



For life
to continue ...

2006
ANNUAL
REPORT

DIAGNOCURE INC.



■ Message to Shareholders

Following the August 2006 appointment of John C. Schafer as President and Chief Executive Officer of DiagnoCure, the Company undertook an intensive review of its business strategy. This resulted in subtle but critical adjustments to our mission and direction and in the implementation of some key decisions to strengthen our leadership position in molecular diagnostics. Where we have always been a leading developer and provider of high value diagnostic tests for the early detection of cancer, we are now focused on being a leading developer of high value diagnostics for the detection *and management* of cancer. This recognizes the larger promise of molecular diagnostics technology. The year 2006 also saw the achievement of several significant milestones on the road to bringing our first breakthrough molecular diagnostic for cancer to market, the PCA3 prostate cancer test.

The decision to focus all of DiagnoCure's energy and resources exclusively on molecular diagnostics for cancer has meant a move away from our work in cell-based assays. As a result, we withdrew further funding from SAMBA Technologies, our subsidiary in Meylan, France, and we reduced our research, sales, and administrative staff associated with ImmunoCyt™ / uCyt+™, our bladder cancer test. We will, however, continue to provide customer support for this excellent product while we search for a potential partner with the appropriate cytology infrastructure to enable our bladder cancer test to achieve its market leadership potential.

This decision puts DiagnoCure exclusively in the business of molecular diagnostics for cancer management. This is a very attractive business. The economic outlook is extremely robust and the technology is expected to permanently transform the way cancer is diagnosed and managed.

The field of molecular diagnostics is growing rapidly. The Compound Annual Growth Rate (CAGR) for this worldwide US\$2.5 billion industry is 15 percent per year and is forecast to reach US\$5 billion by 2010. Cancer molecular diagnostic products, as part of the larger *in vitro* cancer diagnostic products category, will increasingly be used for cancer screening, diagnosis, staging, therapeutic, and relapse monitoring and represent a market forecast to grow at greater than 30 percent CAGR, tripling from its 2005 level of US\$315 million to more than US\$1,350 million by 2010.

We are a significant global leader in this field. Of the more than 240 molecular diagnostics companies that we monitor, DiagnoCure is in the top 10 percent of these companies. Our PCA3 marker is the cornerstone of a breakthrough molecular diagnostic test for prostate cancer. History is kind to market leaders.

Prior to the recent development of molecular methods for clinical diagnostics, cancer was identified by classifying cells according to their appearance under a microscope. Molecular diagnostics categorize cancer using mass spectrometry and gene expression technology. Gene chips or microarrays enable researchers to examine hundreds of thousands of expression patterns of genes at the same time to locate irregular gene and protein activity patterns. These unique patterns are the molecular signatures that we use to identify cancer.

The mapping of the human genome is an accomplishment of unparalleled significance in the field of medicine, which will forever change the way disease is diagnosed and treated. Understanding the behaviour of specific genes will not only help us detect cancer earlier, but it will provide important clues as to how to better manage the disease.



The PCA3 test may be more than a pioneering molecular diagnostic test for cancer. Our partner, Gen-Probe, is introducing the PCA3 test to provide a more accurate diagnosis in men who have an elevated PSA score and a negative biopsy. It is estimated that, in the United States alone, there are close to 10 million men in this category. Meanwhile, studies are continuing into broader diagnostic and prognostic uses of the PCA3 gene. Specific studies are focused on using PCA3 as a primary screening test, while other studies will determine if PCA3 can provide clinically useful information on how aggressive the cancer is.

In the fight against cancer, molecular diagnostics are not just early detection tools. They are disease management tools. Scientists believe that most cancers will eventually be diagnosed and managed using this important technology. The DiagnoCure team shares this belief and is working hard to bring this more comprehensive tool set to market.

We are committed to providing industry leading cancer diagnostic products and services to clinicians and researchers by building a world-class workforce and concluding the most effective alliances with outside partners. We have the tools, experience, knowledge and commitment to keep us at the forefront of genetic marker discovery and validation, and we remain a leader in molecular diagnostics for the detection and management of cancer.

All of this would not have been possible without the commitment, over the past six years, of our former President and Chief Executive Officer, Pierre Désy, who retired last August, and without the ongoing support and contribution of the members of our Board of Directors. We also want to emphasize the incredible effort of the Company's management team, and of all our employees, past and present. We extend our gratitude to all of them. We have ambitious goals for 2007 and we will keep all of our stakeholders informed of our progress as we go forward.

(Signed)
Paul Gobeil
Chairman of the Board of Directors

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



OUR PRODUCTS
AND PROJECTS

■ PCA3 for Prostate Cancer

Prostate cancer has been at the forefront of DiagnoCure's R&D projects since the Company first in-licensed the PCA3 marker in 2000. PCA3 is a non-coding RNA believed to be a more accurate marker of prostate cancer than the currently used diagnostic tests.

The prevalent prostate cancer diagnostic routine today starts with an annual prostate specific antigen (PSA) test and digital rectal examination (DRE) for men over age 50. As men age, close to 90% of them will develop a condition known as BPH (benign prostatic hyperplasia), in which their prostate gland increases in size. But this does not necessarily mean that they have cancer. Data from numerous studies has shown that PSA values increase in men with BPH and create a dilemma for these men and their physicians, who rightly ask: "Do I really have cancer?"



Today, the standard of care after the finding of an elevated PSA (over 4ng/ml) or suspicious DRE is a prostate biopsy where from 6 to 24 16-gauge needles are inserted transrectally into the prostate gland to extract tissue for pathology analysis. For up to 80% of men with an elevated PSA, no cancer is found in the biopsy samples. These men are left to wonder if the elevated PSA was due to BPH or if the biopsy missed cancer. As a result of testing men with PSA over the past 15 years, as many as 20 million men alive today face this dilemma. Preliminary data shows that PCA3 is more specific for prostate cancer than PSA, thus decreasing the likelihood of false positive results.

In 2003, after having developed a diagnostic product based on PCA3, DiagnoCure granted a worldwide license to Gen-Probe for the development and commercialization of a second generation PCA3-based test using their proprietary platform.

Prostate cancer is the most frequent cancer in men, with an estimated 234,460 new cases diagnosed in 2006 in the United States alone. PCA3 fills an important medical need for men who have an elevated PSA level and a negative biopsy.

In 2006, PCA3 achieved important milestones when Gen-Probe made the test available in analyte specific reagent (ASR) format to U.S. laboratories and launched a full CE-marked PCA3 test in Europe in November.

"I believe this is a significant moment for our Company and for all patients and physicians concerned with prostate cancer," said John Schafer, President and Chief Executive Officer of DiagnoCure, about the European launch. "We are confident that clinicians and patients will share our excitement at the potential of this important new prostate cancer diagnostic tool."

The *Urology Times*, the leading news source for urologists, published an article in July 2006, citing recent AUA presentations and the new PCA3 test as an aid to critical diagnostic decisions in prostate cancer. In addition, the results of ongoing clinical studies from renown medical centers were published in the scientific literature and presentations made at important conferences to begin the process of educating the medical community on the potential value of tests based on PCA3.

During 2006, the Company signed two research agreements with the University of Iowa and with the Nijmegen University (The Netherlands) to investigate the therapeutic potential of DiagnoCure's PCA3 gene, and also acquired the diagnostic and therapeutic rights to selected FOX genes from Nijmegen University.

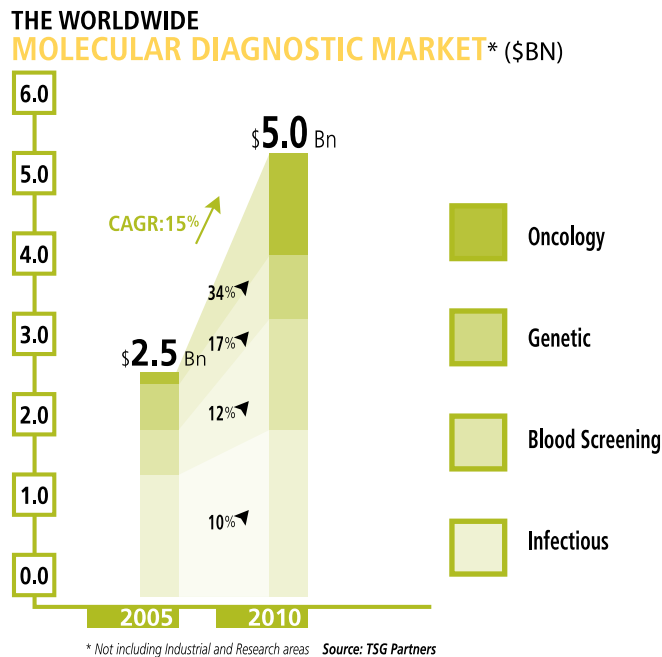
■ Molecular Diagnostics: a New Era of Testing

PCA3 is paving the way to a new era of molecular diagnostic tests that have the potential to optimize how physicians treat their patients.

Molecular diagnostic tests rely on technologies derived from the genomics/proteomics revolution. These tests identify changes in genes, gene expression and proteins, which may correlate with the presence of a specific disease state.

These technologies are an important new source of biomarkers, which are increasingly gaining clinical acceptance, as new molecular tests are launched, creating new ways to diagnose and monitor cancer, and potentially replacing some traditional diagnostic methods.

For our stakeholders, molecular diagnostics also represent a market with large potential value. According to analysts, the molecular diagnostics market is the fastest growing segment of *in vitro* diagnostics, with a Compound Annual Growth Rate (CAGR) of 15%. Significant growth is especially expected in the oncology segment (CAGR of 30+%). Although significant investment is necessary to be a category leader, return on investment remains very positive as the products carry high value pricing.



In 2007, DiagnoCure intends to partner with key organizations and key researchers, and to leverage its knowledge in nucleic acid technology and experience in IVD development, in order to take advantage of the growing potential of molecular diagnostics for the management of cancer.

Molecular Diagnostics in the Management of Cancer

Cancer is the second leading cause of mortality after heart disease in the United States, accounting for one out of every four deaths. Nearly 80% of all cancer diagnoses are made in people aged 55 and older. With the significant aging of the population of developed countries in the years to come, cancer will increasingly represent a heavy financial burden on patients, their families, and society.

DiagnoCure believes that effective diagnostic tools will be necessary at every stage of the disease continuum to ensure optimal **management of cancer**.

MANAGEMENT OF CANCER

Management stage	Screening	Detection (diagnosis)	Therapeutic response	Predisposition	Relapse
What it is	Testing for cancer in the absence of symptoms	Testing for cancer in the presence of symptoms	Testing for the potential response of an individual to specific drugs	Testing for the probability of an individual developing cancer	Testing for relapse of cancer
Indication	Especially used for populations at risk of developing certain cancers, e.g. smokers for lung cancer	Used in combination with or in replacement of current methods	Used to optimize cancer treatment	May be used in deciding how to treat or monitor the patient	Used in the monitoring of patients who have had a previous occurrence of cancer

By providing more accurate and timely information, molecular diagnostics will be useful at every stage of the cycle of cancer management. DiagnoCure intends to apply these new technologies to answer specific unmet medical needs, thereby increasing the ability of physicians to treat their patients in the most effective way, while reducing overall health costs.

PROSTATE CANCER

In 2007, DiagnoCure will pursue its research on prostate cancer markers to maintain its position as a leader in prostate cancer diagnostics.

One area of research will target predicting the aggressiveness of individuals' prostate cancer. Indeed, it is well known that not every prostate cancer will cause death, and as a result, some patients could live with their prostate cancer untreated and without being affected by undue medication or the side effects of prostate removal. In that respect, DiagnoCure's research could help physicians decide whether or not treatment is necessary by assessing the probability of the patient's prostate cancer causing death.



LUNG CANCER

Molecular diagnostics also have great potential for the management of lung cancer. Since February 2002, DiagnoCure has reviewed thousands of genes for lung cancer expression and performed laboratory evaluations on more than 400 candidate markers. The first level of testing was done on tumor tissue samples accessed through the Company clinical protocols. Once this step was completed, the Company proceeded to evaluate differentially expressed markers with lung specificity on blood, bronchial aspirates, and sputum specimens.



With 1.2 million new cases each year worldwide, lung cancer represents 13% of all cancers diagnosed and is the leading cause of death by cancer. Molecular diagnostics could help improve the treatment of lung cancer by providing more accurate and timely information.

In May 2006, the Company initiated a new 12-month collaboration with its partner Gen-Probe to evaluate the diagnostic utility of certain genetic markers acquired from Corixa by Gen-Probe.

In 2007, DiagnoCure will extend its efforts in the identification and validation of lung cancer markers using the most up-to-date molecular technologies.

KIDNEY CANCER

In September 2003, DiagnoCure initiated a kidney cancer gene discovery project by reviewing potential markers for the detection of kidney cancer. Since the beginning of the kidney cancer gene discovery project, more than 350 potential markers have been evaluated. Among these, a number of markers were selected after a first review aimed at identifying markers that met our diagnostic criteria, notably the specificity of expression in tumor tissues. This research effort is continuing. In addition, DiagnoCure is actively exploring collaborative projects and accessing additional markers to improve the diagnostic potential for a kidney cancer product.

In 2006, it is estimated that 38,890 new cases of kidney cancer were diagnosed and 12,840 people died from it in the United States alone. Molecular diagnostics have the potential to help physicians make optimal decisions about their kidney cancer patients' treatment.

BLADDER CANCER – IMMUNOCYT™ / uCYT+™



ImmunoCyt™ / uCyt+™ is DiagnoCure's non-invasive test for detecting superficial bladder cancer. Through a simple urine sample, this test detects the presence of cancerous cells with the help of a fluorescence microscope.

Currently, testing for bladder cancer is carried out by urinary cytology in conjunction with a cystoscopy, an extremely invasive procedure. For low-grade tumors, the sensitivity obtained with ImmunoCyt™ / uCyt+™ is up to four times higher than that of conventional urinary

cytology. With regard to overall detection of bladder cancer, ImmunoCyt™ / uCyt+™ combined with urinary cytology shows greater sensitivity, in the range of 85% to 95%. ImmunoCyt™ has FDA clearance for commercialization in the United States for the monitoring of bladder cancer.

In 2006, it is estimated that 61,420 new cases of bladder cancer were diagnosed and 13,060 people died from it in the United States alone.

OTHER COMPANY PROJECTS

Benefiting from genomic and proteomic research, which has and continues to produce a significant amount of information regarding chromosomal gene location, sequence and structure, DiagnoCure intends to apply the expertise accumulated over the past few years towards the development of new diagnostic tests for the detection and management of cancer, by focusing on such cancers as colon, cervical and ovarian.

In partnership with bioinformatics and computational genomics companies, which have identified potential gene and protein markers through their proprietary software approach, DiagnoCure will first validate the potential of these markers and proceed to diagnostic product development. Specifically, the Company intends to apply the above-mentioned expertise to shorten the time involved in the diagnostic assay development process while applying high standards of sensitivity and specificity to each diagnostic test.



 FINANCIAL REVIEW

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

The following information deals with the Company's operating results and financial position as at October 31, 2006, and therefore should be read in conjunction with the consolidated financial statements and accompanying notes at that same date and included in this annual report. These management comments were prepared to explain the Company's operations, performance and financial position as at October 31, 2006. They compare this fiscal year's operating results and cash position with those of the fiscal year ended October 31, 2005. The information contained herein is up to date as of January 8, 2007.

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 and management of cancer. Specifically, the Company specializes in the development of cancer diagnostic assays 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 \$11.70 million had been paid to October 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 U.S. market the ASR format of its first generation PCA3 test 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 a PCA3 prostate cancer test in the ASR format based on Gen-Probe's technology. Subsequent to the close of the fiscal year end, in November 2006, Gen-Probe launched, through six laboratories, a CE Mark status version of the PCA3 prostate cancer test in Europe. In 2006, 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, those royalties were modest; nonetheless they reflect the confirmation that the test is now available in the market and being ordered by the labs. As more laboratories offer the test and European sales begin to materialize, we expect royalties to increase in each future financial period.

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2006 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 test. Further, the PCA3 prostate cancer test was launched in Europe in November 2006. Given the recent release of the test, there is not yet any developed sales pattern for the Gen-Probe PCA3 test so it is difficult to predict what future royalty revenue flow will accrue to DiagnoCure. However, as was anticipated, with the test now commercially available, DiagnoCure received its first royalty revenue from Gen-Probe during the year.

Also, 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.

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 to take effect on August 23, 2006. Mr. Schafer was also nominated as member of DiagnoCure's Board of Directors on September 11, 2006.

On May 30, 2006, DiagnoCure and Gen-Probe 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 U.S. 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. DiagnoCure entered 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.

DiagnoCure has been confirmed exclusive rights to PCA3, its highly prostate cancer specific gene. In a notice posted March 7, 2006, to its official website, the United States Patent and Trademark Office (USPTO) has indicated that it has granted a patent on the PCA3 gene technology, which encompasses both therapeutic and diagnostic applications. The U.S. patent 7,008,765 "PCA3, PCA3 genes and methods of use" is at the forefront of several families of patent applications covering PCA3, its structure and its role in the diagnosis, prognosis and therapeutics of prostate cancer.

In October 2006, DiagnoCure acquired specific rights on new genes which show promise as prostate cancer markers. The agreement, signed with Radboud University Medical Center, Nijmegen, the Netherlands, covers technology rights related to Dr. Jack Schalken's discoveries of the role of FOX gene expression in prostate cancer and commissions further research into the diagnostic, prognostic and therapeutic potential of those genes.

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ImmunoCyt™ / uCyt+™ overall sales have decreased this past fiscal year from that of 2005 due principally to competition in the U.S. European sales of uCyt+™ have increased modestly due to the Company's efforts to expand its overseas distribution network. Nonetheless, after considerable review, subsequent to the Company's fiscal year end, DiagnoCure decided in December 2006 to discontinue support of research and development activities related to product improvements in this bladder cancer product, ImmunoCyt™ / uCyt+™, and also to reduce its marketing activities related to this product (See **Subsequent Event** section, below). As a result, DiagnoCure reduced staff in research and development, sales and marketing, and administrative support, while actively searching for a strong outside partner to facilitate the continued growth of the product. The Company continues to ensure that customers receive quality products, technical support and services for ImmunoCyt™ / uCyt+™ during the transition period. As described in a note to the October 31, 2006, financial statements, these restructuring actions will result in non-recurring charge of approximately \$900,000 in the first quarter of fiscal 2007. This announcement follows the decision last November to discontinue financial support for Samba, the company's subsidiary in France, which had been developing automation software for ImmunoCyt™/uCyt+™.

OVERALL PERFORMANCE

DiagnoCure has continued its growth and met its stated objectives in order to fulfil its mission to become a leading developer and provider of innovative, high-value diagnostic tests for the detection and management of cancer. To this end, DiagnoCure has recently modified its business plan and mission to discontinue the Company's research initiatives in cell-based assays and provide additional resources to a highly focused effort in the development of new molecular diagnostic tests directed at the high-value oncology marketplace. Until now, we have been working in both diagnostic areas. Molecular diagnostics has become the fastest growing segment of the *in vitro* cancer diagnostics market. Clinical validation of molecular diagnostic tests and their associated biomarkers are beginning to expand the cancer diagnostics market and new tests are already showing promise as potential replacements for existing *in vitro* cancer diagnostic assays.

DiagnoCure's overall performance must be evaluated based on its ability to identify or acquire new markers, genes, proteins and monoclonal antibodies and to develop high quality diagnostic tests from these discoveries or acquisitions. Continued evidence of our successes in this strategy during the past fiscal year are the announcement of the in-licensing agreement covering technology rights related to Dr. Jack Schalken's discoveries of the role of FOX gene expression in prostate cancer and our agreement to commission further research into the diagnostic, prognostic and therapeutic potential of those genes. We also continue our research into various markers related to the field of detecting lung cancer. Projects during the year to examine specific genes and consider their suitability for inclusion in potential diagnostic tests included research and development in the areas of evaluating molecular markers and developing diagnostic tests for the detection and management of lung, breast, prostate and kidney cancers.

Following the acquisition and development steps identified above, overall performance is further evaluated based on the conclusion of out-licensing agreements and commercialization partnerships. Fiscal year 2006 marked a significant milestone in DiagnoCure's performance, continuing our active collaboration with Gen-Probe and actively supporting Gen-Probe's commercialization of the ASR PCA3 test in December 2005 using DiagnoCure's PCA3 technology on the Gen-Probe APTIMA® platform, and the November 2006 announcement of the release of the CE Mark PCA3 prostate cancer test in Europe.

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On November 3, 2006, DiagnoCure announced the beginning of the liquidation process of SAMBA Technologies SAS, of Meylan, France. The decision to withdraw support for the subsidiary was taken as part of a comprehensive review of DiagnoCure's business strategy and it was determined that the SAMBA technology was not central to the Company's current or future direction; given that, the subsidiary had been unable to make a positive contribution to DiagnoCure's operating income, it was no longer prudent to sustain its operations. The shut down of SAMBA resulted in a consolidated charge to operations for "discontinued operations" of \$595,044 in the last quarter of DiagnoCure's 2006 fiscal year.

SUBSEQUENT EVENT

On December 13, 2006, DiagnoCure announced a major redirection in its business strategy and its Company mission. After a thorough review of its operations, the business strategy and the state of the cancer diagnostics speciality, the Company's mission had been modified to be *the leading developer and provider of high value diagnostics for the detection and management of cancer*, with a particular emphasis on marker discovery and the research and development in the area of molecular diagnostics. The molecular diagnostics speciality, particularly in the area of cancer, is an emerging market with superior upside potential to serve both the medical specialists and public in the detection of cancer while providing a superior opportunity for future revenue growth for DiagnoCure. This decision to focus exclusively on molecular diagnostics has immediate ramifications for DiagnoCure. As a result of this new focus, the research and development operation will change significantly and the resource requirements to support the Company's new vision must be realigned with changes in the requisite skills of its researchers. Additionally, and pursuant to this decision to focus the molecular diagnostics, DiagnoCure stopped supporting R&D activities related to improvements in our cell-based bladder cancer diagnostic test, ImmunoCyt™ / uCyt+™, and, moreover, reduced marketing efforts supporting this product. As a result of this strategic redirection, DiagnoCure announced, on December 13, 2006, the lay-off of 21 employees supporting our cell-based products and certain other research and development projects. This included related administrative positions supporting the R&D operations. These decisions to realign, immediately, DiagnoCure's activities are part of the on-going detailed review into all its operations in order to maximize shareholder value and strengthen its position going forward as a leader in molecular diagnostics for the detection and management of cancer. Appropriate provisions to recognize the charges related to this restructuring, estimated at this time to be approximately \$900,000, will be made during the first quarter of our 2007 fiscal year.

2007 OUTLOOK

During 2007, the Company intends to act on its new mission to become a leading developer of highly innovative and accurate molecular diagnostic tests, which are clinically useful and may enable identification and/or management of different cancers. Molecular diagnostics is the fastest growing segment of the *in vitro* diagnostics market which, while changing approaches to cancer management, grew 15% CAGR in 2005, with clinical validation of molecular tests and associated biomarkers creating new markets and replacing some existing IVD assays. Further, the genomics and proteomics era has generated a new source of biomarkers that are increasingly gaining clinical acceptance (e.g. PCA3 for prostate cancer). Significant growth is especially expected in the oncology segment (CAGR of 30+%). Although high investments are necessary to be an effective player in this field, return on investment remains very positive as the products carry a high-value pricing.

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In 2007, DiagnoCure intends to partner with key organizations and key researchers, and leverage its knowledge in nucleic acid technology and experience in IVD development, to take advantage of the growing potential of molecular diagnostics for the detection and management of cancer. The Company also continues to seek out potential merger and acquisition targets with partners that could contribute to DiagnoCure's refined strategy and mission.

The Company will continue to support its ImmunoCyt™/uCyt+™ bladder cancer test to ensure that its customers and distributors continue to receive adequate technical support and service as they have always been able to expect from the professional DiagnoCure team. However, pursuant to our new focus on molecular diagnostics, no further development or improvements to this product are contemplated, nor will any further development be pursued on the automated microscopy workstation to support ImmunoCyt™/uCyt+™.

The Company will also continue its evaluation of molecular markers in developing diagnostic tests for the detection of lung and kidney cancers.

Finally, DiagnoCure will continue to work closely and actively support Gen-Probe in its commercialization of the PCA3 test, subsequent to its introduction in an ASR format to targeted laboratories in the U.S. in December 2005 and its launch in Europe in November 2006.

OPERATING RESULTS

Revenues for 2006 totaled \$5,030,853 compared with \$5,775,273 for the same period of 2005. Revenue recognition of the continued calendar payments from Gen-Probe were \$2,965,789 for 2006, down \$116,643 from the prior year due to the strengthening of the Canadian dollar over that of the U.S. Sales of DiagnoCure's bladder cancer test, ImmunoCyt™ / uCyt+™, were \$378,327 for 2006 versus \$441,166 for the same period a year ago. Sales of DiagnoCure developed uPM3™ ASR prostate cancer test for 2006 were \$376,660 compared to \$612,946 for the same period of 2005. During the past summer, the Company made a transition over to the Gen-Probe PCA3 test. Final uPM3™ orders were processed in May and DiagnoCure withdrew its test from the market in June.

Income from research and development contracts, predominantly with Gen-Probe, has decreased in 2006 by \$660,428 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 \$258,418.

Interest income increased from \$723,357 for 2005 to \$787,008 for 2006. This increase is attributable to the rise in the interest rate during 2006. DiagnoCure continues to manage its cash reserves and cash flow closely, taking advantage of rates and terms in the short and mid-term high grade investment market.

Cost of sales were \$585,515 for 2006 compared to \$575,099 for 2005 and relate directly to sales volume and mix.

Operating expenses rose from \$8,248,823 for 2005 to \$10,936,924 for the same period in 2006, for an increase of \$2,688,101 primarily as a result of the following:

- Year over year increase in salaries and benefits.

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- Research and development expenses, net of investment tax credits, increased by \$952,421, from \$3,093,742 for 2005 to \$4,046,163 for 2006. The increase in research and development expenses is in line with the Company's plan, and includes 2006 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 and kidney.
- General and administrative expenses increased, from \$1,616,236 for 2005 to \$2,194,990 for 2006. This increase of \$578,754 is attributable to an increase in professional fees (legal and investor relations, implementation of 52-109 regulations related to internal control), higher regulatory and filing fees increased employee-related expenses relative to the CEO search and transition, information technology, pension plan and administrative support.
- Selling and business development expenses increased by \$1,042,963 from \$1,890,514 for 2005 to \$2,933,477 for the same period in 2006. This increase is attributable to the on-going execution of our marketing and new business development plans to promote our products, manage our intellectual property portfolio, support our efforts to identify and conclude new potential strategic alliances and in-licensing agreements, and update the Company's strategic plan.
- Stock-based compensation expenses, a non-cash charge, increased by \$70,365, from \$1,262,034 for 2005 to \$1,332,399 for the same period in 2006. This increase is attributable to the grant of 940,000 options in 2006 compared to 337,500 in 2005, including, in 2006, 575,000 options granted outside the plan to the new CEO. Also, in accordance with normal procedure, during the year 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.

As noted above, DiagnoCure stopped funding its subsidiary, SAMBA Technologies as at October 31, 2006. The shutdown of SAMBA resulted in a consolidated charge to operations for "discontinued operations" of \$595,044.

Based on the above, DiagnoCure recorded a net loss from continuing operations of \$6,491,586 or \$0.19 per share, compared with \$3,048,649, or \$0.09 per share, for the same period of 2005. These results were in line with management plans for the year. 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.

As at October 31, 2006, cash, short-term investments and long-term investments stood at \$18,319,194, down \$4,284,596 from the \$22,603,790 reported as at October 31, 2005. That represents an average cash usage of only \$357,050 per month for the year. Subsequent to year end, on November 20, 2006, the Company also received the final contracted calendar payment from Gen-Probe of US\$2 million. Management is satisfied that it has adequate cash resources to execute its business plan in the near-term and mid-term.



Selected Annual Information

(Data shown below come from the audited consolidated financial statements of the Company)

	□ 2006 \$	2005 \$	2004 \$
Sales	1,013,405	1,054,110	1,056,748
Licence and development revenues	3,230,440	3,997,806	4,171,196
Interest	787,008	723,357	318,793
Total revenues	5,030,853	5,775,273	5,546,737
Cost of sales	585,515	575,099	474,957
Operating expenses (before stock-based compensation)	9,604,525	6,986,789	5,235,621
Stock-based compensation	1,332,399	1,262,034	641,213
Operating expenses	10,936,924	8,248,823	5,876,834
Net loss before discontinued operations	(6,491,586)	(3,048,649)	(805,054)
Loss from discontinued operations	(595,044)	(1,480)	(252,640)
Net loss	(7,086,630)	(3,050,129)	(1,057,694)
Basic and diluted loss per share			
Continuing operations	(0.19)	(0.09)	(0.02)
Discontinued operations	(0.02)	(0.00)	(0.01)
Basic and diluted net loss per share	(0.21)	(0.09)	(0.03)
Weighted average number of common shares outstanding	34,401,548	34,232,702	30,820,960

Total Assets and Shareholders' Equity

Total assets amounted to \$21,347,421 as of October 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 and the write-off of the assets of the discontinued operations of SAMBA (per schedule below). The book value per Common Share is \$0.57 as of October 31, 2006, compared to \$0.74 per Common Share as of October 31, 2005.

(Data shown below come from the audited consolidated financial statements of the Company)

	□ 2006 \$	2005 \$	2004 \$
Total assets before discontinued operations	21,347,421	26,324,607	28,375,955
Assets related to discontinued operations	—	571,032	549,314
Total assets	21,347,421	26,895,639	28,925,269
Shareholders' equity	19,704,640	25,313,138	26,879,904
Number of common shares outstanding	34,451,142	34,310,910	34,182,810

Cash Position and Financing Sources

Cash flow used for operating activities for 2006 was \$3,517,577 compared with \$3,509,060 for 2005, totalling a spread of \$8,517, which is attributable to the realization of working capital. Investment activities generated cash flow of \$3,298,342 for 2006 while, for the same period of 2005, investing activities generated cash flow of \$3,356,664. 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 related to the exercise of stock options generated cash flow of \$145,733 for 2006 compared to \$221,329 for the corresponding period of 2005.

DiagnoCure invests its cash reserve in liquid, high-grade investments with varying terms to maturity, selected with regard to the expected timing of operating and capital expenditures and prevailing interest rates.

□ FINANCIAL REVIEW ■ □

DiagnoCure's funding needs may vary depending upon a number of factors. The Company's funding requirements for the next years will depend on its ability to generate revenues from sales and to form strategic alliances, research partnerships, as well as on the progress of the research programs and products resulting from these agreements.

Cash flows

(Data shown below come from the audited consolidated financial statements of the Company)

	□ 2006 \$	2005 \$	2004 \$
Cash flows related to operating activities	(3,517,577)	(3,509,060)	470,751
Cash flows related to investing activities	3,298,342	3,356,664	(22,768,207)
Cash flows related to financing activities	145,733	221,329	22,621,013

Issued and Outstanding Share Capital

As at January 8, 2007, the Company had 34,456,642 common shares and 3,053,124 outstanding options to acquire common shares.

RESULTS OF FOURTH QUARTER

Total revenues for the fourth quarter of 2006 were \$1,192,448 compared with \$1,376,791 for the fourth quarter of 2005. The Gen-Probe PCA3 test is now being sold in the U.S. in an ASR (Analyte Specific Reagent) format and in Europe with a full CE Mark. Given the recent release of the test, it is difficult to predict what any future royalty revenue flow will accrue to DiagnoCure. As anticipated, DiagnoCure continues to receive royalty payments from early Gen-Probe PCA3 test sales in the U.S. and expects to start receiving additional royalties from European sales in 2007. PCA3 ASR royalty receipts to date, while modest, are consistent with the management plan for 2006. In May 2006, when DiagnoCure agreed to the Gen-Probe release of an ASR version of the PCA3 test in the U.S. and to advance the launch of the PCA3 prostate cancer test in Europe prior to a full U.S. FDA approval and launch, the Company knew it would be advancing its scientific leadership while deferring the royalty revenue stream in the short term in favour of unrestricted market access in the medium term in the U.S. Further, in June 2006, once Gen-Probe's PCA3 ASR test became commercially available in the U.S., in accordance with the terms of the arrangement with Gen-Probe, DiagnoCure withdrew its uPM3™ test from the market. Income from research and development contracts, predominantly with Gen-Probe, decreased in the fourth quarter of 2006 by a net amount of \$90,413 as was anticipated under the contract terms.

Sales of DiagnoCure's bladder cancer test, ImmunoCyt™ / uCyt+™, were \$111,935 for the fourth quarter of 2006 versus \$92,513 for the same period a year ago, reflecting increased sales in Europe. While uCyt+™ sales outside the U.S. increased over last year, U.S. based sales of ImmunoCyt™ suffered from strong competition and reimbursement issues.

Cost of sales decreased from \$142,809 for the fourth quarter of 2005 to \$112,611 for the fourth quarter of 2006. This decrease is related to the curtailment of uPM3™ sales. Operating expenses rose from \$2,244,139 for the fourth quarter of 2005 to \$2,798,155 for the same period in 2006, an increase of \$554,016, primarily as a result of increased spending in support of the R&D program and an increase in administrative expenses. As noted above, the Company stopped funding its subsidiary, SAMBA Technologies.

FINANCIAL REVIEW

Based on the above, for the fourth quarter of 2006, DiagnoCure recorded a net loss of \$1,718,318 or \$0.06 per share, compared with a loss of \$1,010,157, or \$0.03 per share, for the fourth quarter of 2005. These results are in line with management expectations and reflect our continuing R&D commitments.

At the end of the quarter, cash, short-term investments and long-term investments were \$18,319,194, down \$4,284,596 from the \$22,603,790 reported as at October 31, 2005. This represents an average monthly cash burn of only \$357,050 for the year. Management is satisfied that it has adequate cash resources to execute its business plan in the near-term and mid-term.

Summary of Quarterly Results

(Unaudited)

Quarters Ended 2006 (Restated)

	January 31	April 30	July 31	October 31
Total revenues	1,405,313	1,263,057	1,170,035	1,192,448
Cost of sales	188,981	179,882	104,041	112,611
Operating expenses	2,862,532	2,688,389	2,587,848	2,798,155
Net loss before discontinued operations	(1,646,200)	(1,605,214)	(1,521,854)	(1,718,318)
Loss from discontinued operations	(52,448)	(61,038)	(92,164)	(389,394)
Net loss	(1,698,648)	(1,666,252)	(1,614,018)	(2,107,712)
Basic and diluted loss per share	(0.05)	(0.05)	(0.05)	(0.06)

Quarters Ended 2005 (Restated)

	January 31	April 30	July 31	October 31
Total revenues	1,529,975	1,470,505	1,398,002	1,376,791
Cost of sales	189,779	121,270	121,241	142,809
Operating expenses	1,949,067	1,903,326	2,152,291	2,244,139
Net loss before discontinued operations	(608,871)	(554,091)	(875,530)	(1,010,157)
Profit (Loss) from discontinued operations	1,264	(72,768)	(8,669)	78,693
Net loss	(607,607)	(626,859)	(884,199)	(931,464)
Basic and diluted loss per share	(0.02)	(0.02)	(0.02)	(0.03)

Off-Balance Sheet Arrangements

As at October 31, 2006, DiagnoCure has not entered into any off-balance sheet arrangement except for premises rental contracts described in the "Contractual Obligations" section of the present report.

Related Party Transactions

The Company is party to a consultation contract with the management company of one of its directors under which agreement the activities of this director are available to the Company. Expenses incurred by the Company with respect to this agreement totalled \$163,333 for fiscal 2006 compared with \$100,000 in 2005. These services have been charged at fair market value and have been accounted for as research and development fees.

□ FINANCIAL REVIEW ■ □

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 October 31, 2006, approximately \$12.70 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 receives 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 October 31, 2006
Improve the uPM3™ prostate cancer test, develop complementary applications and examine the therapeutic potential of the PCA3	\$4.00 million	\$2.90 million
Support the commercialization and expand the automation of ImmunoCyt+™/ uCyt+™ bladder cancer test	\$2.50 million	\$2.60 million
Advance the development of lung cancer and kidney cancer tests and initiate the development of other cancer tests	\$10.50 million	\$4.20 million
Acquire complementary technologies and uses for other general corporate purposes	\$5.33 million	\$3.00 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 prepared using careful judgment within the reasonable limits of materiality and within the framework of the accounting policies described in Note 2 of the accompanying notes to the consolidated financial statements. 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, treated as a reduction to research and development expenses, amounted to \$589,192 in fiscal year 2006 (\$419,227 in fiscal year 2005) and are based on management estimates of amounts to be recovered. While these amounts are subject to review by tax authorities, management believes that its estimate of these amounts is reasonable.

Impairment of Long-Term 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 Plan

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 currently leases 16,089 sq. ft. (with commitments for additional 16,719 sq. ft. of space on an adjacent floor in June 2007) in a building where its head office and research and development laboratories are located. As at October 31, 2006, the Company's obligations under this lease maturing on February 28, 2011, totalled \$1,324,188. The minimum annual lease payments for the next five years are as follows: 2007 - \$230,561; 2008 - \$328,088; 2009 - \$328,088; 2010 - \$328,088; 2011 - \$109,363.

Recently Published Accounting Changes

The following accounting standards were recently issued by the CICA. The Company is currently evaluating the application of these standards and their potential impact in its financial statements.

COMPREHENSIVE INCOME – In April 2005, the CICA issued Section 1530 “Comprehensive Income”. This Section dictates that the presentation of comprehensive income and its components in the consolidated financial statements should be given the same importance as all other statements which form part of the consolidated financial statements. Comprehensive income corresponds to the variations in the net assets of a corporation caused by operations, events and circumstances unrelated to its shareholders. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006.

□ FINANCIAL REVIEW ■ □

FINANCIAL INSTRUMENTS – RECOGNITION AND MEASUREMENT – Section 3855 “Financial Instruments – Recognition and Measurement” determines accounting and evaluation standards applicable to financial assets, financial liabilities and non-financial derivatives. These financial instruments must be classified in defined categories. The classification determines the manner of evaluation of each instrument and presentation of related gains and losses. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006.

ACCOUNTING CHANGES – In July 2006, the CICA issued Section 1506 “Accounting Changes”, which modifies certain aspects of the previous standard. A reporting entity may not change its accounting method unless required by a primary source of GAAP or to provide a more reliable and relevant presentation of the financial statements. In addition, changes in accounting method must be applied retroactively and additional information must be disclosed. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2007.

HARMONIZING OF CANADIAN AND INTERNATIONAL STANDARDS – In March 2006, the Accounting Standards Board of the CICA released its new strategic plan which proposes to abandon Canadian GAAP and effect a complete convergence to the *International Financial Reporting Standards*. At the end of a transitional period of approximately five years, Canadian GAAP will cease to exist as a separate, distinct basis of financial reporting for public companies. The Company will closely monitor changes arising from this convergence.

Procedures and Controls Regarding Disclosure

The President and Chief Executive Officer and the Chief Financial Officer of the Company are responsible for the implementation and maintenance of disclosure controls and procedures, as provided for in Regulation 52-109 issued by the Canadian Securities Administrators. They are assisted in this task by the Disclosure Committee, which is comprised of members of the Company's senior management.

An evaluation was completed under their supervision in order to measure the effectiveness of the controls and procedures relating to the preparation of disclosure documentation, including this Management's Discussion and Analysis, the Annual Report, the Annual Information Form and the Management Proxy Circular. Based upon this evaluation, the President and Chief Executive Officer and the Chief Financial Officer of the Company concluded that disclosure controls and procedures were effective as at the end of the fiscal year ended October 31, 2006, and more specifically, that the design of these controls and procedures provides reasonable assurance that important information relating to the Company, including its consolidated subsidiaries, is communicated to them in a timely manner for the preparation of this disclosure documentation.

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 the necessary funds to finance its activities is essential to ensure future success and is as such a risk factor.

Cautionary Statement

Management's comments and analysis are intended to facilitate understanding of the audited consolidated 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

Québec, Canada
January 8, 2007

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

(Signed)
Thom Skinner, CA
Chief Financial Officer

□ FINANCIAL REVIEW ■ □

CERTIFICATION OF ANNUAL FILINGS

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

1. I have reviewed the annual 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 period ending October 31, 2006;
2. Based on my knowledge, the annual 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 annual filings;
3. Based on my knowledge, the annual financial statements together with the other financial information included in the annual 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 annual filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting 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 annual filings are being prepared;
 - (b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and
 - (c) evaluated the effectiveness of the issuer's disclosure controls and procedures as of the end of the period covered by the annual filings and have caused the issuer to disclose in the annual MD&A our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the annual filings based on such evaluation.
5. I have caused the issuer to disclose in the annual MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

Date: January 8, 2007

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

CERTIFICATION OF ANNUAL FILINGS

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

1. I have reviewed the annual 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 period ending October 31, 2006;
2. Based on my knowledge, the annual 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 annual filings;
3. Based on my knowledge, the annual financial statements together with the other financial information included in the annual 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 annual filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting 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 annual filings are being prepared;
 - (b) designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP; and
 - (c) evaluated the effectiveness of the issuer's disclosure controls and procedures as of the end of the period covered by the annual filings and have caused the issuer to disclose in the annual MD&A our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by the annual filings based on such evaluation.
5. I have caused the issuer to disclose in the annual MD&A any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent interim period that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting.

Date: January 8, 2007

(Signed)
Thom Skinner, ^{CA}
Chief Financial Officer

□ FINANCIAL REVIEW ■ □

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of DiagnoCure Inc. and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

It is management's responsibility to make sound and informed decisions to ensure the application of the appropriate accounting methods and principles. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial information presented in this annual report is consistent with that in the consolidated financial statements.

DiagnoCure Inc. maintains systems of internal accounting and administrative controls which, in management's opinion, provide reasonable assurance that the financial information is accurate, relevant and reliable and that the Company's business is conducted efficiently and in an orderly manner.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility through its Audit Committee. The Audit Committee members are outside directors; they meet with management and the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues to satisfy itself that each party is properly discharging its responsibilities, and to review the consolidated financial statements and the external auditors' report.

The consolidated financial statements for the years ended October 31, 2006 and 2005, have been audited by Ernst & Young LLP, the external auditors appointed by the shareholders, in accordance with Canadian generally accepted auditing standards. Moreover, the auditors have access to the Audit Committee at all times.

Québec, Canada
January 8, 2007

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

(Signed)
Thom Skinner, CA
Chief Financial Officer



AUDITORS' REPORT

To the Shareholders of
DiagnoCure Inc.

We have audited the consolidated balance sheets of **DiagnoCure Inc.** as at October 31, 2006 and 2005, and the consolidated statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Québec City, Canada
November 24, 2006

Ernst + Young LLP

Chartered Accountants

□ FINANCIAL REVIEW ■ □

DiagnoCure Inc.

CONSOLIDATED BALANCE SHEETS

As at October 31

	□ 2006 \$	2005 [restated – note 3] \$
ASSETS		
Current assets		
Cash and cash equivalents	179,928	638,567
Temporary investments [note 4]	11,950,905	15,932,635
Accounts receivable [note 5]	981,897	1,638,585
Investment tax credits receivable [note 10]	480,252	688,155
Prepaid expenses	215,385	166,631
Current assets related to discontinued operations [note 3]	—	422,122
Total current assets	13,808,367	19,486,695
Long-term investments [note 6]	6,188,361	6,032,588
Property, plant and equipment [note 7]	1,080,067	974,396
Intangibles [note 8]	270,626	253,050
Intangibles related to discontinued operations [note 3]	—	148,910
	21,347,421	26,895,639
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	1,642,781	1,221,376
Current liabilities related to discontinued operations [note 3]	—	361,125
Total current liabilities	1,642,781	1,582,501
Shareholders' equity		
Capital stock [note 9]	59,697,388	59,532,811
Contributed surplus [note 9]	4,530,593	3,217,038
Deficit	(44,523,341)	(37,436,711)
	19,704,640	25,313,138
	21,347,421	26,895,639

Commitments [note 14]

Subsequent event [note 18]

See accompanying notes

On behalf of the Board:


(Signed)
John C. Shafer
Director

(Signed)
Yves Fradet
Director

DiagnoCure Inc.

CONSOLIDATED STATEMENTS OF DEFICIT

For the years ended October 31

	 2006 \$	2005 \$
Deficit, beginning of year	(37,436,711)	(34,386,582)
Net loss	(7,086,630)	(3,050,129)
Deficit, end of year	(44,523,341)	(37,436,711)

See accompanying notes

□ FINANCIAL REVIEW ■ □

DiagnoCure Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended October 31

	□ 2006 \$	2005 [restated – note 3] \$
Revenues		
Sales	1,013,405	1,054,110
Cost of sales	(585,515)	(575,099)
Gross margin	427,890	479,011
Revenue under research and license agreement	3,230,440	3,997,806
Interest	787,008	723,357
	4,445,338	5,200,174
Operating expenses [note 13]		
Research and development expenses	4,635,355	3,512,969
Investment tax credits	(589,192)	(419,227)
	4,046,163	3,093,742
General and administrative expenses	2,194,990	1,616,236
Selling and business development expenses	2,933,477	1,890,514
Stock-based compensation	1,332,399	1,262,034
Depreciation of property, plant and equipment	361,733	308,597
Amortization of intangibles	42,635	28,673
Financial expenses	25,527	49,027
	10,936,924	8,248,823
Loss from continuing operations before income taxes	(6,491,586)	(3,048,649)
Provision for income taxes [note 11]	—	—
Loss from continuing operations	(6,491,586)	(3,048,649)
Loss from discontinued operations [note 3]	(595,044)	(1,480)
Net loss	(7,086,630)	(3,050,129)
Basic and diluted loss per share from continuing operations [note 9]	(0.19)	(0.09)
Basic and diluted loss per share from discontinued operations [note 3]	(0.02)	(0.00)
Basic and diluted net loss per share	(0.21)	(0.09)
Weighted average number of common shares outstanding	34,401,548	34,232,702

See accompanying notes



DiagnoCure Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended October 31

	□ 2006 \$	2005 [restated – note 3] \$
OPERATING ACTIVITIES		
Net loss from continuing operations	(6,491,586)	(3,048,649)
Adjustment for:		
Stock-based compensation	1,332,399	1,262,034
Depreciation and amortization	404,368	337,270
	(4,754,819)	(1,449,345)
Net change in non-cash working capital items	1,237,242	(2,059,715)
Cash flows related to operating activities	(3,517,577)	(3,509,060)
INVESTING ACTIVITIES		
Change in investments	3,825,957	4,139,238
Acquisition of property, plant and equipment	(467,404)	(632,091)
Acquisition of intangibles	(60,211)	(150,483)
Cash flows related to investing activities	3,298,342	3,356,664
FINANCING ACTIVITIES		
Issue of capital stock and cash flows related to financing activities	145,733	221,329
Net increase (decrease) in cash and cash equivalents from continuing operations	(73,502)	68,933
Net decrease in cash and cash equivalents from discontinued operations <i>[note 3]</i>	(385,137)	(79,218)
Net decrease in cash and cash equivalents for the year	(458,639)	(10,285)
Cash and cash equivalents, beginning of year	638,567	648,852
Cash and cash equivalents, end of year	179,928	638,567
Supplemental cash flow information		
Cash paid during the year for:		
Interest	—	—
Income tax	—	—

See accompanying notes

□ FINANCIAL REVIEW ■ □

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DiagnoCure Inc.

October 31, 2006

1. 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 automatization of diagnosis tests. The software development activities have been classified as discontinued operations for financial reporting purposes and are outlined in note 3.

The Company intends to continue its research and development and marketing 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 its products and obtaining the required financing.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of financial statement presentation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and those of its wholly owned subsidiaries, SAMBA Technologies SAS, Urotech Pharma Inc., 9161-6722 Québec Inc. and Urovac R&D Inc. All significant intercompany transactions and balances have been eliminated upon consolidation.

Use of estimates

In preparing these 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 summarized below.

DiagnoCure Inc.
October 31, 2006

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Cash equivalents

Cash equivalents consist of investments that are readily convertible into a known amount of cash, that are subject to minimal risk of changes in value and which have an original maturity of three months or less from the date of purchase.

Temporary and long-term investments

Temporary investments consisting of commercial paper, mutual funds and short-term bonds, are recorded at cost plus accrued interest, which approximate fair value on a portfolio basis. Long-term investments are carried at cost and are written down to their fair market value when a decline in value is other than temporary.

Property, plant and equipment and intangibles

Property, plant and equipment and intangibles are recorded at cost and depreciation is calculated using the straight-line method over the following estimated useful lives:

Property, plant and equipment

Leasehold improvements	Lease term
Office furniture and equipment	5 years
Laboratory equipment	5 years
Computer hardware and software	3 years

Intangibles

Licenses and patents	Period not exceeding 10 years
----------------------	-------------------------------

Intangibles consist of patents and licenses relating to products under development purchased by the Company.

□ FINANCIAL REVIEW ■ □

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DiagnoCure Inc.

October 31, 2006

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Government assistance

Government assistance received in the form of grants and investment tax credits for qualifying research and development activities are applied as a reduction of the cost of the related property, plant and equipment or as a reduction of the applicable research and development expenses when there is reasonable assurance of their ultimate realization.

Revenue recognition

Sales revenue is recognized when the product is delivered to customers, title of property has passed to customers or as services are performed and collection is reasonably assured.

The Company recognizes revenues from research and license agreements as the contracted services are performed, in accordance with the terms of the specific agreement. Non-refundable up front and calendar payments for access to the Company's proprietary technologies in connection with the research and license agreements are recognized as revenue over the term of the related collaboration. Amounts received in advance of recognition are included in deferred revenues.

Interest income is recognized on an accrual basis.

Income taxes

The Company follows the liability method of accounting for income taxes according to which future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities, measured using substantively enacted tax rates and laws that are expected to be realized or settled. Future income tax assets are recognized to the extent that it is more likely than not that they will be realized.

DiagnoCure Inc.
October 31, 2006

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Research and development

Research expenses are charged to consolidated income as incurred. Development expenses are charged to consolidated income as incurred unless a development project meets the criteria under Canadian generally accepted accounting principles in respect of deferral and amortization. To date, the Company has not deferred any such development expenses.

Foreign currency translation

The consolidated financial statements are denominated in Canadian dollars. The temporal method is used for accounts in foreign currencies as well as for the integrated subsidiaries. Under this method, monetary assets and liabilities recorded in a foreign currency are translated into Canadian dollars at year-end exchange rates and non-monetary assets and liabilities are translated at the exchange rates prevailing when the assets were acquired or liabilities were incurred. Revenue and expenses [other than depreciation and amortization, which are translated at the rate applicable to the corresponding assets] are translated at the average rate of exchange for the period. Gains and losses on translation of foreign currencies are included in the consolidated statement of operations in the current period.

Earnings per share

Basic earnings per share is calculated using the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method, giving effect to the exercise of all dilutive securities. The treasury stock method assumes that proceeds from the exercise of options are used to purchase common shares at the average market price during the period. Shares issued in connection with share purchase loans are excluded from the calculation of basic earnings per share but are considered to be contingently returnable for purposes of calculating diluted earnings per share when the effect is dilutive.

□ FINANCIAL REVIEW ■ □

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DiagnoCure Inc.
October 31, 2006

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Impairment of long-lived assets

Long-lived assets and certain identifiable intangibles are 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 fair value of each option granted to employees and directors since November 1st, 2002, is estimated on the date of the grants using the Black-Scholes option pricing model and is amortized as compensation expense over the vesting period of the granted option which is three years. These expenses are included in the stock-based compensation expense and credited to the 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.

Disposal of long-lived assets and discontinued operations

Assets classified as held for sale are measured at the lower of carrying value and fair value less disposal costs. Assets classified as held for sale are not to be amortized while classified as such. The results of operations of a component of the Company that has been disposed of by either sale or abandonment are reported as discontinued operations and comprise operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Company.

FINANCIAL REVIEW

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DiagnoCure Inc.
October 31, 2006

3. DISCONTINUED OPERATIONS

In an effort to allow the Company to focus on its core business of development and commercialization of products relating to the diagnosis of cancer, the Company's Board of Directors recommended in September 2006 to dispose in the most effective manner of the software development segment of its business comprised of image analysis and telemedicine in France. On November 3, 2006, the Company announced the closing of SAMBA Technologies SAS and the beginning of the liquidation process of this subsidiary. As a result, all revenues, expenses, assets and liabilities related to this business segment were classified as discontinued operations and the 2005 comparative financial statements were restated accordingly.

	□ 2006 \$	2005 \$
Loss from discontinued operations		
Revenues	626,800	1,238,111
Cost of sales	(565,296)	(828,005)
Gross margin	61,504	410,106
General and administrative expenses	270,923	208,509
Selling and business development	169,348	183,375
Depreciation and impairment charge of property, plant and equipment	61,199	1,202
Financial expenses	24,064	18,500
Operating loss	(464,030)	(1,480)
Other costs related to the closing of business segment	(131,014)	—
Net loss from discontinued operations	(595,044)	(1,480)
Cash flow related to discontinued operations		
Operating activities	(362,034)	(79,218)
Investing activities	(23,103)	—
Net decrease in cash and cash equivalents from discontinued activities	(385,137)	(79,218)

□ FINANCIAL REVIEW ■ □

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DiagnoCure Inc.
October 31, 2006

4. TEMPORARY INVESTMENTS

	□ 2006		2005	
	Book value \$	Weighted average effective rate %	Book value \$	Weighted average effective rate %
Bonds	10,753,020	3.64	12,951,387	3.02
Commercial paper	1,197,885	3.36	2,981,248	2.86
	11,950,905		15,932,635	

5. ACCOUNTS RECEIVABLE

	□ 2006 \$	2005 \$
Research and license agreement	754,870	1,327,447
Accounts receivable – Trade	157,095	194,182
Sales taxes	69,932	116,956
	981,897	1,638,585

The accounts receivable denominated in US dollars amount to \$848,742 [US\$755,787] as at October 31, 2006, [\$1,494,798 [US\$1,266,671] as at October 31, 2005]. The accounts receivable denominated in euros amount to \$38,078 [26,868 euros] as at October 31, 2006, [\$301,194 [212,798 euros] as at October 31, 2005].

FINANCIAL REVIEW

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DiagnoCure Inc.
October 31, 2006

6. LONG-TERM INVESTMENTS

	2006		2005	
	Book value \$	Weighted average effective rate %	Book value \$	Weighted average effective rate %
Bonds	6,188,361	4.21	5,267,433	3.43
Commercial paper	—	—	765,155	3.17
	6,188,361		6,032,588	

The long-term investments are maturing at various dates from November 2007 to June 2008.

7. PROPERTY, PLANT AND EQUIPMENT

	2006		2005	
	Cost \$	Accumulated depreciation \$	Cost \$	Accumulated depreciation \$
Leasehold improvements	1,221,266	1,084,670	1,183,693	1,015,493
Office furniture and equipment	328,354	276,574	316,859	261,446
Laboratory equipment	2,331,258	1,505,663	1,946,489	1,275,206
Computer hardware and software	372,120	306,024	338,553	259,053
	4,252,998	3,172,931	3,785,594	2,811,198
Accumulated depreciation	3,172,931		2,811,198	
	1,080,067		974,396	

8. INTANGIBLES

	2006 \$	2005 \$
Licenses and patents	459,896	399,685
Less: accumulated amortization	189,270	146,635
	270,626	253,050

□ FINANCIAL REVIEW ■ □

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DiagnoCure Inc.
October 31, 2006

9. CAPITAL STOCK

Authorized

An unlimited number of shares of the following classes, without par 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.

	□ 2006 \$	2005 \$
Issued and fully paid		
34,451,142 common shares [34,310,910 as at October 31, 2005]	59,697,388	59,532,811

	□ October 31, 2006		October 31, 2005	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance, beginning of year	34,310,910	59,532,811	34,182,810	59,261,027
Issuance of common shares	140,232	145,733	128,100	221,329
Portion previously recognized to contributed surplus as part of stock-based compensation		18,844		50,455
Balance, end of year	34,451,142	59,697,388	34,310,910	59,532,811

FINANCIAL REVIEW

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DiagnoCure Inc.
October 31, 2006

9. CAPITAL STOCK [Cont'd]

Stock options

The Company adopted a stock option plan for its directors, managers, senior executives, employees and consultants under which a total of 2,600,000 common shares were reserved for issue. No stock options are granted for a period exceeding ten years and the exercise price of each stock option cannot be below the average market price of the five days preceding the grant. The stock options generally vest over a three-year period following the date of the grant.

The Company's outstanding stock options as at October 31, 2006 and 2005, and changes that occurred during the years then ended are as follows:

	2006		2005	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Options outstanding, beginning of year	2,187,689	2.17	2,234,531	2.17
Granted	940,000	3.38	337,500	4.55
Exercised	(140,232)	1.05	(128,100)	1.73
Cancelled or forfeited	(10,332)	2.35	(256,242)	5.45
Options outstanding, end of year	2,977,125	2.61	2,187,689	2.17
Options exercisable, end of year	1,697,091	1.97	1,414,949	1.75

Of the 2,977,125 options outstanding as at October 31, 2006, 875,000 options were issued outside of the plan.

□ FINANCIAL REVIEW ■ □

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DiagnoCure Inc.
October 31, 2006

9. CAPITAL STOCK [Cont'd]

Stock options [Cont'd]

The following table summarizes information relating to the stock options outstanding as at October 31, 2006:

Range of exercise prices	Options outstanding			Options exercisable	
	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
4.21 to 6.13	512,500	8.55	4.55	165,833	4.56
2.99 to 3.96	1,372,561	7.69	3.10	507,362	2.98
1.34 to 1.61	689,562	5.17	1.44	621,394	1.43
0.37 to 0.96	402,505	6.18	0.47	402,505	0.47
	2,977,125	7.05	2.61	1,697,091	1.97

During the period ended October 31, 2006, the Company granted 940,000 [337,500 in 2005] options to certain employees and directors. The weighted average fair value of stock options granted during this period amounted to \$2.49 [\$4.52 in 2005] 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:

	□ 2006	2005
Risk-free interest rate	4.02%	4.71%
Expected life	8 years	10 years
Expected volatility in the market price of the share	80%	106%
Expected dividend yield	—	—

FINANCIAL REVIEW

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DiagnoCure Inc.
October 31, 2006

9. CAPITAL STOCK [Cont'd]

Stock options [Cont'd]

Contributed surplus	□ October 31, 2006 \$	October 31, 2005 \$
Balance, beginning of year	3,217,038	2,005,459
Stock-based compensation expense	1,332,399	1,262,034
Stock options exercised	(18,844)	(50,455)
Balance, end of year	4,530,593	3,217,038

Stock-based compensation is amortized to expense on a straight-line basis over the vesting period, which is usually three years.

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 reliable single measure of the fair value of its employees and directors stock options.

Earnings per share

No adjustments were required to the net loss for purposes of calculating basic and diluted earnings per share. There were also no adjustments to the weighted average number of shares outstanding for the purpose of calculating diluted earnings per share, because to do so would be anti-dilutive.

□ FINANCIAL REVIEW ■ □

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DiagnoCure Inc.

October 31, 2006

10. INVESTMENT TAX CREDITS RECEIVABLE

The amounts recorded as research and development tax credits receivable are related to amounts claimed which have not yet been subject to a review by the tax authorities. In case of differences between the amounts claimed by the Company and the amounts granted by the tax authorities, any adjustment will be recorded during the year in which they are determined.

11. INCOME TAXES

The income tax expense reported differs from the amount of the tax expense computed by applying statutory income tax rates to the loss before taxes. The reasons for the differences and the related tax effects are as follows:

	□ 2006 \$	2005 \$
Combined statutory federal and provincial	2,067,500	946,000
Increase (decrease) in taxes recoverable resulting from Unrecognized tax benefits of operating losses and other available deductions	(1,695,500)	(592,000)
Stock-based compensation not deductible	(424,000)	(391,000)
Tax credit not taxable in Québec	52,000	37,000
	—	—

The major components of future income tax assets are as follows:

	□ 2006 \$	2005 \$
Future income tax assets		
Net operating losses carried forward	3,290,000	2,204,000
Research and development expenditures	3,036,000	2,439,000
Revenue under research and license agreement	518,000	728,000
Share issue costs	181,000	334,000
Tax value of capital assets in excess of carrying values	4,008,000	3,972,000
Total future income tax assets	11,033,000	9,677,000
Valuation allowance	(11,033,000)	(9,677,000)
Net future income tax assets	—	—

DiagnoCure Inc.
October 31, 2006

11. INCOME TAXES [Cont'd]

The Company has the following non-capital tax losses, which are available to reduce future taxable income and expire as follows:

Year of loss	Amount		Year of expiry
	Federal \$	Québec \$	
October 31, 2001	2,600,000	581,000	2008
October 31, 2002	2,110,000	1,934,000	2009
October 31, 2003	2,743,000	2,626,000	2010
October 31, 2006	4,176,000	3,814,000	2016
	11,629,000	8,955,000	

As at October 31, 2006, the deferred scientific research and experimental development expenses which could be used to reduce the Company's taxable income in future years, with no set expiry date, amounted to approximately \$10,619,000 at the federal level and \$16,055,000 at the Québec level.

12. FINANCIAL INSTRUMENTS

Fair value

The carrying amounts of cash and cash equivalents, temporary investments, accounts receivable, investment tax credits receivable and accounts payable are a reasonable estimate of their fair values because of the short maturity of these instruments.

The carrying amount of long term investments approximates their fair value.

Concentration of credit risk

Investment tax credits receivable are due from the Québec government. All of the cash and cash equivalents are held with Canadian chartered banks. Temporary and long-term investments are held in commercial paper or bonds of municipalities, hospitals, CEGEPs and government bodies, and in a money market fund and therefore do not represent a concentration risk.

As at October 31, 2006, a client represented 84% of the accounts receivable [81% in 2005].

□ FINANCIAL REVIEW ■ □

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DiagnoCure Inc.
October 31, 2006

12. FINANCIAL INSTRUMENTS [Cont'd]

Foreign currency risk

The corporation is exposed to foreign currency translation risk due to cash and cash equivalents, accounts receivable-trade and accounts payable denominated in US dollars and Euro. The Company does not enter into arrangements to hedge its foreign currency risk.

13. GOVERNMENT ASSISTANCE

The Company incurred research and development expenditures that are eligible for investment tax credits. The credits, totalling \$589,000 [\$419,000 in 2005], were applied against research and development expenses.

In addition, the Company has investment tax credits that it may carry forward for federal tax purposes as follows:

Year of credit	Amount \$	Year of expiry
October 31, 1997	330,000	2007
October 31, 1998	439,000	2008
October 31, 1999	216,000	2009
October 31, 2000	150,000	2010
October 31, 2001	226,000	2011
October 31, 2002	189,000	2012
October 31, 2003	183,000	2013
October 31, 2004	321,000	2014
October 31, 2005	419,000	2015
October 31, 2006	589,000	2016
	3,062,000	

DiagnoCure Inc.
October 31, 2006

14. COMMITMENTS AND GUARANTEES

As at October 31, 2006, the Company's obligations under a lease maturing on February 28, 2011, totalled \$1,324,188. The minimum annual lease payments for the next five years are as follows: 2007 – \$230,561; 2008 – \$328,088; 2009 – \$328,088; 2010 – \$328,088 and 2011 – \$109,363.

The Company periodically enters into research agreements or strategic alliances with third parties that include indemnification provisions that are customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages arising from these transactions. In some cases, the maximum potential amount of future payments that could be required under these indemnification provisions is not limited. These indemnification provisions generally survive termination of the underlying agreement. The nature of the intellectual property indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay. Historically, the Company has not made any indemnification payments under such agreements and no amount has been accrued in these consolidated financial statements with respect to these indemnification obligations.

15. RELATED PARTY TRANSACTION

The Company has entered into a consulting agreement with one of its directors (including his holding company). The expense incurred by the Company under this agreement totalled \$163,333 [2005 – \$100,000] at the exchange value and were charged to research development expenses during the year.

16. SEGMENTED AND GEOGRAPHICAL INFORMATION

The Company used to report segmented information for the business segment Biotechnologies reflecting the Company's research and development activities and the software development activities performed by the subsidiary SAMBA Technologies SAS. Since the segment Biotechnologies represents the continuing operations of the Company and the segment software development is presented as discontinued operations, the Company decided to withdraw the note to the financial statements on the segmented information.

□ FINANCIAL REVIEW ■ □

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DiagnoCure Inc.

October 31, 2006

16. SEGMENTED AND GEOGRAPHICAL INFORMATION [Cont'd]

For the years ended October 31, 2006 and 2005, two products accounted for the Company's sales resulting from continuing operations, which were predominantly sold in the United States and Europe. The United States, Europe and Canada sales accounting for 63%, 21% and 16% [74%, 16% and 10% in 2005] respectively of the total sales of these fiscal years [note 12]. Company's sales to one client located in the United States represent 53% [68% in 2005] of total sales from continued operations.

17. COMPARATIVE FIGURES

Certain of the 2005 figures have been reclassified in order to conform with the presentation adopted in 2006.

18. SUBSEQUENT EVENT

On December 13, 2006, the Company announced a shift in business strategy, including the decision to discontinue supporting R&D activities related to improvements in its cell-based bladder cancer diagnostic test and a reduction in marketing activities for this product. This decision will result in a realignment of resources to support the new strategy, with changes in the requisite skills of Company researchers and a reduction in the number of employees currently supporting certain research and development projects, including related marketing and administrative positions. Appropriate provisions to recognize the charges related to this restructuring, estimated at this time to be approximately \$900,000, will be made during the first quarter of fiscal 2007.

**BOARD OF DIRECTORS****Paul Gobeil** ^{1,2,3}

Chairman of the Board, DiagnoCure Inc.,
Vice Chairman of the Board, Métro Inc.
and Chairman of the Board,
Export Development Canada (EDC)

Yves Fradet, M.D., F.R.C.S. (c) ³

Senior Vice President,
Chief Scientific Officer and Secretary,
DiagnoCure Inc.

Michel E. Côté ²

Corporate Director

Alain G. Michel ¹

Chairman of the Board,
Cari-All Group Inc.

Louise Proulx, Ph.D. ¹

Vice President, Product Development,
ViroChem Pharma

Alain Rhéaume ^{1,3}

Managing Partner,
Trio Capital

John C. Schafer ³

President and Chief Executive Officer,
DiagnoCure Inc.

Mario Thomas, Ph.D. ^{2,3}

Vice President,
Gestion T2C2/Bio Inc.

Vincent R. Zurawski Jr., Ph.D. ^{2,3}

President, Varinel, Inc.,
Auburn Pharmaceuticals, Inc.
and Viriome LLC

¹ *Audit and Risk Management Committee
Member*

² *Corporate Governance, Human Resources
and Nominating Committee Member*

³ *Business Development Committee Member*

**MANAGEMENT AND
OPERATIONS****John C. Schafer**

President and Chief Executive Officer

Yves Fradet, M.D., F.R.C.S. (c)

Senior Vice President
and Chief Scientific Officer

Thom Skinner, CA

Chief Financial Officer

L. Blair Shamel

Senior Vice President,
Corporate Development

Timothy J. Holzer, Ph.D.

Vice President,
R&D and Production

Richard Gauthier, M.B.A.

Director, Business Development

Paule De Blois, M.B.A., C.H.R.P.

Director, Corporate Affairs

**GENERAL SHAREHOLDER
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Stock Exchange Listing

The common shares are listed on the
Toronto Stock Exchange under the symbol *CUR*.

Annual Meeting

The annual meeting of shareholders
of DiagnoCure Inc. will be held on March 20,
2007, at Hotel OMNI Mount Royal,
1050 Sherbrooke Street West, Montréal, Québec,
at 2:00 p.m. (local time)

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