# For life
to continue ...

QUARTERLY
**REPORT 3**

For the Period Ended
**July 31, 2007**

DIAGNOCURE INC.

2050 René-Lévesque Blvd. West, 6th floor, Québec (Québec) G1V 2K8 Canada **T**: (418) 527-6100 **F**: (418) 527-0240 communications@diagnocure.com **www.diagnocure.com**

# MESSAGE TO SHAREHOLDERS

The third quarter of 2007 was marked by the continuing implementation of DiagnoCure's new business strategy, focusing on the acquisition and development of promising products and markers that have the potential to provide clinicians and patients with improved clinical confidence in making critical decisions for the management of cancer.

We believe that to succeed in the space of diagnostics, a company must master four key leadership factors: focus on a specific clinical field, build a critical mass of products, commit to a business model and secure access to capital. During the first nine months of 2007, DiagnoCure achieved significant milestones on these four fronts.

In late 2006, after a thorough review of its business strategy, DiagnoCure re-affirmed its sole focus on cancer. In addition, because cancer is first and foremost a molecular disorder, we have concentrated the Company's R&D efforts on molecular diagnostics, a market with an estimated compound annual growth rate of over 30%.

DiagnoCure has undertaken an aggressive M&A initiative and acquired two tests for colorectal cancer based on the GC-C gene, and tests based on Shc proteins for breast, colorectal and potentially other cancers. At the same time, awareness of the high value of PCA3, the Company's genetic marker highly specific to prostate cancer licensed to Gen-Probe, grew among key opinion leaders. Several presentations and exhibits at two prominent urological conferences, the European Urological Association and the American Urological Association, featured PCA3 as a potential significant tool in the management of prostate cancer. Most recently, Gen-Probe announced that the incremental clinical research data they have collected over the last year or so has increased their conviction that a standalone PCA3 assay satisfies an important unmet medical need and that the specificity of their quantitative PCA3 test is a significant improvement over the specificity of other tests, especially in the PSA dilemma population, where men are often subjected to repeated, but ultimately unnecessary, biopsies. With the developments around PCA3 and the newly acquired tests and markers, DiagnoCure's pipeline has strengthened significantly over this past quarter.

The Company has secured an option on U.S. CLIA-certified laboratory to commercialize and provide its cancer molecular diagnostic tests directly to clinicians. This lab, which is on schedule to open later in 2007, will allow DiagnoCure to bring its products to market faster and in a more controlled manner than the traditional IVD model.

Finally, DiagnoCure completed, in April 2007, a new net financing of over $23 million, thereby strengthening its financial base and allowing the Company to implement its M&A and business development strategy.

Overall, during the first nine months of 2007, DiagnoCure successfully established the foundation of its renewed business strategy focused on cancer molecular diagnostics and lab services. The next stage will be to refine the clinical base of its newly acquired tests and implement the critical steps of the plan towards commercialization of these new tests starting in 2008. The Company is already actively working on these important initiatives while still pursuing acquisitions and partnerships that have the potential to even further contribute to the Company's leadership position in providing critical diagnostic and prognostic tools for the management of cancer.

***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 July 31, 2007. They compare this third quarter and the nine-month period of operating results and cash position with those of the third quarter and the nine-month period ended July 31, 2006. The information contained herein is up to date as of August 31, 2007.*

**Overview**

DiagnoCure Inc. (hereafter called the "Company" or "DiagnoCure"), founded in 1994, is a leading life sciences company commercializing high-value cancer diagnostic tests and delivering lab services. 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 high-value diagnostic tests, 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 an Analyte Specific Reagent (ASR) format. 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. In December 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. Since then, a number of laboratories in the U.S. have added PCA3 on their product listings, among which are LabCorp and Quest, the two leading U.S. diagnostic testing providers. During the first nine months of fiscal 2007, DiagnoCure received US$76,040 in 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. With the U.S. laboratories offering the test and with the spring 2007 launch of the full CE-marked PROGENSA™ 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. The Company plans to launch one of the tests, the GC-C colon cancer test performed on lymph nodes, in 2008.

On August 16 2007, DiagnoCure announced it had acquired Catalyst Oncology of Worcester, MA, and its lead proprietary prognostic tests for breast, colon and potentially other cancers. The terms of the agreement called for an upfront payment of approximately US$3 million comprised of cash and DiagnoCure shares followed by potential future payments related to the achievement of specific milestones. Over the coming months, DiagnoCure intends to complete the development of the tests and conduct additional validating clinical studies.

**2007 First Nine-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. Since first launching the PCA3 product Gen-probe has sold approximately US$1,082,000 of the test. 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 with certainty 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 receiving modest early royalty revenue from Gen-Probe PCA3 sales.

In line with the decision to focus on high-value diagnostic tests, 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 followed the decision, in November 2006, 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.

With the acquisition of the GC-C marker in April 2007, DiagnoCure began the optimization and refinement toward commercialization of the GC-C colon cancer test, this project now being the main focus of the Company's R&D operations. We have set aside, for the interim, any internal R&D work DiagnoCure was doing on other markers to concentrate on GC-C and now the additional Shc markers recently acquired.

In the second quarter, in line with our new focus to be the leading developer and provider or 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 each, 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, expend our product portfolio and acquire or in-licence additional cancer biomarkers.

In March 2007, 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 was 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 indicates 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 2007, the Company strengthened 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 GC-C (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.

On August 16, 2007, DiagnoCure announced it had acquired Catalyst Oncology of Worcester, MA, and its lead proprietary prognostic tests for breast, colon and potentially other cancers. DiagnoCure intends to complete the development of the tests and conduct additional validating clinical studies. The terms of the agreement call for an upfront payment of approximately US$3 million comprised of cash and DiagnoCure shares followed by potential future payments related to the achievement of specific milestones. The acquired tests have been validated in multiple clinical studies involving patients with five tumor types, including breast and colon.

Results have shown the tests to be strong indicators for a patient's risk of disease recurrence, as well as predictors of response to certain cancer therapies, such as tamoxifen or traditional chemotherapy. The tests measure the level of activated tyrosine phosphorylated (PY) Shc protein and p66 Shc protein in tissue specimens. With a 2007 estimate of 178,480 new cases and 40,460 deaths in the United States, breast cancer is the most frequently diagnosed cancer and the second leading cause of death from cancer in women. The global survival rate over five years is 89% but falls to 26% when breast cancer has spread to distant organs.

**Financial Results**

*For the Three-Month Period Ended July 31, 2007*

Total revenues for the third quarter of 2007 were $562,445 compared with $1,170,947 for the third quarter of 2006. Revenue recognition of the continued calendar payments and research agreement from Gen-Probe was $23,098 for the period, down from $762,525 from the prior year. This decrease reflects the end of the revenue recognition from the continued calendar payments received from Gen-Probe which had been amortized over a 42-month period from the signing of the original license agreement. Royalty revenues from Gen-Probe were $39,106 for the third quarter of 2007 compared to $5,464 for the third quarter of 2006. Sales of DiagnoCure's bladder cancer test, ImmunoCyt™ / uCyt+™, were down $18,628 to $63,161 for the third quarter of 2007 versus $81,789 for the same period a year ago. There were no sales of uPM3™ by DiagnoCure in the third 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 third quarter of 2006 were $27,520. Also in this quarter, DiagnoCure sold less clinical samples to Gen-Probe, indicating the near completion of their prostate cancer testing R&D, for an amount of $3,430 compared to $62,586 in 2006.

Interest income increased $225,684 to $433,649 for the third quarter of 2007 compared to $207,965 for the third 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 $51,386 from $103,860 for the third quarter of 2006 to $52,474 for the third quarter of 2007. This decrease is related to lower actual product sales, as noted above, for uPM3™ and ImmunoCyt™ / uCyt+™.

Operating expenses from continuing operations, before stock-based compensation, were relatively stable at $2,321,841 for the third quarter of 2007 compared to $2,304,135 for the same period in 2006. Total operating expenses for the third quarter, including the non-cash charge for stock-based compensation, were $2,698,425 compared with $2,588,941 in 2006, primarily as a result of the following:

- Research and development expenses, net of investment tax credits, decreased by $272,324 (28%), from $988,802 for the third quarter of 2006 to $716,478 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 increased, from $500,272 for the third quarter of 2006 to $603,792 for the same quarter in 2007. This increase of $103,520 is attributable to the expenses related to the Special meeting of shareholders and accounting fees related to the implementation of the new Multilateral Instrument 52-109 regulations relative to internal control compliance and certification.

- Selling and business development expenses increased by $71,208, from $707,296 for the third quarter of 2006 to $778,504 for the same quarter in 2007. This increase is attributable to the on-going 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 $91,778, from $284,806 for the third quarter of 2006 to $376,584 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 $227,906 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 third quarter of 2007, DiagnoCure increased its recorded net loss for the quarter, from $1,614,018 for the third quarter of 2006 to $2,188,454 for the third quarter of 2007. The net loss from continuing operations was $2,188,454 or $0.05 per share for the third quarter of 2007, compared with $1,521,854, or $0.04 per share, for the third quarter of 2006. These results are substantially in line with management expectations and reflect the end of the revenue recognition from the continued calendar payments received from Gen-Probe which had been amortized over a 42-month period from the signing of the original license agreement, and the activities undertaken during the past nine months to focus activities in line with the Company's plans and on-going commitment to develop and acquire tests for the detection and management of cancer. At the end of the quarter, cash, short-term investments and long-term investments stood at $35,941,052, up from $18,319,194 as at October 31, 2006. This increase of $17,621,858 is attributable to the net proceeds of $23,353,098 from the April 2007 financing. Net average monthly operating cash burn for the quarter was $470,000. Management is satisfied that it has adequate cash resources to execute its business plan in the near-term and mid-term.

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

| | **2007** | 2006 | 2005 |
|---|---|---|---|
| | **$** | $ | $ |
| | | (Restated – Note 7) | (Restated – Note 7) |
| Sales | **66,591** | 171,895 | 252,563 |
| Revenue under research and license agreement | **62,205** | 791,087 | 974,604 |
| Interest | **433,649** | 207,965 | 170,835 |
| Total revenues | **562,445** | 1,170,947 | 1,398,002 |
| Cost of sales | **52,474** | 103,860 | 121,241 |
| Gross margin | **509,971** | 1,067,087 | 1,276,761 |
| Operating expenses (before stock-based compensation) | **2,321,841** | 2,304,135 | 1,818,046 |
| Net loss (before stock-based compensation) | **( 1,811,870 )** | ( 1,237,048 ) | ( 541,285 ) |
| Stock-based compensation | **376,584** | 284,806 | 334,245 |
| Net loss from continuing operations | **( 2,188,454 )** | ( 1,521,854 ) | ( 875,530 ) |
| Net loss from discontinued operations | **---** | ( 92,164 ) | ( 8,669 ) |
| Net loss | **( 2,188,454 )** | ( 1,614,018 ) | ( 884,199 ) |
| Basic and diluted loss per share | | | |
| From continuing operations | **( 0.05 )** | ( 0.04 ) | ( 0.03 ) |
| From discontinued operations | **---** | ( 0.00 ) | ( 0.00 ) |
| Basic and diluted loss per share | **( 0.05 )** | ( 0.04 ) | ( 0.03 ) |
| Weighted average number of common shares outstanding | **40,950,786** | 34,424,258 | 34,242,048 |

*For the Nine-Month Period Ended July 31, 2007*

Total revenues for the nine-month period ended July 31, 2007 were $2,971,581 compared with $3,839,317 for the same period of 2006. Revenue recognition of the continued calendar payments and research agreement from Gen-Probe was $1,711,940 for the period, down $690,386 from the prior year due to the end of the revenue recognition from the continued calendar payments received from Gen-Probe which had been amortized over a 42-month period from the signing of the original license agreement. Royalty revenues from Gen-Probe were $84,056 for the first nine months of 2007 compared to $5,464 for 2006. Sales of DiagnoCure's bladder cancer test, ImmunoCyt™ / uCyt+™, were $272,133 for the first nine-month of 2007 versus $266,392 for the same period a year ago. There were no sales of uPM3™ by DiagnoCure in the first nine 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 nine months of 2006 were $376,660. Also in this quarter, DiagnoCure sold less clinical samples to Gen-Probe, indicating the near completion of their prostate cancer testing R&D, for an amount of $66,501.

Interest income increased $245,312 to $836,951 for the first nine-month of 2007 compared to $591,639 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 $276,904 from $472,723 for the first nine months of 2006 to $195,819 for the first nine months 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 $7,306,572 for the first nine months of 2006 to $6,440,019 for the same period in 2007, a decrease of $866,553 (12%), reflecting cost savings from the restructuring noted above. Total operating expenses for the first nine months, including the non-cash charge for stock-based compensation and restructuring charges, were $8,611,788 compared with $8,139,862 in 2006, primarily as a result of the following:

- Research and development expenses, net of investment tax credits, decreased by $1,134,545 (35%), from $3,236,979 for the first nine months of 2006 to $2,102,434 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 $1,552,846 for the first nine months of 2006 to $1,531,798 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 $162,357 from $2,196,468 for the first nine months of 2006 to $2,358,825 for the same period in 2007. This increase is attributable to the on-going 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 $425,794, from $833,290 for the first nine months of 2006 to $1,259,084 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 $683,718 charge for this nine-month period.

Based on the above, for the nine-month period ended July 31, 2007, DiagnoCure recorded a net loss before stock-based compensation and restructuring charges of $3,664,257, compared with $3,939,978 for the same period of 2006, a decrease of $275,721 or 7%. The net loss from continuing operations including stock-based compensation and restructuring charges was $5,836,026 or $0.16 per share for the first nine months of 2007, compared with $4,773,268 or $0.13 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 nine months also reflect the steps taken to focus the Company's vision on high-value diagnostic tests, by acquiring or in-licensing additional cancer biomarkers and integrate or partner with one or more reference laboratories.

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

| | **2007** | 2006 | 2005 |
|---|---|---|---|
| | **$** | $ | $ |
| | | (Restated – Note 7) | (Restated – Note 7) |
| Sales | **338,634** | 839,888 | 792,558 |
| Revenue under research and license agreement | **1,795,996** | 2,407,790 | 3,013,931 |
| Interest | **836,951** | 591,639 | 591,993 |
| Total revenues | **2,971,581** | 3,839,317 | 4,398,482 |
| Cost of sales | **195,819** | 472,723 | 432,290 |
| Gross margin | **2,775,762** | 3,366,594 | 3,966,192 |
| Operating expenses (before stock-based compensation and restructuring charges) | **6,440,019** | 7,306,572 | 5,069,185 |
| Net loss (before stock-based compensation and restructuring charges) | **( 3,664,257 )** | ( 3,939,978 ) | ( 1,102,993 ) |
| Restructuring charges | **912,685** | --- | --- |
| Stock-based compensation | **1,259,084** | 833,290 | 935,499 |
| Net loss from continuing operations | **( 5,836,026 )** | ( 4,773,268 ) | ( 2,038,492 ) |
| Net loss from discontinued operations | **---** | ( 205,650 ) | ( 80,173 ) |
| Net loss | **( 5,836,026 )** | ( 4,978,918 ) | ( 2,118,665 ) |
| Basic and diluted loss per share | | | |
| From continuing operations | **( 0.16 )** | ( 0.13 ) | ( 0.07 ) |
| From discontinued operations | **---** | ( 0.01 ) | ( 0.00 ) |
| Basic and diluted loss per share | **( 0.16 )** | ( 0.14 ) | ( 0.07 ) |
| Weighted average number of common shares outstanding | **37,311,232** | 34,385,170 | 34,208,933 |

**Total Assets and Shareholders' Equity**

Total assets amounted to $42,937,956 as of July 31, 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 July 31, 2007 compared with $0.57 per Common Share as of October 31, 2006.

***Balance Sheet (Unaudited)***

| ***As of July 31*** | **2007** | 2006 | 2005 |
|---|---|---|---|
| | **$** | $ | $ |
| Total assets before discontinued operations | **42,937,956** | 22,719,580 | 26,702,929 |
| Assets related to discontinued operations | **---** | 555,044 | 423,487 |
| Total assets | **42,937,956** | 23,274,624 | 27,126,416 |
| Shareholders' equity | **41,052,289** | 21,312,643 | 25,831,697 |
| Number of common shares outstanding | **40,950,786** | 34,449,642 | 34,277,043 |

**Cash Position and Financing Sources**

Cash flow required from operating activities during the third quarter of 2007 amounted to $2,707,854 compared with $1,435,471 required in the third quarter of 2006, an increase of $1,272,383, which is attributable to the $1.2 million cash payment paid in the third quarter for the GC-C license. Investment activities required cash flow of $10,288,980 for the third quarter of 2007 while, for the same period of 2006, investing activities generated cash flow of $923,909 to finance the operating activities. The $10,288,980 required in 2007 is attributable to the investment done in the quarter related to cash received from the April 2007 public offering. During the third quarter of 2007, acquisition of tangible and intangible capital assets amounted to $541,255, relating mostly to the GC-C license compared with $137,878 for the third quarter of 2006. Financing activities generated cash flow of $49,766 for the third quarter of 2006, mostly related to the exercise of options.

*Cash Flows for the Third Quarters (Unaudited)*

| | **2007** | 2006 | 2005 |
|---|---|---|---|
| | **$** | $ (Restated – Note 7) | $ (Restated – Note 7) |
| Cash flows related to operating activities | **( 2,707,854 )** | ( 1,435,471 ) | ( 875,530 ) |
| Cash flows related to investing activities | **( 10,288,980 )** | 923,909 | 1,420,121 |
| Cash flows related to financing activities | **---** | 49,766 | 122,072 |
| Cash flows related to discontinued operations | **---** | ( 76,890 ) | ( 1,603 ) |

Cash flow required from operating activities during the first nine months of 2007 amounted to $3,831,247 compared to $2,066,309 required in the same period of 2006, totalling an increase of $1,764,938 which is attributable to an increase in the first nine-month net loss and to the change of $754,870 in the account receivable relative to the receipt, in November 2006, of the final Gen-Probe calendar payment. Investment activities required cash flow of $8,088,652 for the first nine months of 2007 while, for the same period of 2006, investing activities generated cash flow of $1,977,390. The $8,088,652 required in 2007 is attributable to the investment done in the third quarter related to the cash received from the April 2007 public offering. During the first nine months of 2007, acquisition of tangible and intangible capital assets amounted to $2,029,486, relating mostly to the GC-C license acquisition compared with $395,541 for the first nine 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 nine months of 2007, compared with $145,133 for the corresponding period of 2006.

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

| | **2007** | 2006 | 2005 |
|---|---|---|---|
| | **$** | $ | $ |
| | | (Restated – Note 7) | (Restated – Note 7) |
| Cash flows related to operating activities | **( 3,831,247 )** | ( 2,066,309 ) | ( 1,880,175 ) |
| Cash flows related to investing activities | **( 8,088,652 )** | 1,977,390 | 2,758,392 |
| Cash flows related to financing activities | **23,482,591** | 145,133 | 134,959 |
| Cash flows related to discontinued operations | **---** | ( 92,299 ) | ( 33,058 ) |

Net average monthly operating cash burn for the year to date was $410,000. 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 August 31, 2007, the Company had 41,718,463 commons shares issued and outstanding, and 2,973,388 stock options, granting the right to acquire an equal amount of common shares.

**Off-Balance Sheet Arrangements**

As of July 31, 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 $112,584 for the nine-month period ended July 31, 2007, compared with $137,083 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 July 31, 2007, approximately $15.68 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 sales.
- Additional funds over those required to fund the above item will be taken from the proceeds of the July 2004 public offering.

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

| **Description of "Use of Proceeds"** | **Estimated total use of proceeds as disclosed at time of July 2004 public offering** | **Amount spent as at July 31, 2007** |
|---|---|---|
| Improve the uPM3™ prostate cancer test, develop complementary applications and examine the therapeutic potential of the PCA3 | $4.00 million | $3.74 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 | $5.10 million |
| Acquire complementary technologies and uses for other general corporate purposes | $5.33 million | $4.24 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 July 31, 2007, approximately $3.04 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 July 31, 2007** |
|---|---|
| Acquire and integrate or partner with one or more reference laboratories | $0.27 million |
| Expend the product portfolio | $0.27 million |
| Acquire or in-license additional cancer biomarkers and for product development purposes. | $2.50 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 $382,941 for the first nine months of 2007 compared with $351,432 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 GC-C 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 | $1,163,288 | $355,953 | $615,951 | $191,384 |

DiagnoCure currently leases 32,808 sq. ft., 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 $355,953.

**New Accounting Policies**

In the first quarter, the Company adopted three new accounting standards issued by the Canadian Institute of Charted 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

Québec, Canada
August 31, 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 July 31, 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: September 4, 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 July 31, 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: September 4, 2007

(signed)

Thom Skinner
Chief Financial Officer

**DIAGNOCURE INC.**

**NOTICE OF DISCLOSURE OF NON-AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED JULY 31, 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 July 31, 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 31st day of August 2007

FOR THE PERIODS ENDED JULY 31

## Consolidated Statements of Operations and Comprehensive Loss

| | three-month period | | nine-month period | |
|---|---|---|---|---|
| | **2007** | 2006 (Restated – note 7) | **2007** | 2006 (Restated – note 7) |
| | **$** | $ | **$** | $ |
| **Revenues** | | | | |
| Sales | **66,591** | 171,895 | **338,634** | 839,888 |
| Cost of sales | **( 52,474 )** | ( 103,860 ) | **( 195,819 )** | ( 472,723 ) |
| Gross margin | **14,117** | 68,035 | **142,815** | 367,165 |
| Revenue under research and license agreement | **62,205** | 791,087 | **1,795,996** | 2,407,790 |
| Interest | **433,649** | 207,965 | **836,951** | 591,639 |
| | **509,971** | 1,067,087 | **2,775,762** | 3,366,594 |
| **Operating expenses** | | | | |
| Research and development expenses | **822,592** | 1,119,687 | **2,485,375** | 3,588,411 |
| Investment tax credits | **( 106,114 )** | ( 130,885 ) | **( 382,941 )** | ( 351,432 ) |
| | **716,478** | 988,802 | **2,102,434** | 3,236,979 |
| General and administrative expenses | **603,792** | 500,272 | **1,531,798** | 1,552,846 |
| Selling and business development expenses | **778,504** | 707,296 | **2,358,825** | 2,196,468 |
| Restructuring charges (note 5) | **---** | --- | **912,685** | --- |
| Stock-based compensation | **376,584** | 284,806 | **1,259,084** | 833,290 |
| Depreciation of property, plant and equipment | **100,512** | 96,005 | **294,237** | 266,858 |
| Financial expenses | **18,057** | 1,058 | **26,117** | 22,108 |
| Amortization of intangibles | **104,498** | 10,702 | **126,608** | 31,313 |
| | **2,698,425** | 2,588,941 | **8,611,788** | 8,139,862 |
| Loss from continuing operations before income taxes | **( 2,188,454 )** | ( 1,521,854 ) | **( 5,836,026 )** | ( 4,773,268 ) |
| Provision for income taxes | **---** | --- | **---** | --- |
| Loss from continuing operations | **( 2,188,454 )** | ( 1,521,854 ) | **( 5,836,026 )** | ( 4,773,268 ) |
| Loss from discontinued operations (note 7) | **---** | ( 92,164 ) | **---** | ( 205,650 ) |
| **Net loss** | **( 2,188,454 )** | ( 1,614,018 ) | **( 5,836,026 )** | ( 4,978,918 ) |
| Cumulative effect of comprehensive income | **---** | --- | --- | --- |
| **Comprehensive loss** | **( 2,188,454 )** | ( 1,614,018 ) | **( 5,836,026 )** | ( 4,978,918 ) |
| Basic and diluted loss per share from continuing operations | **( 0.05 )** | ( 0.04 ) | **( 0.16 )** | ( 0.13 ) |
| Basic and diluted loss per share from discontinued operations | **---** | (0.00 ) | **---** | ( 0.01 ) |
| **Basic and diluted loss per share** | **( 0.05 )** | ( 0.04 ) | **( 0.16 )** | ( 0.14 ) |
| **Weighted average number of common shares outstanding** | **40,950,786** | 34,424,258 | **37,311,232** | 34,385,170 |

FOR THE PERIODS ENDED JULY 31

## Consolidated Statements of Deficit

| | **2007** | 2006 (Restated – note 7) |
|---|---|---|
| | **$** | $ |
| **Deficit beginning of period** | **( 44,523,341 )** | ( 37,436,711 ) |
| Add | | |
| Net Loss | **( 5,836,026 )** | ( 4,978,918 ) |
| Common share issue expenses | **( 1,801,902 )** | --- |
| **Deficit, end of period** | **( 52,161,269 )** | ( 42,415,629 ) |

FOR THE PERIODS ENDED JULY 31

## Consolidated Statements of Cash Flows

| | three-month period | | nine-month period | |
|---|---|---|---|---|
| | **2007** | 2006 (Restated – note 7) | **2007** | 2006 (Restated – note 7) |
| | **$** | $ | **$** | $ |
| **OPERATING ACTIVITIES** | | | | |
| Net loss from continuing operations | **( 2,188,454 )** | ( 1,521,854 ) | **( 5,836,026 )** | ( 4,773,268 ) |
| Adjustments for: | | | | |
| Stock-based compensation | **376,584** | 284,806 | **1,259,084** | 833,290 |
| Depreciation and amortization | **205,010** | 106,707 | **420,845** | 298,171 |
| | **( 1,606,860 )** | ( 1,130,341 ) | **( 4,156,097 )** | ( 3,641,807 ) |
| Net change in non-cash working capital items | **( 1,100,994 )** | ( 305,130 ) | **324,850** | 1,575,498 |
| **Cash flows related to operating activities** | **( 2,707,854 )** | ( 1,435,471 ) | **( 3,831,247 )** | ( 2,066,309 ) |
| **INVESTING ACTIVITIES** | | | | |
| Change in investments | **( 9,747,725 )** | 1,061,787 | **( 6,059,166 )** | 2,372,931 |
| Acquisition of property, plant and equipment | **( 265,226 )** | ( 111,271 ) | **( 443,422 )** | ( 344,284 ) |
| Acquisition of intangibles | **( 276,029 )** | ( 26,607 ) | **( 1,586,064 )** | ( 51,257 ) |
| **Cash flows related to investing activities** | **( 10,288,980 )** | 923,909 | **( 8,088,652 )** | 1,977,390 |
| **FINANCING ACTIVITIES** | | | | |
| Issue of common shares | **---** | 49,766 | **25,284,493** | 145,133 |
| Issue expenses related to common shares | **---** | --- | **( 1,801,902 )** | --- |
| **Cash flows related to financing activities** | **---** | 49,766 | **23,482,591** | 145,133 |
| Net increase (decrease) in cash and cash equivalents from continuing operations | **( 12,996,834 )** | ( 461,796 ) | **11,562,692** | 56,214 |
| Net decrease in cash and cash equivalents from discontinued operations (note 7) | **---** | ( 76,890 ) | **---** | ( 92,299 ) |
| **Net increase (decrease) in cash and cash equivalents** | **( 12,996,834 )** | ( 538,686 ) | **11,562,692** | ( 36,085 ) |
| Cash and cash equivalents, beginning of period | **24,739,454** | 1,141,168 | **179,928** | 638,567 |
| **Cash and cash equivalents, end of period** | **11,742,620** | 602,482 | **11,742,620** | 602,482 |

## CONSOLIDATED BALANCE SHEETS

| | (UNAUDITED) JULY 31, 2007 $ | OCTOBER 31, 2006 (Restated – note 7) $ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents (Bear interest of 4.20%) | **11,742,620** | 179,928 |
| Temporary investments | **24,073,127** | 11,950,905 |
| Accounts receivable | **255,757** | 981,897 |
| Investment tax credits receivable | **863,193** | 480,252 |
| Prepaid expenses | **476,620** | 215,385 |
| **Total current assets** | **37,411,317** | 13,808,367 |
| **Long-term investments** | **125,305** | 6,188,361 |
| **Property, plant and equipment** | **1,229,252** | 1,080,067 |
| **Intangibles** | **4,172,082** | 270,626 |
| | **42,937,956** | 21,347,421 |
| **Liabilities and Shareholders' Equity** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | **1,885,667** | 1,642,781 |
| **Total current liabilities** | **1,885,667** | 1,642,781 |
| **Shareholders' equity** | | |
| Capital stock (note 6) | **87,441,101** | 59,697,388 |
| Contributed surplus (note 6) | **5,772,457** | 4,530,593 |
| Deficit | **( 52,161,269 )** | ( 44,523,341 ) |
| | **41,052,289** | 19,704,640 |
| | **42,937,956** | 21,347,421 |

AS OF JULY 31, 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 commercialization 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, commercialization 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.

### *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.

### *4. New Accounting Policies (Cont'd)*

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.

### *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 July 31, 2007 $ | Liabilities as at July 31, 2007 $ | Total restructuring charges $ |
|---|---|---|---|
| Retention bonuses and termination benefits | 636,144 | --- | 636,144 |
| Legal and outplacement fees | 71,956 | 80,585 | 152,541 |
| Provision for vacated leased premises | 51,393 | 72,607 | 124,000 |
| **Total** | **759,493** | **153,192** | **912,685** |

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.

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

| | (UNAUDITED) JULY 31, 2007 $ | OCTOBER 31, 2006 $ |
|---|---|---|
| **Issued and fully paid** | | |
| 40,950,786 common shares (34,451,142 as of October 31, 2006) | **87,441,101** | 59,697,388 |

| | JULY 31, 2007 | |
|---|---|---|
| | **Number of shares** | **Amount $** |
| **Capital stock** | | |
| Balance, beginning of period | 34,451,142 | 59,697,388 |
| Issuance of common shares | 6,499,644 | 27,726,493 |
| Portion previously recognized to contributed surplus as part of stock-based compensation | --- | 17,220 |
| Balance, end of period | 40,950,786 | 87,441,101 |

During the quarter ended July 31, 2007, the Company issued 567,908 common shares at a price of $4.30 per share for a total value of $2,442,000 as a consideration for the acquisition of intangibles. This issue of common shares did not involve any cash consideration and is not presented in the statement of cash flows.

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 July 31, 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.

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

### Contributed Surplus

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

| **Contributed Surplus** | **Amount** |
|---|---|
| | **$** |
| Balance as of October 31, 2006 | 4,530,593 |
| Stock-based compensation expense | 1,259,084 |
| Stock options exercised | ( 17,220 ) |
| Balance as of July 31, 2007 | 5,772,457 |

## *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 |
|---|---|---|
| | **$** | $ |
| **Loss from discontinued operations** | | |
| Revenues | --- | 563,852 |
| Cost of sales | --- | ( 455,187 ) |
| Gross margin | --- | 108,665 |
| General and administrative expenses | --- | 155,226 |
| Selling and business development expenses | --- | 130,120 |
| Depreciation of property, plant and equipment | --- | 7,935 |
| Financial expenses | --- | 21,034 |
| **Net loss from discontinued operations** | --- | ( 205,650 ) |
| **Cash flows related to discontinued operations** | | |
| Operating activities | --- | ( 92,299 ) |
| **Net decrease in cash and cash equivalents from discontinued activities** | --- | ( 92,299 ) |

## *8. Financial Instruments*

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

| | Period ended | | | |
|---|---|---|---|---|
| | **July 31, 2007** | | October 31, 2006 | |
| | **Book value (amortized cost)** | **Fair value** | Book value (amortized cost) | Fair value |
| | **$** | **$** | $ | $ |
| **Temporary and long-term investments** | | | | |
| Temporary investments | **24,073,127** | **24,038,137** | 11,950,905 | 11,940,581 |
| Long-term investments | **125,305** | **124,383** | 6,188,361 | 6,180,669 |

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.

## *10. Subsequent Event*

On August 16, 2007, DiagnoCure announced it has acquired Catalyst Oncology, of Worcester, MA, and its lead proprietary prognostic tests for breast, colon and potentially other cancers. The terms of the agreement call for an upfront payment of approximately US$3 million comprised of cash and DiagnoCure shares followed by potential future payments related to the achievement of specific milestones. The financial impact of this transaction will be accounted for in the fourth quarter of fiscal 2007.