

Consolidated Statements of Operations

	three-month period		nine-month period	
	2006	2005	2006	2005
	\$	\$	\$	\$
Revenues				
Sales	304,345	537,922	1,248,753	1,820,923
Cost of sales	(255,670)	(323,333)	(928,091)	(1,252,157)
Gross margin	48,675	214,589	320,662	568,766
Revenue under research and license agreement	790,175	974,604	2,406,878	3,013,931
Interest	207,965	170,757	591,647	591,993
	1,046,815	1,359,950	3,319,187	4,174,690
Operating expenses				
Research and development expenses	1,104,122	852,284	3,433,432	2,435,753
Investment tax credits	(130,885)	(97,994)	(351,432)	(330,918)
	973,237	754,290	3,082,000	2,104,835
General and administrative expenses	615,169	553,312	2,041,579	1,392,900
Selling and business development expenses	666,561	505,247	1,991,988	1,593,796
Stock-based compensation	284,806	334,245	833,290	935,499
Depreciation of property, plant and equipment	98,571	75,472	269,873	210,976
Financial expenses	10,147	14,326	43,142	34,583
Amortization of intangibles	12,342	7,257	36,233	20,766
	2,660,833	2,244,149	8,298,105	6,293,355
Net loss before income taxes	(1,614,018)	(884,199)	(4,978,918)	(2,118,665)
Provision for income taxes	---	---	---	---
Net loss	(1,614,018)	(884,199)	(4,978,918)	(2,118,665)
Basic and diluted loss per share	(0.04)	(0.03)	(0.14)	(0.07)
Weighted average number of common shares outstanding	34,424,258	34,242,048	34,385,170	34,208,933

Consolidated Statements of Deficit

	2006	2005
	\$	\$
Deficit beginning of period	(37,436,711)	(34,386,582)
Add		
Net Loss	(4,978,918)	(2,118,665)
Deficit, end of period	(42,415,629)	(36,505,247)

CONSOLIDATED STATEMENTS
(UNAUDITED)

FOR THE PERIODS ENDED JULY 31

Consolidated Statements of Cash Flows

	three-month period		nine-month period	
	2006	2005	2006	2005
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss	(1,614,018)	(884,199)	(4,978,918)	(2,118,665)
Adjustments for:				
Stock-based compensation (<i>note 3</i>)	284,806	334,245	833,290	935,499
Depreciation and amortization	110,913	82,729	306,106	231,742
	(1,218,299)	(467,225)	(3,839,522)	(951,424)
Net change in non-cash working capital items	(254,763)	(948,036)	1,662,217	(1,406,984)
Cash flows related to operating activities	(1,473,062)	(1,415,261)	(2,177,305)	(2,358,408)
INVESTING ACTIVITIES				
Change in investments	1,075,669	1,474,142	2,376,618	3,285,711
Acquisition of property, plant and equipment	(137,207)	(39,061)	(370,200)	(483,313)
Acquisition of intangibles	(63,569)	(20,558)	(105,309)	(60,443)
Cash flows related to investing activities	874,893	1,414,523	1,901,109	2,741,955
FINANCING ACTIVITIES				
Issue of capital stock	49,766	122,072	145,133	134,959
Cash flows related to financing activities	49,766	122,072	145,133	134,959
Net increase (decrease) in cash and cash equivalents	(548,403)	121,334	(131,063)	518,506
Cash and cash equivalents, beginning of period	1,151,495	1,046,024	734,155	648,852
Cash and cash equivalents, end of period	603,092	1,167,358	603,092	1,167,358

CONSOLIDATED BALANCE SHEETS

	(UNAUDITED)	(AUDITED)
	JULY 31, 2006	OCTOBER 31, 2005
	\$	\$
<hr/>		
Assets		
Current assets		
Cash and cash equivalents	603,092	734,155
Temporary investments	13,085,807	15,954,962
Accounts receivable	531,211	1,933,074
Investment tax credits receivable	734,764	688,155
Prepaid expenses	248,869	176,352
Total current assets	15,203,743	19,486,698
Long-term investments	6,525,125	6,032,588
Property, plant and equipment	1,076,761	976,434
Intangibles	468,995	399,919
	23,274,624	26,895,639
<hr/>		
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	1,920,270	1,557,622
Deferred revenues	41,711	24,879
Total current liabilities	1,961,981	1,582,501
<hr/>		
Shareholders' equity		
Capital stock [note 3]	59,696,248	59,532,811
Contributed surplus [note 3]	4,032,024	3,217,038
Deficit	(42,415,629)	(37,436,711)
	21,312,643	25,313,138
	23,274,624	26,895,639
<hr/>		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

AS OF JULY 31, 2006

1. *Financial Information*

The accompanying unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The information with respect to the October 31, 2005, consolidated balance sheet is derived from the Company's audited financial statements. These unaudited interim financial statements should be read in conjunction with the notes appearing in the Company's audited financial statements for the year ended October 31, 2005, and the accompanying notes.

2. *Incorporation and nature of business*

The Company was incorporated on December 8, 1994, under Part 1A of the *Companies Act* (Québec). DiagnoCure Inc. is a biotechnology company which specializes in the development and commercialization of products relating to the diagnosis of cancer. The subsidiary Samba Technologies SAS specializes in software development activities relating to the automation of diagnosis tests.

The Company intends to continue its research and development and commercializing efforts. The Company's operations are subject to all the inherent risks related to setting up and running an emerging biotechnology company, such as successfully completing its research and development activities, marketing and distributing its products and obtaining the required financing.

3. *Capital stock*

Authorized

An unlimited number of shares of the following classes, without nominal value:

Common, voting and participating shares.

Preferred shares, issuable in series, non-voting, of which the rights, privileges, restrictions and conditions attached to each series will be determined by the directors upon the issuance of each series.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

AS OF JULY 31, 2006

3. Capital stock (Cont'd)

	(UNAUDITED)	(AUDITED)
	JULY 31, 2006	OCTOBER 31, 2005
	\$	\$
<hr/>		
Issued and fully paid		
34,449,642 common shares (34,310,910 as of October 31, 2005)	59,696,248	59,532,811

	JULY 31, 2006	
	Number of shares	Amount
Capital stock		\$
Balance, beginning of period	34,310,910	59,532,811
Issuance of common shares	138,732	145,133
Stock options exercised as part of the stock-based compensation	---	18,304
Balance, end of period	34,449,642	59,696,248

Stock options

During the period ended July 31, 2006, the Company granted 265,000 options to certain key employees and directors. The weighted average fair value of stock options granted during this period amounted to \$3.20 per stock option. The fair value of each option granted was determined using the Black-Scholes option pricing model and the following weighted average assumptions:

Risk-free interest rate	4.21%
Expected life	8 years
Expected volatility in the market price of the shares	80%
Expected dividend yield	---

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option-pricing models require the use of highly subjective assumptions including the expected stock price volatility. Because the Company's employees and directors stock options have characteristics significantly different from those of traded options, and because changes in the subjective assumptions can have a material effect on the fair value estimate, in management's opinion, the existing option pricing models do not necessarily provide a single measure of the fair value of its employees and directors stock options.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

AS OF JULY 31, 2006

3. Capital stock (Cont'd)

Contributed Surplus

For stock options granted to keys employees and directors after November 1st, 2002, the Company records compensation expense using a fair value method. Fair value is determined by using Black-Scholes option pricing model. Compensation cost are recognized over the vesting period as an increase to stock-based compensation expense and credited to contributed surplus. When options are exercised, the proceeds received by the Company, together with the fair value amount in contributed surplus are credited to capital stock.

Contributed Surplus	Amount
	\$
Balance as of October 31, 2005	3,217,038
Stock-based compensation expense	833,290
Stock options exercised	(18,304)
Balance as of July 31, 2006	4,032,024

4. Segmented Information

Information pertaining to segmented earnings for the three-month periods ended July 31, 2006 and 2005:

	Consolidated Amounts		Biotechnologies		Software Development	
	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$
Revenue from						
External sales	1,302,485	1,683,283	1,170,034	1,398,002	132,451	285,281
Inter-segment sales	---	---	(15,565)	(10,614)	15,565	10,614
	1,302,485	1,683,283	1,154,469	1,387,388	148,016	295,895
Earnings (loss) before the following items:	(234,915)	301,391	(156,046)	302,511	(78,869)	(1,120)
Stock-based compensation	284,806	334,245	284,806	334,245	---	---
Depreciation and amortization	110,913	82,729	108,347	82,420	2,566	309
Segmented earnings (loss)	(630,634)	(115,583)	(549,199)	(114,154)	(81,435)	(1,429)
Net R&D expenses	973,237	754,290				
Financial expenses	10,147	14,326				
Net loss	(1,614,018)	(884,199)				

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

AS OF JULY 31, 2006

4. Segmented Information (Cont'd)

Information pertaining to segmented earnings for the nine-month periods ended July 31, 2006 and 2005:

	Consolidated Amounts		Biotechnologies		Software Development	
	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$
Revenue from						
External sales	4,247,278	5,426,847	3,838,404	4,398,482	408,874	1,028,365
Inter-segment sales	---	---	(154,979)	(19,387)	154,979	19,387
	4,247,278	5,426,847	3,683,425	4,379,095	563,853	1,047,752
Earnings (loss) before the following items:	(714,380)	1,187,994	(537,699)	1,250,968	(176,681)	(62,974)
Stock-based compensation	833,290	935,499	833,290	935,499	---	---
Depreciation and amortization	306,106	231,742	303,091	230,839	3,015	903
Segmented earnings (loss)	(1,853,776)	20,753	(1,674,080)	84,630	(179,696)	(63,877)
Net R&D expenses	3,082,000	2,104,835				
Financial expenses	43,142	34,583				
Net loss	(4,978,918)	(2,118,665)				