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QUARTERLY  
**REPORT 2**

For the Period Ended  
**April 30, 2007**

**DIAGNOCURE** INC.

## MESSAGE TO SHAREHOLDERS

We are pleased to present the results of the second quarter for the fiscal 2007. These results are substantially in line with management expectations and reflect activities undertaken during the quarter in line with DiagnoCure's business plan and on-going commitment to develop high-value tests for the detection and management of cancer. In particular, the second quarter saw a first acquisition of new tests, thereby marking the achievement of an important milestone in the implementation of the Company's new business model.

### ***Delivering on the promise of molecular diagnostics***

Since the announcement, in December 2006, of the Company discontinuing its research work with ImmunoCyt™ / uCyt+™, a cell-based assay, to focus on molecular diagnostics, Mr. John Schafer, President and CEO of DiagnoCure, has explained on various occasions the new vision and focus of the Company.

Molecular diagnostics builds on the knowledge of the mapping of the human genome, an accomplishment of unparalleled significance in the field of medicine, which will forever change the way disease is diagnosed and treated. Molecular tests detect abnormal gene or protein activity patterns associated with cancer. In other words, cancer is a molecular problem and its management is particularly suited to molecular diagnostics.

The compelling argument for DiagnoCure to focus on molecular diagnostics is its market potential. While the entire \$24 billion diagnostics market is growing at just over 5% annually, cancer molecular diagnostics is growing faster than 30% per year. In addition, there is evidence that molecular diagnostic tests will increasingly be used for cancer screening, diagnosis, staging, therapy selection, and relapse monitoring.

PCA3 was the Company's first genetic marker to be used in a molecular diagnostic test. With the acquisition of two tests for colorectal cancer in this quarter, DiagnoCure is pursuing the expansion of its product offering in this dynamic and growing field of the management of cancer.

### ***PCA3 for prostate cancer***

During the second quarter, clinical study results of the prostate cancer test based on DiagnoCure's genetic marker PCA3 were presented at the 2007 meeting of the European Association of Urology (EAU) and one study was published in the March issue of the peer-reviewed journal UROLOGY®.

An interim analysis presented at the EAU meeting concluded that Gen-Probe's PROGENSA™ PCA3 assay, currently commercialized in Europe, was better than free PSA at predicting the result of repeat biopsy. Researchers reported the PCA3 test had a specificity of 73% in the study, compared to only 16% for free PSA.

According to a study of 233 men published in the March issue of UROLOGY® (69: 532-535, 2007), Gen-Probe's research test for the genetic marker PCA3 in urine predicted the results of repeat biopsies more accurately than traditional prostate specific antigen (PSA) testing. "Men with elevated serum PSA levels and negative prostate biopsy findings present a dilemma because of the lack of an accurate diagnostic test," said lead author Leonard S. Marks, MD, clinical associate professor of urology at UCLA and medical director of the Urological Sciences Research Foundation. "The results from this research study indicate that the PCA3 assay may be a new tool to assist clinicians in the treatment of these 'PSA dilemma' patients."

These and other studies represent the most recent wave of independent research on the utility of the PCA3 gene as a biomarker for prostate cancer since Gen-Probe's PROGENSA™ PCA3 test was CE marked for commercialization in Europe in November 2006. Laboratories in Europe currently offering the test include NovioGendix (the Netherlands), the Centre of Applied Molecular Technologies Université catholique de Louvain (Belgium), Medi-Lab (UK), the Doctors Laboratory (UK), Labor Limbach (Germany), and LCL (France).

While the test is not approved as an IVD for marketing purposes in the United States, five reference laboratories now offer their own home-brew version of a PCA3-based test using reagents manufactured by Gen-Probe. These labs are Ameripath in conjunction with the Molecular Profiling Institute and Specialty Laboratories, Bostwick Laboratories, the Dianon unit of Laboratory Corporation of America, and Molecular Oncology Diagnostics Lab.

### ***Important acquisition of two tests for colorectal cancer***

Towards the end of the second quarter, DiagnoCure strengthened its leading position in cancer diagnostics and management by securing, from Targeted Diagnostics & Therapeutics, Inc. (TDT) of Philadelphia, PA, exclusive worldwide rights to two high-value molecular tests for colorectal cancer and an option to a CLIA-certified U.S. service laboratory to commercialize molecular cancer diagnostics tests.

These two tests are based on the detection of GCC, a gene that appears normally in cells lining the intestinal track, but has only been found outside the intestine when colorectal cancer has metastasized. In early research, the gene has shown to be 95% to 100% accurate in detecting the spread or recurrence of colon cancer, in lymph nodes or blood, thereby representing a significant improvement over current detection methods.

The National Institutes of Health (NIH) has provided more than \$10 million in funding for two five-year multicenter clinical studies on 2,500 colorectal cancer patients. Preliminary results on the GCC lymph node study for staging colorectal cancer, which started in 2003, corroborate the conclusion of earlier studies; publication of these results is expected later this year.

DiagnoCure intends to launch the GCC lymph node test in 2008 through its future CLIA service laboratory. One of the dilemmas in colorectal cancer is that about 30 percent of the 70,000 patients (U.S.) normally thought to have been cured with surgery will eventually relapse. DiagnoCure's new test, based on the expression of the GCC gene in lymph nodes, has the potential to identify those patients who will relapse. They would then not be considered cured with surgery and could receive further treatment.

While the total value of the transaction was not disclosed, DiagnoCure's initial payment terms include US\$2.2 million in shares, each valued at CA\$4.30. TDT will also receive performance-based milestone payments and royalties on revenues generated by the tests.

### ***Financing***

On April 3, 2007, DiagnoCure announced the completion of a public offering of 5,850,000 common shares at a price of \$4.30 per share, for gross proceeds of \$25,155,000. This offering of common shares was conducted through a syndicate of underwriters led by National Bank Financial Inc. and included Orion Securities Inc., Canaccord Capital Corporation and Industrial Alliance Securities Inc.

The Company intends to use the net proceeds of this offering to support the implementation of its business plan, namely to expand the product portfolio and acquire or in-license additional cancer diagnostic products.

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

*The following information should be read in conjunction with the Company's unaudited consolidated financial statements and related notes included herein, together with our audited consolidated financial statements for the year ended October 31, 2006 and related notes. Management's comments were prepared to explain the Company's operations, performance and financial position as of April 30, 2007. They compare this second quarter and the six-month period of operating results and cash position with those of the second quarter and the six-month period ended April 30, 2006. The information contained herein is up to date as of June 1<sup>st</sup>, 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 line with the decision to focus on molecular diagnostics, the Company discontinued support of research and development activities related to product improvements in its bladder cancer product, ImmunoCyt™ / uCyt+™, and also reduced its marketing activities related to this product. In 2003, DiagnoCure completed the development of uPM3™, a first-generation qualitative non-invasive test for the detection of prostate cancer, which was offered through Bostwick Laboratories in the United States under the Analyte Specific Reagent (ASR) format based on the PCA3 genetic marker 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 DiagnoCure's PCA3 genetic marker for prostate cancer in return for CDN\$14 million to be paid over three years, the final payment having been received in November 2006. The Company also receives an 8% royalty on the first aggregate amount of US\$50 million of end-user net sales of the PCA3 test or reagents 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 assay on its APTIMA® technology platform. In May 2006, two of these laboratories, Bostwick Laboratories and AmeriPath, in conjunction with Molecular Profiling Institute, announced the commercial availability of their versions of a PCA3-based assay based on Gen-Probe's ASR. Further, in March 2007, the Dianon unit of Laboratory Corporation of America also started selling its own version of the PCA3 using Gen-Probe's ASR.

During the first six months, DiagnoCure received royalties from Gen-Probe's sale of the PCA3 test. Given the need to transition and ramp up sales and awareness of PCA3, these royalty payments remain modest; none the less, royalty receipts are increasing each quarter, and this activity reflects the confirmation that the test is now available in the market and being ordered by the labs. With all the above noted laboratories offering the test (see **Message to Shareholders** above), and with the recent launch of the full CE-marked PCA3 prostate cancer test in Europe, the Company expects royalties to continue to increase in each future quarter.

On April 30, 2007, DiagnoCure secured the exclusive worldwide rights to two high-value molecular tests for colorectal cancer and an option to a CLIA-certified U.S. service laboratory to commercialize molecular cancer diagnostics tests from Targeted Diagnostics & Therapeutics, Inc. This agreement with TDT significantly strengthens our position in molecular diagnostics for cancer. One of the tests should be ready for commercialization by the end of this calendar year.

### **2007 First Six-Month Highlights**

As noted above, Gen-Probe, DiagnoCure's exclusive sub-licensee for diagnostic applications of the PCA3 genetic marker, is now distributing the PCA3 test in the U.S. and Europe. Given the recent release of the assay and new laboratories coming on line, there is not yet any developed sales pattern for the Gen-Probe PCA3 test, so it is difficult to predict what any quarter to quarter future royalty revenue flow will accrue to DiagnoCure. However, with the assay now commercially available in both the U.S. and Europe, DiagnoCure is now receiving modest early royalty revenue from Gen-Probe PCA3 sales.

In line with the decision to focus on molecular diagnostics, in the first quarter the Company discontinued support of research and development activities related to product improvements in its bladder cancer product and also reduced its marketing activities related to this product. As a result, DiagnoCure reduced staff in research and development, sales and marketing, and administrative support. These restructuring actions resulted in a non-recurring charge of \$912,685 in the first quarter. This announcement follows the decision last November to also discontinue financial support for Samba, the Company's subsidiary in France, which had been developing automation software for the bladder cancer test. DiagnoCure believes ImmunoCyt™ / uCyt+™ can thrive in a cytology environment, and the Company is actively searching for a strong outside partner to facilitate the continued growth of the product, while ensuring that customers continue to receive quality products, technical support and services during the transition.

Also, during the quarter, DiagnoCure continues the review of a number of new lung cancer markers obtained from Gen-Probe. DiagnoCure is refining 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. This is, however, a longer term project which is not expected to realize any benefits in the short or medium term.

During the past quarter, in line with our new focus to be the leading developer and provider of high-value diagnostic tests for the detection and management of cancer, the Company successfully completed a public offering of 5,850,000 common shares at a price of \$4.30 per common share, for gross proceeds of \$25,155,000. This bought deal financing was conducted through a syndicate of underwriters led by National Bank Financial Inc. This new financing will enable the Company to acquire and integrate reference laboratories, expand our product portfolio and acquire or in-license additional cancer biomarkers.

In March preliminary results from an on-going multi-center study were presented by independent researchers in Europe indicating that the new Gen-Probe PCA3-based test for prostate cancer yielded greater diagnostic accuracy than the free prostate specific antigen (PSA) test on men with previous negative biopsy. The information was contained in a poster presentation at the European Association of Urology meeting in Berlin, by Dr. Alexander Haese of the University Medical Center Eppendorf, in Hamburg, Germany. The data were from 199 men enrolled in the seven hospital study in Europe. All of them previously had a negative prostate biopsy. In the study, all respondents received a repeat biopsy, Gen-Probe's PROGENSA™ PCA3 molecular urine test, a serum test for total PSA and a serum

test for free PSA. Based on the interim analysis presented at the EAU meeting, the researchers concluded that the PROGENSA™ PCA3 assay was better than free PSA at predicting the result of the repeat biopsy. They reported the PCA3 test had a specificity of 73% in the study, compared to only 16% for free PSA. The researchers also noted that higher PCA3 scores correlated with a greater likelihood of a positive repeat biopsy. For example, men with an elevated PCA3 score had a 41% likelihood of having a positive repeat biopsy, while men with a low PCA3 score had only a 16% likelihood.

In May 2007, DiagnoCure's PCA3, was featured in presentations and in four exhibits at the meeting of the American Urological Association (AUA) in Anaheim, California. This was the second major international urology conference to feature the test this year. In an important presentation by Dr. Jack Groskopf of Gen-Probe, working with Dr. Richard Babaian of the M.D. Anderson Cancer Center, Dr. Leonard Marks of the Urologic Sciences Research Foundation, Dr. Yves Fradet of the Université Laval and others, it was shown that unlike the serum PSA test, the PCA3 Score correlates with tumor volume but not with prostate size. In addition, preliminary data indicate that higher PCA3 Scores correlate with greater risk of "significant" prostate cancer and that PCA3 provides a new method for accurate prostate cancer detection in the problematic serum PSA "false-positive" population. In another presentation by Dr. Alan Partin and colleagues at the Johns Hopkins Brady Urologic Institute, the investigators reported that the normal variation in PCA3 results over time would not adversely affect the ability of the test to predict the outcome of a prostate biopsy. This important finding gives clinicians more confidence that the PCA3 Score will be reliable. These studies further validate the potential of the PCA3-based test to predict the outcome of a prostate biopsy.

On April 30<sup>th</sup>, the Company strengthen its leading position in cancer diagnostics by securing exclusive worldwide rights to two high-value molecular tests for colorectal cancer and an option to a CLIA-certified U.S. service laboratory to commercialize molecular cancer diagnostics tests. The two tests for colorectal cancer in-licensed from Targeted Diagnostics & Therapeutics, Inc. (TDT) of Philadelphia, PA, are based on the detection of GCC (guanylyl cyclase C), a gene that appears normally in cells lining the intestinal track, but has only been found outside the intestine when colorectal cancer has metastasized. While the total value of the transaction was not disclosed for competitive reasons, DiagnoCure's initial payment terms include US\$2.2 million in shares, each valued at CA\$4.30. TDT will also receive performance-based milestone payments and royalties on revenues generated by the tests. More than 150,000 Americans are diagnosed with colorectal cancer each year, with a post-surgery recurrence rate close to 50 percent. About 53,000 Americans die of the disease annually, making it the second leading cause of cancer-related deaths.

## **Financial Results**

### *For the Three-Month Period Ended April 30, 2007*

Total revenues for the second quarter of 2007 were \$1,232,559 compared with \$1,263,057 for the second quarter of 2006. Revenue recognition of the continued calendar payments from Gen-Probe was \$772,668 for the period, up \$33,561 from the prior year due to favourable changes in the U.S. to Canadian foreign currency exchange rates. Sales of DiagnoCure's bladder cancer test, ImmunoCyt™ / uCyt+™ were up \$45,098 to \$127,059 for the second quarter of 2007 versus \$81,961 for the same period a year ago. There were no sales of uPM3™ by DiagnoCure in the second quarter of 2007. In mid 2006, DiagnoCure had withdrawn its uPM3™ test from the market when Gen-Probe began to sell their version of the PCA3 test. Sales of the DiagnoCure developed uPM3™ ASR prostate cancer test for the second quarter of 2006 were \$183,711.

Income from research and development contracts has increased in the second quarter of 2007 by \$72,918, attributable to a new R&D contract obtained from Gen-Probe. Also in this quarter, DiagnoCure sold clinical samples to Gen-Probe, in support of their prostate cancer testing R&D, for an amount of \$25,035 compared to \$67,595 in 2006.

Interest income increased \$16,324 to \$207,007 for the second quarter of 2007 compared to \$190,683 for the second quarter of 2006. The increase is attributable to the interest generated on the net proceed of \$23,353,098 received from the April 2007 financing.

Cost of sales decreased \$115,358 from \$179,882 for the second quarter of 2006 to \$64,524 for the second quarter of 2007. This decrease is related to lower actual product sales, as noted above, for uPM3™.

Operating expenses from continuing operations, before stock-based compensation, dropped from \$2,423,298 for the second quarter of 2006 to \$1,930,852 for the same period in 2007, a decrease of \$492,446 (20%) reflecting cost savings from the restructuring noted above. Total operating expenses for the second quarter, including the non-cash charge for stock-based compensation, were \$2,358,127 compared with \$2,688,389 in 2006, primarily as a result of the following:

- Research and development expenses, net of investment tax credits, decreased by \$477,537 (42%), from \$1,140,759 for the second quarter of 2006 to \$663,222 for the same quarter in 2007. The decrease in research and development expenses is in line with the decision to focus on molecular diagnostics and to discontinue supporting the activities to improve the bladder cancer product.
- General and administrative expenses decreased, from \$493,555 for the second quarter of 2006 to \$434,663 for the same quarter in 2007. This decrease of \$58,892 is attributable to a reduction in professional fees and reduced staff following the restructuring action.
- Selling and business development expenses increased by \$38,925 from \$676,906 for the second quarter of 2006 to \$715,831 for the same quarter in 2007. This increase is attributable to the ongoing execution of the Company's business plan to support its efforts to identify and conclude new potential strategic alliances, acquisitions and in-licensing agreements.
- Stock-based compensation expenses, a non-cash charge, increased by \$162,184, from \$265,091 for the second quarter of 2006 to \$427,275 for the same period in 2007. This increase is attributable to the grant, in 2006, of 575,000 options outside the plan to the new CEO. The impact of this grant represents a \$255,593 charge for this quarter. The disclosure of this non-cash item was initiated in 2005 to comply with the new accounting regulation (see below **Stock-Based Compensation**).

Based on the above, for the second quarter of 2007, DiagnoCure reduced its recorded net loss for the quarter by \$476,160 (29%), from \$1,666,252 for the second quarter of 2006 to \$1,190,092 for the second quarter of 2007. The net loss from continuing operations was \$1,190,092 or \$0.03 per share for the second quarter of 2007, compared with \$1,605,214, or \$0.05 per share, for the second quarter of 2006. These results are substantially in line with management expectations and reflect activities undertaken during the past six months to focus activities in line with the Company's plans and ongoing commitment to develop tests for the detection and management of cancer. At the end of the quarter, cash, short-term investments and long-term investments stood at \$39,190,161, up from \$18,319,194 as at October 31, 2006. This increase of \$20,870,967 is attributable to the net proceeds of \$23,353,098 from the April 2007 financing. Management is satisfied that it has adequate cash resources to execute its business plan in the near-term and mid-term.

*Second Quarter Results for the Three-Month Period Ended April 30 (Unaudited)*

	2007	2006	2005
	\$	\$	\$
		(Restated – Note 7)	(Restated – Note 7)
Sales	<b>179,967</b>	333,267	259,902
Revenue under research and license agreement	<b>845,585</b>	739,107	995,581
Interest	<b>207,007</b>	190,683	215,022
<b>Total revenues</b>	<b>1,232,559</b>	1,263,057	1,470,505
Cost of sales	<b>64,524</b>	179,882	121,270
Gross margin	<b>1,168,035</b>	1,083,175	1,349,235
Operating expenses (before stock-based compensation)	<b>1,930,852</b>	2,423,298	1,634,635
Net loss (before stock-based compensation)	<b>( 762,817 )</b>	( 1,340,123 )	( 285,400 )
Stock-based compensation	<b>427,275</b>	265,091	268,691
Net loss from continuing operations	<b>( 1,190,092 )</b>	( 1,605,214 )	( 554,091 )
Net loss from discontinued operations	---	( 61,038 )	( 72,768 )
<b>Net loss</b>	<b>( 1,190,092 )</b>	( 1,666,252 )	( 626,859 )
Basic and diluted loss per share			
From continuing operations	<b>( 0.03 )</b>	( 0.05 )	( 0.02 )
From discontinued operations	---	( 0.00 )	( 0.00 )
<b>Basic and diluted loss per share</b>	<b>( 0.03 )</b>	( 0.05 )	( 0.02 )
Weighted average number of common shares outstanding	<b>36,493,714</b>	34,372,585	34,193,809

*For the Six-Month Period Ended April 30, 2007*

Total revenues for the six-month period ended April 30, 2007 were \$2,409,136 compared with \$2,668,370 for the same period of 2006. Revenue recognition of the continued calendar payments from Gen-Probe were \$1,688,842 for the period, up \$72,139 from the prior year due to favourable changes in the U.S. to Canadian foreign currency exchange rates. Sales of DiagnoCure's bladder cancer test, ImmunoCyt™ / uCyt+™ were \$208,971 for the first six-month of 2007 versus \$184,603 for the same period a year ago. There were no sales of uPM3™ by DiagnoCure in the first six months of 2007. In mid 2006, DiagnoCure had withdrawn its uPM3™ test from the market when Gen-Probe began to sell their version of the PCA3 test. Sales of the DiagnoCure developed uPM3™ ASR prostate cancer test for the first six months of 2006 were \$349,140.

Income from research and development contracts, predominantly with Gen-Probe, has decreased in 2007 by \$66,162 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 \$63,071.

Interest income increased \$19,628 to \$403,302 for the first six-month of 2007 compared to \$383,674 for the same period of 2006. The increase is attributable to the net proceeds of \$23,353,098 received in April 2007 (see below **Use of Proceeds from April 2007 Financing**).

Cost of sales decreased \$219,877 from \$368,863 for the first six-month of 2006 to \$148,986 for the first six-month of 2007. This decrease is related to lower actual product sales, as noted above.

Operating expenses from continuing operations before stock-based compensation and restructuring charges dropped from \$5,002,437 for the first six months of 2006 to \$4,112,537 for the same period in 2007, a decrease of \$889,900 (18%), reflecting cost savings from the restructuring noted above. Total operating expenses for the first six months, including the non-cash charge for stock-based compensation and restructuring charges, were \$5,907,722 compared with \$5,550,921 in 2006, primarily as a result of the following:

- Research and development expenses, net of investment tax credits, decreased by \$862,221 (38%), from \$2,248,177 for the first six months of 2006 to \$1,385,956 for the same period in 2007. The decrease in research and development expenses is in line with the decision to focus on molecular diagnostics and to discontinue supporting the activities to improve the bladder cancer product. As a result, DiagnoCure reduced staff in research and development.
- General and administrative expenses decreased from \$1,052,574 for the first six months of 2006 to \$922,365 for the same period in 2007. This decrease is attributable to a reduction in professional fees and reduced staff following the restructuring action.
- Selling and business development expenses increased by \$91,149 from \$1,489,172 for the first six months of 2006 to \$1,580,321 for the same period in 2007. This increase is attributable to the ongoing execution of the Company's business plan to support its efforts to identify and conclude new potential strategic alliances, acquisitions and in-licensing agreements.
- Restructuring charges in the first quarter of 2007 were \$912,685, attributable to 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 initiatives for this product. This decision has resulted 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 supporting certain research and development projects, including related marketing and administrative positions.
- Stock-based compensation expenses, a non-cash charge, increased by \$334,016, from \$548,484 for the first six months of 2006 to \$882,500 for the same period in 2007. This increase is attributable to the grant, in 2006, of 575,000 options outside the plan to the new CEO. The impact of this grant represents a \$455,812 charge for this period.

Based on the above, for the six-month period ended April 30, 2007, DiagnoCure recorded a net loss before stock-based compensation and restructuring charges of \$1,852,387, compared with \$2,816,416 for the same period of 2006, a decrease of \$964,029 or 34%. The net loss from continuing operations including stock-based compensation and restructuring charges was \$3,647,572 or \$0.10 per share for the first six months of 2007, compared with \$3,251,414 or \$0.09 per share, for the same period of 2006. These results are in line with the Company's plans and on-going commitment to develop tests for the detection and management of cancer. Further, the first six months also reflect the steps taken to focus the Company's vision on molecular diagnostics.

*Six-Month Period Results Ended April 30 (Unaudited)*

	2007	2006	2005
	\$	\$	\$
		(Restated – Note 7)	(Restated – Note 7)
Sales	316,992	667,993	539,995
Revenue under research and license agreement	1,688,842	1,616,703	2,039,327
Interest	403,302	383,674	421,158
<b>Total revenues</b>	<b>2,409,136</b>	<b>2,668,370</b>	<b>3,000,480</b>
Cost of sales	148,986	368,863	311,049
Gross margin	2,260,150	2,299,507	2,689,431
Operating expenses (before stock-based compensation and restructuring charges)	4,112,537	5,002,437	3,251,139
Net loss (before stock-based compensation and restructuring charges)	( 1,852,387 )	( 2,702,930 )	( 561,708 )
Restructuring charges	912,685	---	---
Stock-based compensation	882,500	548,484	601,254
Net loss from continuing operations	( 3,647,572 )	( 3,251,414 )	( 1,162,962 )
Net loss from discontinued operations	---	( 113,486 )	( 71,504 )
<b>Net loss</b>	<b>( 3,647,572 )</b>	<b>( 3,364,900 )</b>	<b>( 1,234,466 )</b>
Basic and diluted loss per share			
From continuing operations	( 0.10 )	( 0.09 )	( 0.03 )
From discontinued operations	---	( 0.01 )	( 0.01 )
<b>Basic and diluted loss per share</b>	<b>( 0.10 )</b>	<b>( 0.10 )</b>	<b>( 0.04 )</b>
Weighted average number of common shares outstanding	35,461,293	34,365,301	34,192,102

**Total Assets and Shareholders' Equity**

Total assets amounted to \$45,583,883 as of April 30, 2007, compared with \$21,347,421 as of October 31, 2006. This increase is due substantially to the net proceeds of the public offering of \$23,353,098 received in April 2007. The book value per Common Share is \$1.00 as of April 30, 2007 compared with \$0.57 per Common Share as of October 31, 2006.

**Balance Sheet (Unaudited)**

*As of April 30*

	2007	2006	2005
	\$	\$	\$
Total assets before discontinued operations	45,583,883	24,541,270	27,361,820
Assets related to discontinued operations	---	602,938	543,509
<b>Total assets</b>	<b>45,583,883</b>	<b>25,144,208</b>	<b>27,905,329</b>
Shareholders' equity	40,422,159	22,592,089	26,259,579
Number of common shares outstanding	40,382,878	34,373,476	34,193,809

**Cash Position and Financing Sources**

Cash flow required from operating activities during the second quarter of 2007 amounted to \$196,073 compared with \$2,145,457 required in the second quarter of 2006, an decrease of \$1,949,384, which is attributable to the lower operating loss and an increase in accounts payable, due to a \$1.2 million cash payment due to be paid for the GCC license. Following the GCC license acquisition, investment activities required cash flow of \$1,506,891 for the second quarter of 2007 while, for the same period of 2006, investing activities generated cash flow of \$2,399,455 to finance the operating activities. During the second quarter of 2007, acquisition of tangible and intangible capital assets amounted to \$1,304,942, relating mostly to the GCC license compared with \$115,350 for the second quarter of 2006. Financing activities, primarily from the issue of common shares relative to the April 2007 public offering, generated cash flow of \$23,447,547 for the second quarter of 2007 compared to \$2,525 for the corresponding quarter of 2006.

*Cash Flows for the Second Quarters (Unaudited)*

	2007 \$	2006 \$ (Restated – Note 7)	2005 \$ (Restated – Note 7)
Cash flows related to operating activities	( 196,073 )	( 2,145,457 )	( 1,418,748 )
Cash flows related to investing activities	( 1,506,891 )	2,399,455	461,997
Cash flows related to financing activities	23,447,547	2,525	1,589
Cash flows related to discontinued operations	---	0	15,860

Cash flow required from operating activities during the first six months of 2007 amounted to \$1,123,393 compared to \$630,838 required in the same period of 2006, totalling an increase of \$492,555 which is attributable to an increase in the accounts payable due to a \$1.2 million to be paid for the GCC license and offset by a variation in the account receivable, for the first six months, from Gen-Probe of \$754,870. Investment activities generated cash flow of \$2,200,328 for the first six months of 2007 while, for the same period of 2006, investing activities generated cash flow of \$1,053,481. During the first six months of 2007, acquisition of tangible and intangible capital assets amounted to \$1,488,231, relating mostly to the GCC license compared with \$257,671 for the first six months of 2006. For the same period of 2006, DiagnoCure also acquired capital assets to upgrade its equipment used in research and development. Financing activities, primarily from the issue of common shares relative to the April 2007 public offering, generated cash flows of \$23,482,591 for the first six months of 2007, compared with \$95,367 for the corresponding period of 2006.

*Cash Flows for the Six-Month Periods Ended April 30 (Unaudited)*

	2007 \$	2006 \$ (Restated – Note 7)	2005 \$ (Restated – Note 7)
Cash flows related to operating activities	( 1,123,393 )	( 630,838 )	( 1,004,645 )
Cash flows related to investing activities	2,200,328	1,053,481	1,338,271
Cash flows related to financing activities	23,482,591	95,367	12,887
Cash flows related to discontinued operations	---	( 15,409 )	( 31,455 )

The Company remains confident that given its current cash and investment balances it has sufficient liquid assets to finance its normal, on-going operating activities and certain potential M&A activities being contemplated for the foreseeable future without the necessity of returning to the public capital markets. Notwithstanding the foregoing, should a special, major non-operating project be initiated, the Company could consider seeking financing for such a special project through a public offering.

**Issued and Outstanding Share Capital**

As of June 1<sup>st</sup>, 2007, the Company had 40,950,786 commons shares issued and outstanding, including a 567,908 commons shares issued for the GCC license and 2,976,887 stock options, granting the right to acquire an equal amount of common shares.

**Off-Balance Sheet Arrangements**

As of April 30, 2007, DiagnoCure has not entered into any off-balance sheet arrangement except for the lease agreements described in the "Contractual Obligations" section presented hereof.

## Related Party Transactions

The Company is party to a consulting contract with the management company of one of its directors under which the services of this director are available to the Company. Expenses incurred by the Company with respect to this agreement totalled \$85,917 for the six-month period ended April 30, 2007, compared with \$110,725 in 2006. These services have been charged at fair market value and have been accounted for as research and development expenses.

## Use of Proceeds from July 2004 Financing

In July 2004 the Company raised, by way of short form prospectus, net proceeds of \$22,332,108 from the issuance of 5 million common shares, at \$4.75 per share. At that time, estimates were made as to the use of these proceeds. As at April 30, 2007, approximately \$15.20 million of funds from the July 2004 public offering have been spent on specific projects and for general corporate purposes listed in the table below. Since cash flows of the Company are derived from numerous sources, in order to determine how the proceeds of the public offering are spent and allocated, certain assumptions were required. Those assumptions are as follows:

- Day to day administrative and operating expenses for the Company are funded from the licence payments that DiagnoCure receive from Gen-Probe, interest income and gross margin realized on our sales.
- Additional funds over those required to fund the above items 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 April 30, 2007
Improve the uPM3 <sup>TM</sup> prostate cancer test, develop complementary applications and examine the therapeutic potential of the PCA3	\$4.00 million	\$3.60 million
Support the commercialization and expand the automation of ImmunoCyt+ <sup>TM</sup> /uCyt+ <sup>TM</sup> 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	\$5.00 million
Acquire complementary technologies and uses for other general corporate purposes	\$5.33 million	\$4.00 million

## Use of Proceeds from April 2007 Financing

In April 2007, the Company raised, by way of short form prospectus, net proceeds of \$23,353,098 from the issuance of 5.8 million common shares, at \$4.30 per share. At that time, estimates were made as to the use of these proceeds. As at April 30, 2007, approximately \$1.40 million of funds from

the April 2007 public offering have been spent on acquiring or in-licensing additional cancer biomarkers and for product development purposes (see detailed **Use of Proceeds** in the table below):

Description of "Use of Proceeds"	Amount spent as at April 30, 2007
Acquire and integrate or partner with one or more reference laboratories	---
Expend the product portfolio	---
Acquire or in-license additional cancer biomarkers and for product development purposes.	\$1.40 million

### Use of Estimates

In preparing its financial statements, management is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. In management's opinion, the financial statements have been properly prepared using careful judgment within the reasonable limits of materiality and within the framework of the accounting policies described in note 2 of the audited consolidated financial statements included in the fiscal 2006 annual report. The Company periodically evaluates its estimates and assumptions based on its past experience and other pertaining factors. The following paragraphs give details on the use of estimates and hypotheses used.

### Investment Tax Credits

The Company incurred research and development expenses, which are eligible for investment tax credits. These credits accounted for as a reduction of research and development expenses, amounted to \$276,827 for the first six-months of 2007 compared with \$220,547 in 2006 and are based on management estimates of amounts to be recovered. These amounts are subject to audit and acceptance by tax authorities. Management believes that it has made a reasonable estimate of these amounts.

### Impairment of Long-Lived Assets

Long-lived assets and certain identifiable intangibles and intellectual properties are regularly reviewed for impairment by management whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset with its expected future net undiscounted cash flows from use together with its residual value [net recoverable value]. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value. The recent license acquired from TDT for the GCC gene based colorectal cancer tests is being amortized over an estimated useful life of 10 years.

### Stock-Based Compensation

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

## Derivatives

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

## Contractual Obligations

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

Required Payment Per Year				
Contractual Obligations	Total	Year one	Year two and three	Year four and five
Lease agreements	\$1,243,737	\$314,155	\$656,175	\$273,406

DiagnoCure currently leases 16,089 sq. ft., with commitments for additional 16,719 sq. ft. of space on an adjacent floor starting in July 2007, in a building where its head office and research and development laboratories are located under a lease expiring in 2011. Annual payments for the coming year under this lease agreement amount to \$272,358.

## New Accounting Policies

In the first quarter, the Company adopted three new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA): section 1530, Comprehensive Income; section 3855, Financial Instruments – Recognition and Measurement; and section 3865, Hedges. These new standards establish standards for recognizing and measuring financial instruments, namely financial assets, financial liabilities and non-financial derivatives. The application of these new standards had no effect on the Company's financial statements or financial position during the period.

## Recently Published Accounting Changes

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.

## Risk Factors

The Company's activities are subject to some risk factors that generally affect biotechnology companies. The profitability of the Company will depend upon its ability to successfully develop its products and technologies, to preserve its intellectual property rights, to maintain its highly qualified

personnel, to conclude strategic alliances, research and development partnerships, strategic out-licensing agreements, to obtain satisfactory results as regards clinical studies and to obtain regulatory approvals required to commercialize its products. These activities require important financial investments. Therefore, the Company's ability to obtain necessary liquidities to finance its activities is essential to assure future success and is as such a risk factor. 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".

### **Cautionary Statement**

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

Additional information on the Company may be obtained on the following web site: [www.sedar.com](http://www.sedar.com)

Québec, Canada  
June 1<sup>st</sup>, 2007

(signed)

John C. Schafer  
President and Chief Executive Officer

(signed)

Thom Skinner, CA  
Chief Financial Officer

## CERTIFICATION OF INTERIM FILINGS

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

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of DiagnoCure Inc., (the issuer) for the interim period ending April 30, 2007;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures 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 interim 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
5. I have caused the issuer to disclose in the interim 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: June 6<sup>th</sup>, 2007

(signed)

John C. Schafer  
President and Chief Executive Officer

## CERTIFICATION OF INTERIM FILINGS

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

1. I have reviewed the interim filings (as this term is defined in Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) of DiagnoCure Inc., (the issuer) for the interim period ending April 30, 2007;
2. Based on my knowledge, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings;
3. Based on my knowledge, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings;
4. The issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures 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 interim 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
5. I have caused the issuer to disclose in the interim 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: June 6<sup>th</sup>, 2007

(signed)

Thom Skinner  
Chief Financial Officer

**DIAGNOCURE INC.**

**NOTICE OF DISCLOSURE OF NON-AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED APRIL 30, 2007 AND 2006**

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

The accompanying unaudited interim consolidated financial statements of the Company for the interim periods ended April 30, 2007 and 2006, have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of the company's management.

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

Dated this 1<sup>st</sup> day of June 2007

**CONSOLIDATED STATEMENTS**  
(UNAUDITED)

FOR THE PERIODS ENDED APRIL 30

**Consolidated Statements of Operations and Comprehensive Loss**

	three-month period		six-month period	
	2007	2006 (Restated – note 7)	2007	2006 (Restated – note 7)
	\$	\$	\$	\$
<b>Revenues</b>				
Sales	179,967	333,267	316,992	667,993
Cost of sales	( 64,524 )	( 179,882 )	( 148,986 )	( 368,863 )
Gross margin	115,443	153,385	168,006	299,130
Revenue under research and license agreement	845,585	739,107	1,688,842	1,616,703
Interest	207,007	190,683	403,302	383,674
	<b>1,168,035</b>	<b>1,083,175</b>	<b>2,260,150</b>	<b>2,299,507</b>
<b>Operating expenses</b>				
Research and development expenses	771,956	1,250,260	1,662,783	2,468,724
Investment tax credits	( 108,734 )	( 109,501 )	( 276,827 )	( 220,547 )
	663,222	1,140,759	1,385,956	2,248,177
General and administrative expenses	434,663	493,555	922,365	1,052,574
Selling and business development expenses	715,831	676,906	1,580,321	1,489,172
Restructuring charges (note 5)	---	---	912,685	---
Stock-based compensation	427,275	265,091	882,500	548,484
Depreciation of property, plant and equipment	100,434	89,669	193,725	170,853
Financial expenses	5,543	11,848	8,060	21,050
Amortization of intangibles	11,159	10,561	22,110	20,611
	<b>2,358,127</b>	<b>2,688,389</b>	<b>5,907,722</b>	<b>5,550,921</b>
Loss from continuing operations before income taxes	( 1,190,092 )	( 1,605,214 )	( 3,647,572 )	( 3,251,414 )
Provision for income taxes	---	---	---	---
Loss from continuing operations	( 1,190,092 )	( 1,605,214 )	( 3,647,572 )	( 3,251,414 )
Loss from discontinued operations (note 7)	---	( 61,038 )	---	( 113,486 )
<b>Net loss</b>	<b>( 1,190,092 )</b>	<b>( 1,666,252 )</b>	<b>( 3,647,572 )</b>	<b>( 3,364,900 )</b>
Cumulative effect of comprehensive income	---	---	---	---
<b>Comprehensive loss</b>	<b>( 1,190,092 )</b>	<b>( 1,666,252 )</b>	<b>( 3,647,572 )</b>	<b>( 3,364,900 )</b>
Basic and diluted loss per share from continuing operations	( 0.03 )	( 0.05 )	( 0.10 )	( 0.09 )
Basic and diluted loss per share from discontinued operations	---	( 0.00 )	---	( 0.01 )
<b>Basic and diluted loss per share</b>	<b>( 0.03 )</b>	<b>( 0.05 )</b>	<b>( 0.10 )</b>	<b>( 0.10 )</b>
<b>Weighted average number of common shares outstanding</b>	<b>36,493,714</b>	<b>34,372,585</b>	<b>35,461,293</b>	<b>34,365,301</b>

**CONSOLIDATED STATEMENTS**  
(UNAUDITED)

FOR THE PERIODS ENDED APRIL 30

**Consolidated Statements of Deficit**

	2007	2006
		(Restated – note 7)
	\$	\$
<b>Deficit beginning of period</b>	<b>( 44,523,341 )</b>	<b>( 37,436,711 )</b>
Add		
Net Loss	<b>( 3,647,572 )</b>	<b>( 3,364,900 )</b>
Common share issue expenses	<b>( 1,801,902 )</b>	---
<b>Deficit, end of period</b>	<b>( 49,972,815 )</b>	<b>( 40,801,611 )</b>

**CONSOLIDATED STATEMENTS**  
(UNAUDITED)

FOR THE PERIODS ENDED APRIL 30

**Consolidated Statements of Cash Flows**

	three-month period		six-month period	
	2007	2006 (Restated – note 7)	2007	2006 (Restated – note 7)
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Net loss from continuing operations	( 1,190,092 )	( 1,605,214 )	( 3,647,572 )	( 3,251,414 )
Adjustments for:				
Stock-based compensation	427,275	265,091	882,500	548,484
Depreciation and amortization	111,593	100,230	215,835	191,464
	( 651,224 )	( 1,239,893 )	( 2,549,237 )	( 2,511,466 )
Net change in non-cash working capital items	455,151	( 905,564 )	1,425,844	1,880,628
<b>Cash flows related to operating activities</b>	<b>( 196,073 )</b>	<b>( 2,145,457 )</b>	<b>( 1,123,393 )</b>	<b>( 630,838 )</b>
<b>INVESTING ACTIVITIES</b>				
Change in investments	( 201,949 )	2,514,805	3,688,559	1,311,144
Acquisition of property, plant and equipment	( 12,593 )	( 112,156 )	( 178,196 )	( 233,013 )
Acquisition of intangibles	( 1,292,349 )	( 3,194 )	( 1,310,035 )	( 24,658 )
<b>Cash flows related to investing activities</b>	<b>( 1,506,891 )</b>	<b>2,399,455</b>	<b>2,200,328</b>	<b>1,053,481</b>
<b>FINANCING ACTIVITIES</b>				
Issue of common shares	25,249,449	2,525	25,284,493	95,367
Issue expenses related to common shares	( 1,801,902 )	---	( 1,801,902 )	---
<b>Cash flows related to financing activities</b>	<b>23,447,547</b>	<b>2,525</b>	<b>23,482,591</b>	<b>95,367</b>
Net increase in cash and cash equivalents from continuing operations	21,744,583	256,523	24,559,526	518,010
Net decrease in cash and cash equivalents from discontinued operations (note 7)	---	0	---	( 15,409 )
<b>Net increase in cash and cash equivalents</b>	<b>21,744,583</b>	<b>256,523</b>	<b>24,559,526</b>	<b>502,601</b>
Cash and cash equivalents, beginning of period	2,994,871	884,645	179,928	638,567
<b>Cash and cash equivalents, end of period</b>	<b>24,739,454</b>	<b>1,141,168</b>	<b>24,739,454</b>	<b>1,141,168</b>

**CONSOLIDATED BALANCE SHEETS**

	<b>(UNAUDITED)</b>	
	<b>APRIL 30, 2007</b>	OCTOBER 31, 2006 <small>(Restated – note 7)</small>
	\$	\$
<hr/>		
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (Bear interest of 4.20%)	24,739,454	179,928
Temporary investments	12,264,393	11,950,905
Accounts receivable	216,218	981,897
Investment tax credits receivable	757,079	480,252
Prepaid expenses	355,336	215,385
<b>Total current assets</b>	<b>38,332,480</b>	<b>13,808,367</b>
<b>Long-term investments</b>	<b>2,186,314</b>	<b>6,188,361</b>
<b>Property, plant and equipment</b>	<b>1,064,538</b>	<b>1,080,067</b>
<b>Intangibles</b>	<b>4,000,551</b>	<b>270,626</b>
	<b>45,583,883</b>	<b>21,347,421</b>
<hr/>		
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	5,161,724	1,642,781
<b>Total current liabilities</b>	<b>5,161,724</b>	<b>1,642,781</b>
<b>Shareholders' equity</b>		
Capital stock (note 6)	84,999,101	59,697,388
Contributed surplus (note 6)	5,395,873	4,530,593
Deficit	( 49,972,815 )	( 44,523,341 )
	<b>40,422,159</b>	<b>19,704,640</b>
	<b>45,583,883</b>	<b>21,347,421</b>
<hr/>		

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

AS OF APRIL 30, 2007

### **1. Financial Information**

The accompanying unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The information with respect to the October 31, 2006 consolidated balance sheet is derived from the Company's audited financial statements. These unaudited interim financial statements should be read in conjunction with the notes appearing in the Company's audited financial statements for the year ended October 31, 2006 and the accompanying notes.

### **2. Incorporation and Nature of Business**

The Company was incorporated on December 8, 1994 under Part 1A of the *Companies Act* (Québec). DiagnoCure Inc. is a biotechnology company which specializes in the development and commercialization of products relating to the diagnosis of cancer. The subsidiary Samba Technologies SAS has been classified as discontinued operations for financial reporting purposes as outlined in note 7.

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.

### **3. Summary of Significant Accounting Policies**

#### **Intangibles**

Intangibles represent mostly consideration paid for technology licenses. Such costs are amortized to operations on a straight-line basis over the duration of the license agreement which is ten years. Additions to technology are amortized over the remaining useful life of the asset at the time of addition.

Management reviews on an ongoing basis the valuation and amortization of technology assets. The determination as to whether there has been impairment is made by comparing the carrying value of the technology assets to the net recoverable amount of the technology assets based on risk adjusted cash flow projections. Any excess of carrying value over net recoverable amount is charged to operations in the period in which such impairment is determined by management.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

AS OF APRIL 30, 2007

### **4. New Accounting Policies**

In the first quarter of 2007, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA):

Section 1530, *Comprehensive Income*, introduces a new financial statement, which shows the change in equity of an enterprise from transactions and other events and circumstances from non-owner sources.

Section 3855, *Financial Instruments – Recognition and Measurement*, establishes standards for recognizing and measuring financial instruments, namely financial assets, financial liabilities and derivatives.

The new standard sets out how financial instruments are to be recognized depending on their classification. Depending on financial instruments' classification, changes in subsequent measurements are recognized in net income or comprehensive income.

The Company has implemented the following classification:

- Cash and cash equivalents are classified as "Financial Assets Held for Trading". These financial assets are marked-to-market through net income at each period end.
- Accounts receivable are classified as "Receivables". After their initial fair value measurement, they are measured at amortized cost using the effective rate method. For the Company, the measured amount generally corresponds to cost.
- Temporary and long-term investments are classified as "Financial Assets Held to maturity". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method.
- The accounts payable, are classified as "Other Financial Liabilities". After their initial fair value measurement, they are measured at amortized cost using the effective rate method. For the Company, the measured amount generally corresponds to cost.

Section 3865, *Hedges*, whose application is optional, establishes how hedge accounting may be applied.

These new standards have to be applied without restatement or prior period amounts. Upon initial application all adjustments to the carrying amount of financial assets and liabilities shall be recognized as an adjustment to the opening balance of retained earnings or accumulated other comprehensive income, depending on the classification of existing assets or liabilities. The new accounting policy has had no impact on the Company's financial statement.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(UNAUDITED)

AS OF APRIL 30, 2007

**5. Restructuring Charges**

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 initiatives for this product. This decision as resulted 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 supporting certain research and development projects, including related marketing and administrative positions. In the first quarter of 2007 the non-recurring restructuring charge was \$912,685, detailed as follows:

	Items paid as at April 30, 2007 \$	Liabilities as at April 30, 2007 \$	Total restructuring charges \$
Retention bonuses and termination benefits	626,054	10,090	636,144
Legal and outplacement fees	71,956	80,585	152,541
Provision for vacated leased premises	13,335	110,665	124,000
<b>Total</b>	<b>711,345</b>	<b>201,340</b>	<b>912,685</b>

No additional charges related to restructuring are expected for the 2007 financial year.

**6. Capital Stock**

**Authorized**

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

Common, voting and participating shares.

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

	(UNAUDITED)	
	APRIL 30, 2007	OCTOBER 31, 2006
	\$	\$
<b>Issued and fully paid</b>		
40,382,878 common shares (34,451,142 as of October 31, 2006)	<b>84,999,101</b>	59,697,388

	APRIL 30, 2007	
	Number of shares	Amount \$
<b>Capital stock</b>		
Balance, beginning of period	34,451,142	59,697,388
Issuance of common shares	5,931,736	25,284,493
Portion previously recognized to contributed surplus as part of stock-based compensation	---	17,220
Balance, end of period	40,382,878	84,999,101

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

AS OF APRIL 30, 2007

### 6. *Capital Stock (Cont'd)*

During the quarter ended April 30, 2007, in connection with a public offering, the Company issued 5,850,000 common shares at a price of \$4.30 per share for total gross proceeds of \$25,155,000. The net proceeds of this offering, after deduction of underwriter's commissions and issue expenses, amounted to \$23,353,098.

#### **Stock Options**

During the period ended April 30, 2007, the Company granted 87,500 options to certain key employees and directors. The weighted average fair value of stock options granted during this period amounted to \$2.93 per stock option. The fair value of each option granted was determined using the Black-Scholes option pricing model and the following weighted average assumptions:

Risk-free interest rate	3.97%
Expected life	8 years
Expected volatility in the market price of the shares	74%
Expected dividend yield	---

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

#### **Contributed Surplus**

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

<b>Contributed Surplus</b>	<b>Amount</b>
	<b>\$</b>
Balance as of October 31, 2006	4,530,593
Stock-based compensation expense	882,500
Stock options exercised	( 17,220 )
Balance as of April 30, 2007	5,395,873

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(UNAUDITED)

AS OF APRIL 30, 2007

**7. 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 2006 comparative financial statements were restated accordingly.

	2007	2006
	\$	\$
<b>Loss from discontinued operations</b>		
Revenues	---	415,837
Cost of sales	---	( 303,558 )
Gross margin	---	112,279
General and administrative expenses	---	109,936
Selling and business development	---	100,155
Depreciation of property, plant and equipment	---	3,729
Financial expenses	---	11,945
<b>Net loss from discontinued operations</b>	---	( 113,486 )
<b>Cash flows related to discontinued operations</b>		
Operating activities	---	( 15,409 )
<b>Net decrease in cash and cash equivalents from discontinued activities</b>	---	( 15,409 )

**8. Financial Instruments**

The financial instruments' book values and fair values were as follows:

	Period ended			
	April 30, 2007		October 31, 2006	
	Book value (amortized cost) \$	Fair value \$	Book value (amortized cost) \$	Fair value \$
<b>Temporary and long-term investments</b>				
Temporary investments	12,264,393	12,248,739	11,950,905	11,940,581
Long-term investments	2,186,314	2,181,268	6,188,361	6,180,669

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(UNAUDITED)

AS OF APRIL 30, 2007

**8. Financial Instruments (Cont'd)**

The fair value of cash and cash equivalents, accounts receivable and accounts payable approximates their carrying value because of the short-term maturity of these instruments.

The fair value of temporary and long-term investments is evaluated on market price at the balance sheet date.

**9. Comparative Figures**

Certain of the 2006 figures have been reclassified in order to conform with the presentation adopted in 2007.