

2007 ANNUAL REPORT

The logo for Diagno Cure features the word "Diagno" in white text inside a teal rounded rectangle, followed by the word "Cure" in black text to its right.

Diagno Cure

Empowering
Oncology Decisions

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

THE FOLLOWING INFORMATION DEALS WITH THE COMPANY'S OPERATING RESULTS AND FINANCIAL POSITION AS AT OCTOBER 31, 2007, AND THEREFORE SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES AT THAT SAME DATE AND INCLUDED IN THIS ANNUAL REPORT. THESE MANAGEMENT COMMENTS WERE PREPARED TO EXPLAIN THE COMPANY'S OPERATIONS, PERFORMANCE AND FINANCIAL POSITION AS AT OCTOBER 31, 2007. THEY COMPARE THIS FISCAL YEAR'S OPERATING RESULTS AND CASH POSITION WITH THOSE OF THE FISCAL YEAR ENDED OCTOBER 31, 2006. THE INFORMATION CONTAINED HEREIN IS UP TO DATE AS OF JANUARY 14, 2008.

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 molecular 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 molecular marker for prostate cancer in return for US\$9 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 mid 2006, 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.

On April 30, 2007, DiagnoCure secured from Targeted Diagnostics & Therapeutics, Inc. (TDT) the exclusive worldwide rights to two high-value molecular tests for colorectal cancer and an option to lease a CLIA-certified U.S. service laboratory to commercialize molecular cancer diagnostics tests. This agreement with TDT significantly strengthened the Company's position in molecular diagnostics for cancer. The Company plans to start selling one of the tests, the GCC colorectal cancer staging test performed on lymph nodes, in 2008.

On August 16, 2007, DiagnoCure announced it had acquired Catalyst Oncology, Inc. 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 HIGHLIGHTS

As noted above, Gen-Probe, DiagnoCure's exclusive sub-licensee for diagnostic applications of the PCA3 molecular marker, is now distributing the PCA3 test in the U.S. and Europe. Since Gen-Probe first launched the PCA3, sales amounted to approximately US\$1,660,000. Given the recent release of the test 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 test 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 test 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 \$1,262,685 in 2007. 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 GCC marker in April 2007, DiagnoCure began the optimization and refinement toward commercialization of the GCC colorectal cancer tests, this project now being the main focus of the Company's R&D operations. We have minimized, for the interim, any internal R&D work DiagnoCure was doing on other markers to concentrate on GCC and the additional Shc markers recently acquired.

In the second 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 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 or in-license additional cancer biomarkers, and integrate high-value tests into reference laboratories, thereby expanding and diversifying our product portfolio.

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, 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 test 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 MD 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 correlated with tumor volume but not with prostate size. In addition, preliminary data indicated that higher PCA3 scores correlated with greater risk of "significant" prostate cancer and that PCA3 provided 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 validated 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 lease a CLIA-certified U.S. service laboratory to commercialize molecular cancer diagnostic tests. The two tests for colorectal cancer in-licensed from Targeted Diagnostics & Therapeutics, Inc. (TDT) of Philadelphia, PA, are based on the detection of the products of GCC (guanylyl cyclase C), a protein that occurs normally in cells lining the intestinal tract, 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. These results led the National Institutes of Health (NIH) to provide more than US\$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 on these results is expected later this year.

While the total value of the transaction was not disclosed for competitive reasons, DiagnoCure's initial payment terms included 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 174,000 Americans and Canadians are diagnosed with colorectal cancer each year, with a post-surgery recurrence rate close to 50 percent. About 61,000 die of the disease annually, making it the second leading cause of cancer-related deaths. DiagnoCure intends to launch the GCC colorectal cancer staging test in 2008. The potential market for this product includes the approximately 97,000 Americans and Canadians each year who are thought to be cured after their colorectal surgery. Experience shows that 30% of them will suffer a recurrence of the disease with a very high probability of death.

On August 16, 2007, DiagnoCure announced it had acquired Catalyst Oncology, Inc. 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.

OVERALL PERFORMANCE

DiagnoCure has continued its growth and met its stated objectives in order to fulfil its new mission to be the leading developer and provider of high-value diagnostics for the detection and management of cancer. To this end, DiagnoCure adjusted its business plan and mission and discontinued the Company's research initiatives in cell-based assays to provide additional resources to a highly focused effort in the development of exciting new molecular diagnostic tests directed at the high-value oncology market place.

DiagnoCure's overall performance must be evaluated based on its ability to identify or acquire new promising products and markers and to develop high quality diagnostic tests from these discoveries or acquisitions. Continued evidence of our successes in this strategy during the past fiscal year are the announcement of the acquisition of worldwide rights to two high-value molecular tests for colorectal cancer, licensed from Targeted Diagnostics & Therapeutics, Inc., and the acquisition of Catalyst Oncology, Inc. and its lead proprietary prognostic tests for breast, colon and potentially other cancers.

In addition to the acquisition and licensing initiatives identified above, overall performance is further evaluated based on the ability of the Company to finance its business strategy. In the second quarter, 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 or in-licence additional cancer biomarkers, and integrate high-value tests into reference laboratories, thereby expanding and diversifying its product portfolio.

2008 OUTLOOK

During 2008, the Company will pursue its new mission to become the leading developer and provider of high-value diagnostics for the detection and management of cancer, which are clinically useful and may enable identification and better treatment decisions of different cancers. Molecular diagnostics is the fastest growing segment of the *in vitro* diagnostics market which, while changing the way diseases are treated, is growing at a CAGR of 16.5%, with clinical validation of molecular tests and associated biomarkers creating new markets and replacing some existing IVD assays. Further, the genomics and proteomics era has generated a new source of biomarkers that are increasingly gaining clinical acceptance (e.g. PCA3 for prostate cancer, GCC for colorectal cancer). Significant growth is especially expected in the oncology segment (CAGR of 36%). Although high investments are necessary to be an effective player in this field, return on investment remains very positive as the products carry a high-value pricing.

The Company intends to open a CLIA-certified service laboratory in the United States to start offering proprietary tests to physicians and their patients. In particular, DiagnoCure will launch its first test for the staging of colorectal cancer based on the GCC gene acquired in 2007 from Targeted Diagnostics & Therapeutics, Inc.

Regarding its ImmunoCyt™/uCyt+™ bladder cancer test, the Company will continue actively searching for a strong outside partner to facilitate the continued growth of the product, while ensuring that customers receive quality products, technical support and services during the transition.

Through 2008, the Company will advance the development of its lead Shc proteins-based proprietary prognostic tests for breast, colon and potentially other cancers acquired from Catalyst Oncology, Inc. and conduct additional validating clinical studies.

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

Finally, DiagnoCure will continue to work closely and actively support Gen-Probe in its commercialization of the PCA3 test.

OPERATING RESULTS

Total revenues for 2007 were \$3,467,425 compared with \$5,030,853 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 \$1,508,795 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 on PCA3 sales were \$127,843 for 2007 compared with \$11,944 for 2006. Sales of DiagnoCure's bladder cancer test, ImmunoCyt™/uCyt+™, were \$352,351 for 2007 versus \$378,327 for the same period a year ago. There were no sales of uPM3™ by DiagnoCure in 2007. In mid 2006, DiagnoCure had withdrawn its uPM3™ test from the market when Gen-Probe began to sell its version of the PCA3 test. Sales of the DiagnoCure developed uPM3™ ASR prostate cancer test for 2006 were \$376,660. Also in 2007, DiagnoCure sold less clinical samples to Gen-Probe, for an amount of \$80,412 in 2007 compared with \$258,418 in 2006, indicating the completion of their R&D testing.

Interest income increased \$407,871 to \$1,194,879 for 2007 compared with \$787,008 for the same period of 2006. The increase is attributable to the net proceeds of \$23,353,098 received in April 2007 from the public offering of 5,850,000 common shares at a price of \$4.30 each (see section *Use of Proceeds from April 2007 Financing*).

Cost of sales decreased \$321,230 from \$585,515 for 2006 to \$264,285 for 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 were relatively stable at \$9,545,873 for 2007 compared with \$9,604,525 in 2006. Total operating expenses for the year, including the non-cash charge for stock-based compensation and restructuring charges, were \$12,359,359 compared with \$10,936,924 in 2006, primarily as a result of the following:

- Research and development expenses, net of investment tax credits, decreased by \$1,091,791 from \$4,046,163 for 2006 to \$2,954,372 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 spending and staff in research and development.
- General and administrative expenses increased from \$2,197,229 for 2006 to \$2,405,951 for the same period in 2007. This increase of \$208,722 is attributable to the severance paid to the CFO upon his departure from the Company, and to the expenses related to the special meeting of shareholders.

- Selling and business development expenses increased by \$494,082 from \$2,933,477 in 2006 to \$3,427,559 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 2007 were \$1,262,685, 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 \$218,402, from \$1,332,399 for 2006 to \$1,550,801 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 \$776,570 charge for 2007.

Based on the above, for the year ended October 31, 2007, DiagnoCure recorded a net loss before stock-based compensation and restructuring charges of \$6,342,733, compared with \$5,159,187 for the same period of 2006, an increase of \$1,183,546. The net loss from continuing operations including stock-based compensation and restructuring charges was \$9,156,219 or \$0.24 per share for 2007, compared with \$6,491,586 or \$0.19 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 2007 loss also reflects the steps taken to focus the Company's vision on high-value diagnostic tests, by acquiring and in-licensing additional cancer biomarkers and establishing a reference laboratory focused on delivering these tests to the market.

As at October 31, 2007, cash, short-term investments and long-term investments stood at \$32,867,526, up \$14,548,332 from the \$18,319,194 reported as at October 31, 2006. This amount represents an average cash usage of only \$469,000 per month for the year. On November 20, 2006, the Company also received the final contracted calendar payment of US\$2 million from Gen-Probe. Management is satisfied that it has adequate cash resources to execute its business plan in the near-term and mid-term.

Selected Annual Information

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

	2007 \$	2006 \$	2005 \$
Sales	432,763	1,013,405	1,054,110
Revenues under research and licence agreement	1,839,783	3,230,440	3,997,806
Interest	1,194,879	787,008	723,357
Total revenues	3,467,425	5,030,853	5,775,273
Cost of sales	264,285	585,515	575,099
Operating expenses (before stock-based compensation and restructuring charges)	9,545,873	9,604,525	6,986,789
Stock-based compensation	1,550,801	1,332,399	1,262,034
Restructuring charges (note 5)	1,262,685	—	—
Operating expenses	12,359,359	10,936,924	8,248,823
Net loss before discontinued operations	(9,156,219)	(6,491,586)	(3,048,649)
Loss from discontinued operations	—	(595,044)	(1,480)
Net loss	(9,156,219)	(7,086,630)	(3,050,129)
Basic and diluted loss per share			
Continuing operations	(0.24)	(0.19)	(0.09)
Discontinued operations	—	(0.02)	(0.00)
Basic and diluted net loss per share	(0.24)	(0.21)	(0.09)
Weighted average number of common shares outstanding	38,422,096	34,401,548	34,232,702

Total Assets and Shareholders' Equity

Total assets amounted to \$43,585,440 as of October 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 \$0.96 as of October 31, 2007 compared with \$0.57 per Common Share as of October 31, 2006.

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

	2007 \$	2006 \$	2005 \$
Total assets before discontinued operations	43,585,440	21,347,421	26,324,607
Assets related to discontinued operations	---	---	571,032
Total assets	43,585,440	21,347,421	26,895,639
Shareholders' equity	40,191,471	19,704,640	25,313,138
Number of common shares outstanding	41,718,463	34,451,142	34,310,910

Cash Position and Financing Sources

Cash flows required from operating activities for 2007 amounted to \$5,628,014 compared with \$3,517,577 for the same period of 2006, an increase of \$2,110,437, which is attributable to an increase of the 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 flows of \$17,383,719 for 2007 while, for the same period of 2006, investing activities generated cash flows of \$3,298,342. The \$17,383,719 required in 2007 are attributable to the investment done related to the cash received from the April 2007 public offering. In 2007, acquisition of tangible and intangible capital assets amounted to \$3,307,045, relating mostly to the GCC license and Catalyst Oncology, Inc. acquisition compared with \$527,615 for 2006.

Financing activities, primarily from the issue of common shares relative to the April 2007 public offering, generated cash flows of \$23,483,391 for 2007, compared with \$145,733 for the corresponding period of 2006.

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

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

Cash Flows

[Data shown below come from the audited consolidated financial statements of the Company]

	2007 \$	2006 \$	2005 \$
Cash flows related to operating activities	(5,628,014)	(3,517,577)	(3,509,060)
Cash flows related to investing activities	(17,383,719)	3,298,342	3,356,664
Cash flows related to financing activities	23,483,391	145,733	221,329

Issued and Outstanding Share Capital

As at January 14, 2008, the Company had 41,720,130 common shares and 3,409,249 outstanding options to acquire common shares.

RESULTS OF FOURTH QUARTER

Total revenues for the fourth quarter of 2007 were \$495,844 compared with \$1,193,775 for the fourth quarter of 2006. In the fourth quarter of 2007, DiagnoCure had no revenue recognition of the continued calendar payments and research agreement from Gen-Probe compared with \$818,409 from the prior year fourth quarter. 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 on PCA3 sales were \$43,787 for the fourth quarter of 2007 compared with \$6,480 for the fourth quarter of 2006. Sales of DiagnoCure's bladder cancer test, ImmunoCyt™/uCyt+™, were down \$31,717 to \$80,218 for the fourth quarter of 2007 versus \$111,935 for the same period a year ago. There were no sales of uPM3™ by DiagnoCure in the fourth quarter of 2007. In mid 2006, DiagnoCure had withdrawn its uPM3™ test from the market when Gen-Probe began to sell its version of the PCA3 test. Also in this quarter, DiagnoCure sold less clinical samples to Gen-Probe, indicating the completion of their R&D testing, for an amount of \$13,911 compared with \$61,583 in 2006.

Interest income increased \$162,559 to \$357,928 for the fourth quarter of 2007 compared with \$195,369 for the fourth quarter of 2006. The increase is attributable to the interest generated on the net proceeds of \$23,353,098 received from the April 2007 financing.

Cost of sales decreased \$44,326 from \$112,792 for the fourth quarter of 2006 to \$68,466 for the fourth quarter of 2007. This decrease is related to lower actual product sales, as noted above, for ImmunoCyt™/uCyt+™ and clinical samples sales.

Based on the above, for the fourth quarter of 2007, DiagnoCure recorded a net loss of \$3,320,193, or \$0.09 per share, compared with a net loss of \$1,718,318, or \$0.06 per share, for the fourth quarter of 2006. These results are in line with management expectations and reflect the steps taken to focus the Company's vision on high-value diagnostic tests, by acquiring and in-licensing additional cancer biomarkers and establishing a reference laboratory focused on delivering these tests to the market.

At the end of the quarter, cash, short-term investments and long-term investments were \$32,867,526, up \$14,548,332 from the \$18,319,194 reported as at October 31, 2006. This increase is attributable to the net proceeds of \$23,353,098 from the April 2007 financing. This represents an average monthly cash burn of only \$469,000 for the year. Management is satisfied that it has adequate cash resources to execute its business plan in the near-term and mid-term.

Summary of Quarterly Results

(Unaudited)

	Quarters Ended 2007			
	January 31	April 30	July 31	October 31
Total revenues	1,176,577	1,232,559	562,445	495,844
Cost of sales	84,462	64,524	52,474	68,466
Operating expenses (before restructuring charges)	2,636,910	2,358,127	2,698,425	3,397,571
Net loss before restructuring charges	(1,544,795)	(1,190,092)	(2,188,454)	(2,970,193)
Restructuring charges	912,685	---	---	350,000
Net loss	(2,457,480)	(1,190,092)	(2,188,454)	(3,320,193)
Basic and diluted loss per share	(0.07)	(0.03)	(0.05)	(0.09)

	Quarters Ended 2006 (restated)			
	January 31	April 30	July 31	October 31
Total revenues	1,405,313	1,263,057	1,170,037	1,192,446
Cost of sales	188,981	179,882	104,041	112,611
Operating expenses	2,862,532	2,688,389	2,587,848	2,798,155
Net loss before discontinued operations	(1,646,200)	(1,605,214)	(1,521,854)	(1,718,318)
Net loss from discontinued operations	(52,448)	(61,038)	(92,164)	(389,394)
Net loss	(1,698,648)	(1,666,252)	(1,614,018)	(2,107,712)
Basic and diluted loss per share	(0.05)	(0.05)	(0.05)	(0.06)

Off-Balance Sheet Arrangements

As at October 31, 2007, DiagnoCure has not entered into any off-balance sheet arrangement except for premises rental contracts described in the "Contractual Obligations" section of the present report.

Use of Proceeds from July 2004 Financing

In July 2004, the Company raised, by way of short form prospectus, net proceeds of \$22,332,108 from the issuance of 5 million common shares, at \$4.75 per share. At that time, estimates were made as to the use of these proceeds. As at October 31, 2007, approximately \$16.20 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 receives from Gen-Probe Inc., interest income and gross margin realized on our sales.
- Additional funds over those required to fund items above will be taken from the proceeds of the July 2004 public offering.

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

Description of Use of Proceeds	Estimated total use of proceeds as disclosed at time of July 2004 public offering	Amount spent as at October 31, 2007
Improve the uPM3™ prostate cancer test, develop complementary applications and examine the therapeutic potential of the PCA3	\$4.00 million	\$3.90 million
Support the commercialization and expand the automation of the 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	\$5.20 million
Acquire complementary technologies and uses for other general corporate purposes	\$5.33 million	\$4.50 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 October 31, 2007, approximately \$5.97 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 October 31, 2007
Acquire and integrate or partner with one or more reference laboratories	\$0.97 million
Expand the product portfolio	\$0.50 million
Acquire or in-license additional cancer biomarkers and for product development purposes.	\$4.50 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 prepared using careful judgment within the reasonable limits of materiality and within the framework of the accounting policies described in Note 2 of the accompanying notes to the consolidated financial statements. The Company periodically evaluates its estimates and assumptions based on its past experience and other pertaining factors. The following paragraphs give details on the use of estimates and hypotheses used.

Investment Tax Credits

The Company incurred research and development expenses, which are eligible for investment tax credits. These credits, treated as a reduction to research and development expenses, amounted to \$493,167 in fiscal year 2007 (\$589,192 in fiscal year 2006) and are based on management estimates of amounts to be recovered. While these amounts are subject to review by tax authorities, management believes that its estimate of these amounts is reasonable.

Impairment of Long-Term Assets

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

Contractual Obligations

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

Required Payment Per Year

Contractual obligations	Total	Year one	Year two and three	Year four and five	Year six and up
Lease agreements	\$2,929,906	\$543,711	\$1,126,626	\$609,738	\$649,831

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 \$328,088.

On December 5, 2007, DiagnoCure signed a lease of 11,329 sq. ft. in a building where its U.S. lab activities will be located, under a lease expiring in 2015. Annual payment for the coming year under this lease agreement amounts to \$215,263.

During the year ended October 31, 2007, the Company entered into licence agreements with third parties regarding certain intellectual

Stock-Based Compensation Plan

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

Derivatives

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

property rights. Those agreements are for an initial term of 10 years. The Company agreed to pay royalties on all products sold derived from the underlying technologies and milestone payments after achievement of the respective milestones, if applicable. In addition, according to those licence agreements, the Company will have to pay the following additional considerations unless it uses its right to terminate the agreements: \$105,000 (US\$100,000) in cash on January 31, 2008, \$262,500 (US\$250,000) in cash and \$1,050,000 (US\$1,000,000) either in cash or common shares of the Company, at its sole discretion, on April 30, 2008.

Recently Published Accounting Changes

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

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

Procedures and Controls Regarding Disclosure

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

An evaluation was completed under their supervision in order to measure the effectiveness of the controls and procedures relating to the preparation of disclosure documentation, including this Management's Discussion and

Analysis, the Annual Report, the Annual Information Form and the Management Proxy Circular. Based upon this evaluation, the President and Chief Executive Officer, and the Director, Finance and Administration of the Company concluded that disclosure controls and procedures were effective as at the end of the fiscal year ended October 31, 2007, and more specifically, that the design of these controls and procedures provides reasonable assurance that important information relating to the Company, including its consolidated subsidiaries, is communicated to them in a timely manner for the preparation of this disclosure documentation.

Risk Factors

The Company's activities are subject to some risk factors that generally affect biotechnology companies. The profitability of the Company will depend upon its ability to successfully develop its products and technologies, to preserve its intellectual property rights, to maintain its highly qualified personnel, to conclude strategic alliances, research and development partnerships, strategic out-licensing agreements, to obtain satisfactory results as regards clinical studies and to obtain regulatory approvals required to commercialize its products. These activities require important financial investments. Therefore, the Company's ability to obtain 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 audited consolidated financial statements and accompanying notes and should therefore be read in conjunction with that information. The comments and analysis may include objectives, projections, estimates, expectations and forecasts of the Company or management that are forward-looking. By their very nature, forward-looking statements are based on expectations and hypothesis and also involve risk and uncertainties, known and unknown, many of which are beyond DiagnoCure's control. As a result, readers are cautioned

not to place undue reliance on these forward-looking statements. The forward-looking statements regarding the outcome of research and development projects and future revenues are based on management expectations. In addition, the reader is referred to the applicable general risk and uncertainties described in DiagnoCure's most recent Annual Information Form under the heading "Risk Factors". DiagnoCure undertakes no obligation to publicly update or revise any forward-looking statements contained herein.

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

[Signed]

John C. Schafer
President and Chief Executive Officer

[Signed]

Frédéric Boivin
Director, Finance and Administration

Québec, Canada
January 14, 2008

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

Québec, Canada
January 14, 2008

[Signed]

John C. Schafer
President and Chief Executive Officer

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

The consolidated financial statements for the years ended October 31, 2007 and 2006, have been audited by Ernst & Young LLP, the external auditors appointed by the shareholders, in accordance with Canadian generally accepted auditing standards. Moreover, the auditors have access to the Audit Committee at all times.

[Signed]

Frédéric Boivin
Director, Finance and Administration

AUDITORS' REPORT

To the Shareholders of

DiagnoCure Inc.:

We have audited the consolidated balance sheets of DiagnoCure Inc. as at October 31, 2007 and 2006 and the consolidated statements of deficit, operations and comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance

whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Québec, Canada
November 22, 2007

CONSOLIDATED BALANCE SHEETS

As at October 31

	2007 \$	2006 \$
ASSETS		
Current assets		
Cash and cash equivalents	651,586	179,928
Temporary investments [note 7]	24,575,456	11,950,905
Accounts receivable [note 8]	272,523	981,897
Investment tax credits receivable [note 13]	485,402	480,252
Prepaid expenses	213,588	215,385
Total current assets	26,198,555	13,808,367
Long-term investments [note 9]	7,640,484	6,188,361
Property, plant and equipment [note 10]	1,162,745	1,080,067
Intangibles [note 11]	8,583,656	270,626
	43,585,440	21,347,421
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	2,288,677	1,642,781
Total current liabilities	2,288,677	1,642,781
Future income tax liabilities [notes 4 and 14]	1,105,292	—
Shareholders' equity		
Capital stock [note 12]	89,609,479	59,697,388
Contributed surplus [note 12]	6,063,454	4,530,593
Deficit	(55,481,462)	(44,523,341)
	40,191,471	19,704,640
	43,585,440	21,347,421

Commitments [note 17]

See accompanying notes

On behalf of the Board:

[Signed]

John C. Schafer
Director

[Signed]

Yves Fradet
Director

CONSOLIDATED STATEMENTS OF DEFICIT

For the years ended October 31

	2007	2006
	\$	\$
Deficit, beginning of year	(44,523,341)	(37,436,711)
Net loss	(9,156,219)	(7,086,630)
Common shares issue expenses [note 12]	(1,801,902)	—
Deficit, end of year	(55,481,462)	(44,523,341)

See accompanying notes

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

For the years ended October 31

	2007 \$	2006 \$
Revenues		
Sales	432,763	1,013,405
Cost of sales	(264,285)	(585,515)
Gross margin	168,478	427,890
Revenue under research and license agreement	1,839,783	3,230,440
Interest	1,194,879	787,008
	3,203,140	4,445,338
Operating expenses [note 16]		
Research and development expenses	3,447,539	4,635,355
Investment tax credits	(493,167)	(589,192)
	2,954,372	4,046,163
Selling and business development expenses	3,427,559	2,933,477
General and administrative expenses	2,405,951	2,194,990
Stock-based compensation	1,550,801	1,332,399
Restructuring charges [note 5]	1,262,685	—
Depreciation of property, plant and equipment	404,264	361,733
Amortization of intangibles	238,466	42,635
Write-down of intangibles	82,757	—
Financial expenses	32,504	25,527
	12,359,359	10,936,924
Loss from continuing operations before income taxes	(9,156,219)	(6,491,586)
Provision for income taxes	—	—
Loss from continuing operations	(9,156,219)	(6,491,586)
Loss from discontinued operations [note 6]	—	(595,044)
Net loss and comprehensive loss	(9,156,219)	(7,086,630)
Basic and diluted loss per share from continuing operations [note 12]	(0.24)	(0.19)
Basic and diluted loss per share from discontinued operations [note 12]	—	(0.02)
Basic and diluted net loss per share	(0.24)	(0.21)
Weighted average number of common shares outstanding	38,422,096	34,401,548

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended October 31

	2007 \$	2006 \$
OPERATING ACTIVITIES		
Loss from continuing operations	(9,156,219)	(6,491,586)
Adjustment for:		
Stock-based compensation	1,550,801	1,332,399
Depreciation and amortization	642,730	404,368
Write-down of intangibles	82,757	—
	(6,879,931)	(4,754,819)
Net change in non-cash working capital items	1,251,917	1,237,242
Cash flows related to operating activities	(5,628,014)	(3,517,577)
INVESTING ACTIVITIES		
Change in investments	(14,076,674)	3,825,957
Acquisition of property, plant and equipment	(486,942)	(467,404)
Acquisition of intangibles [note 11]	(1,706,483)	(60,211)
Business acquisition [note 4]	(1,113,620)	—
Cash flows related to investing activities	(17,383,719)	3,298,342
FINANCING ACTIVITIES		
Issue of common shares [notes 4 and 12]	25,285,293	145,733
Issue expenses related to common shares	(1,801,902)	—
Cash flows related to financing activities	23,483,391	145,733
Net increase (decrease) in cash and cash equivalents from continuing operations	471,658	(73,502)
Net decrease in cash and cash equivalents from discontinued operations [note 6]	—	(385,137)
Net increase (decrease) in cash and cash equivalents for the year	471,658	(458,639)
Cash and cash equivalents, beginning of year	179,928	638,567
Cash and cash equivalents, end of year	651,586	179,928

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Incorporation and Nature of Business

The Company was incorporated on December 8, 1994 under Part 1A of the Companies Act (Québec). DiagnoCure Inc. is a biotechnology company which specializes in the development and commercialization of cancer diagnostic tests.

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

2. Significant Accounting Policies

Basis of financial statement presentation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and those of its wholly owned subsidiaries, 9184-6766 Québec Inc., Catalyst Oncology, Inc., SAMBA Technologies SAS (until October 31, 2006), Urotech Pharma Inc., 9161-6722 Québec Inc. and Urovac R&D Inc. All significant intercompany transactions and balances have been eliminated upon consolidation.

Use of estimates

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

Measurement uncertainty

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Significant areas requiring the use of estimates include the valuation of stock-based compensation and the estimation of future income tax asset valuation allowances. Actual results could differ from those estimates.

Cash equivalents

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

2. Significant Accounting Policies (Cont'd)

Temporary and long-term investments

Investments consisting of commercial papers, mutual funds and short-term bonds are recorded at amortized cost using the effective interest rate method after their initial fair value measurement. In 2007, these investments are classified as financial assets held to maturity.

Property, plant and equipment and intangibles

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

Property, plant and equipment	
Leasehold improvements	Lease term
Office furniture and equipment	5 years
Laboratory equipment	5 years
Computer hardware and software	3 years
Intangibles	
Licenses and patents	Period not exceeding 10 years

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

Government assistance

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

Revenue recognition

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

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

Interest income is recognized on an accrual basis.

2. Significant Accounting Policies (Cont'd)

Income taxes

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

Research and development

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

Foreign currency translation

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

Earnings per share

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

Impairment of long-lived assets

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

2. Significant Accounting Policies (Cont'd)

Stock-based compensation

The fair value of each option granted to employees and directors since November 1st, 2002, is estimated on the date of the grants using the Black-Scholes option pricing model and is amortized as compensation expense over the graded vesting schedule of the granted option which is three years as if the grant were a series of award rather than a single award. These expenses are included in the stock-based compensation expense and credited to the contributed surplus. When options are exercised, the proceeds received by the Company, together with the fair value amount in contributed surplus, are credited to capital stock.

Disposal of long-lived assets and discontinued operations

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

3. New Accounting Policies

The Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA) as at November 1st, 2006:

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 and accounts payable are classified as "Other Financial Assets" and "Other Financial Liabilities", respectively. 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.

3. New Accounting Policies (Cont'd)

- 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.

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

These new standards have to be applied without restatement of prior year 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 statements.

4. Business Acquisition

On August 16, 2007, the Company acquired all the issued and outstanding shares of Catalyst Oncology, Inc. This acquisition has been recorded using the purchase method. Catalyst Oncology, Inc. has no operating activities for the year ended October 31, 2007. The final allocation of the purchase price at the fair value of the assets acquired and liabilities assumed was as follows:

	Catalyst Oncology, Inc. \$
Assets acquired	
Intangible assets	5,251,793
Liabilities assumed	
Current liabilities	866,023
Future income tax liabilities	1,105,292
Fair value of assets acquired and liabilities assumed	3,280,478
Consideration	
Cash	1,113,620
Common shares issued [note 12]	2,166,858
Total consideration	3,280,478

The intangible assets acquired consist of licence agreement and research in progress.

In addition, earn out payments might have to be disbursed either in cash or by the issuance of common shares by the Company depending on the net revenue earned from the technology acquired. The earn out payments might be from 37.5% to 50.0% of these net revenue for the next two years.

5. Restructuring Charges

On December 13, 2006, the Company announced a shift in its 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. The non-recurring restructuring charges of \$1,262,685 are detailed as follows:

	Items paid as at October 31, 2007 \$	Liabilities as at October 31, 2007 \$	Total restructuring charges \$
Retention bonuses and termination benefits	636,144	—	636,144
Legal and outplacement fees	83,802	68,739	152,541
Provision for vacated leased premises	88,112	385,888	474,000
	808,058	454,627	1,262,685

No additional charges related to restructuring are expected for the 2008 financial year.

6. 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 resolved in September 2006 to dispose of the software development segment of its business comprised of image analysis and telemedicine in France. Accordingly, all revenues, expenses, assets and liabilities related to this business segment were classified as discontinued operations. On November 3, 2006, the Company announced the closing of Samba Technologies SAS and the beginning of the liquidation process of this subsidiary.

	2007 \$	2006 \$
Loss from discontinued operations		
Revenues	—	626,800
Cost of sales	—	(565,296)
Gross margin	—	61,504
General and administrative expenses	—	(270,923)
Selling and business development	—	(169,348)
Depreciation and impairment charge of property, plant and equipment	—	(61,199)
Financial expenses	—	(24,064)
Operating loss	—	(464,030)
Other costs related to the closing of business segment	—	(131,014)
Loss from discontinued operations	—	(595,044)
Cash flows related to discontinued operations		
Operating activities	—	(362,034)
Investing activities	—	(23,103)
Net decrease in cash and cash equivalents from discontinued activities	—	(385,137)

7. Temporary Investments

	2007		2006	
	Book value \$	Weighted average effective rate %	Book value \$	Weighted average effective rate %
Bonds	14,474,469	4.30	10,753,020	3.64
Commercial papers	10,100,987	4.51	1,197,885	3.36
	24,575,456		11,950,905	

The commercial papers held by the Company as at October 31, 2007 consist of investments of \$6,148,743 and \$3,952,244 issued respectively by Farm Credit Corporation and Canadian Wheat Board. These investments are guaranteed by the government of Canada.

8. Accounts Receivable

	2007 \$	2006 \$
Research and license agreement	43,787	754,870
Accounts receivable – Trade	169,891	157,095
Sales taxes	58,845	69,932
	272,523	981,897

The accounts receivable denominated in US dollars amount to \$67,777 (US\$69,079) as at October 31, 2007 (\$848,742 [US\$755,787] as at October 31, 2006). The accounts receivable denominated in euros amount to \$79,169 (54,920 euros) as at October 31, 2007 (\$38,078 [26,868 euros] as at October 31, 2006).

9. Long-Term Investments

	2007		2006	
	Book value \$	Weighted average effective rate %	Book value \$	Weighted average effective rate %
Bonds	7,640,484	4.58	6,188,361	4.21

The long-term investments are maturing at various dates from November 2008 to November 2010.

10. Property, Plant and Equipment

	2007		2006	
	Cost \$	Accumulated depreciation \$	Cost \$	Accumulated depreciation \$
Leasehold improvements	1,234,437	1,139,434	1,221,266	1,084,670
Office furniture and equipment	342,558	293,954	328,354	276,574
Laboratory equipment	2,617,389	1,754,976	2,331,258	1,505,663
Computer hardware and software	545,556	388,831	372,120	306,024
	4,739,940	3,577,195	4,252,998	3,172,931
Accumulated depreciation	3,577,195		3,172,931	
	1,162,745		1,080,067	

11. Intangibles

	2007 \$	2006 \$
Licenses and patents	9,094,149	459,896
Less: accumulated amortization	510,493	189,270
	8,583,656	270,626

Intangible assets consist of exclusive licences acquired from third parties with respect to the use of certain intellectual properties and professional fees incurred to date for obtaining patents and securing exclusive licences. These costs are amortized on a straight-line basis over the term of the patents or over the term of the licence agreements, which is 10 years.

12. Capital Stock

Authorized

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

Common, voting and participating shares.

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

	2007 \$	2006 \$
Issued and fully paid		
41,718,463 common shares [34,451,142 as at October 31, 2006]	89,486,979	59,697,388

	2007		2006	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance, beginning of year	34,451,142	59,697,388	34,310,910	59,532,811
Issuance of common shares	7,267,321	29,894,151	140,232	145,733
Portion previously recognized to contributed surplus as part of stock-based compensation	—	17,940	—	18,844
Balance, end of year	41,718,463	89,609,479	34,451,142	59,697,388

During the year ended October 31, 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.

During the same year, the Company also issued 83,736 common shares for a cash consideration of \$130,293 following the exercise of stock options.

Furthermore, the Company issued 765,697 common shares at a price of \$2.83 per share for a total value of \$2,166,858 and 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 Catalyst Oncology, Inc. and a licence, respectively.

The above two issues of common shares did not involve any cash consideration and are not presented in the statement of cash flows.

12. Capital Stock (Cont'd)

Stock options

The Company adopted a stock option plan for its managers, senior executives, employees and consultants under which a total of 7% of the Company outstanding common shares were reserved for issue. No stock options are granted for a period exceeding ten years and the exercise price of each stock option cannot be below the average market price of the five days preceding the grant. The stock options generally vest over a three-year period following the date of the grant.

The Company's outstanding stock options as at October 31, 2007 and 2006 and changes that occurred during the years then ended are as follows:

	2007		2006	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Options outstanding, beginning of year	2,977,125	2.61	2,187,689	2.17
Granted	237,500	3.16	940,000	3.38
Exercised	(83,736)	1.56	(140,232)	1.05
Cancelled or forfeited	(8,472)	3.67	(10,332)	2.35
Options outstanding, end of year	3,122,417	2.68	2,977,125	2.61
Options exercisable, end of year	2,060,746	2.29	1,697,091	1.97

Of the 3,122,417 options outstanding as at October 31, 2007, 875,000 options were issued outside of the plan.

The following table summarizes information relating to the stock options outstanding as at October 31, 2007:

Range of exercise prices	Options outstanding			Options exercisable	
	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
4.21 to 6.13	512,500	7.55	4.55	326,667	4.52
2.00 to 3.96	1,578,355	7.28	3.10	702,517	2.99
1.34 to 1.61	681,894	4.15	1.44	681,894	1.44
0.37 to 0.96	349,668	5.19	0.44	349,668	0.44
	3,122,417	6.41	2.68	2,060,746	2.29

12. Capital Stock (Cont'd)

Stock options (Cont'd)

During the period ended October 31, 2007, the Company granted 237,500 [940,000 in 2006] options to certain employees and directors. The weighted average fair value of stock options granted during this period amounted to \$2.39 [\$2.49 in 2006] 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:

	2007	2006
Risk-free interest rate	4.18%	4.02%
Expected life	8 years	8 years
Expected volatility in the market price of the share	71%	80%
Expected dividend yield	—	—

Contributed surplus

	2007	2006
	\$	\$
Balance, beginning of year	4,530,593	3,217,038
Stock-based compensation expense	1,550,801	1,332,399
Stock options exercised	(17,940)	(18,844)
Balance, end of year	6,063,454	4,530,593

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

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

Earnings per share

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

13. Investment Tax Credits Receivable

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

14. Income Taxes

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

	2007 \$	2006 \$
Combined statutory federal and provincial	2,931,800	2,067,500
Increase (decrease) in taxes recoverable resulting from:		
Unrecognized tax benefits of operating losses and other available deductions	(2,483,800)	(1,695,500)
Stock-based compensation not deductible	(497,000)	(424,000)
Tax credit not taxable in Québec	49,000	52,000
	—	—

The major components of future income tax are as follows:

	2007 \$	2006 \$
Future income tax assets		
Net operating losses carried forward	5,725,000	3,290,000
Net capital losses carried forward	163,000	—
Research and development expenditures	3,205,000	3,036,000
Revenue under research and license agreement	—	518,000
Provision for vacated leased premises	123,000	—
Share issue costs	524,000	181,000
Tax value of capital assets in excess of carrying values	5,332,000	4,008,000
Total future income tax assets	15,072,000	11,033,000
Valuation allowance	(15,072,000)	(11,033,000)
Net future income tax assets	—	—
Future income tax liabilities		
Future foreign income taxes	1,105,292	—

14. Income Taxes (Cont'd)

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

Year of loss	Amount		Year of expiry
	Federal \$	Québec \$	
October 31, 2001	2,600,000	161,000	2008
October 31, 2002	2,110,000	1,934,000	2009
October 31, 2003	2,743,000	2,626,000	2010
October 31, 2006	4,768,162	4,406,000	2026
October 31, 2007	7,876,000	7,609,000	2027
	20,097,162	16,736,000	

As at October 31, 2007, the deferred scientific research and experimental development expenses which could be used to reduce the Company's taxable income in future years, with no set expiry date, amounted to approximately \$11,153,000 at the federal level and \$17,349,000 at the Québec level.

15. Financial Instruments

Concentration of credit risk

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

As at October 31, 2007, a client represented 21% of the accounts receivable [84% in 2006].

Foreign currency risk

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

15. Financial Instruments (Cont'd)

Financial instruments book value and fair value

	2007		2006	
	Book value (amortized cost)	Fair value	Book value (amortized cost)	Fair value
	\$	\$	\$	\$
Temporary and long-term investments				
Temporary investments	24,575,456	24,578,003	11,950,905	11,940,581
Long-term investments	7,640,484	7,621,743	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.

16. Government Assistance

The Company incurred research and development expenditures that are eligible for Quebec SR & ED tax credits. The credits, totalling \$493,167 [\$589,192 in 2006], were applied against research and development expenses.

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

Year of credit	Amount \$	Year of expiry
October 31, 1998	409,000	2008
October 31, 1999	216,000	2009
October 31, 2000	150,000	2010
October 31, 2001	226,000	2011
October 31, 2002	189,000	2012
October 31, 2003	183,000	2013
October 31, 2004	325,000	2014
October 31, 2005	540,000	2015
October 31, 2006	445,000	2026
October 31, 2007	351,000	2027
	3,034,000	

17. Commitments and Guarantees

As at October 31, 2007, the Company's obligations under a lease maturing on February 28, 2011 totalled \$1,093,627. The minimum annual lease payments for the next four years are as follows: 2008 – \$328,088; 2009 – \$328,088; 2010 – \$328,088 and 2011 – \$109,363.

During the year ended October 31, 2007, the Company entered into licence agreements with third parties regarding certain intellectual property rights. Those agreements are for an initial term of 10 years. The Company agreed to pay royalties on all products sold derived from the underlying technologies and milestone payments after achievement of the respective milestones, if applicable. The royalties that the Company might have to pay represent 5% to 10% of net sales and 20% of sublicense revenues. The total of the milestone payments that might have to be paid by the Company over the next years is \$3,500,000. In addition, according to those licence agreements, the Company will have to pay the following additional considerations unless it uses its right to terminate the agreements: \$105,000 (US\$100,000) in cash on January 31, 2008, \$262,500 (US\$250,000) in cash and \$1,050,000 (US\$1,000,000) either in cash or common shares of the Company, at its sole discretion, on April 30, 2008.

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

18. Related Party Transaction

The Company has entered into a consulting agreement with one of its directors (including his holding company) which ended on June 30, 2007, at which point, the director became an employee of the Company. The expense incurred by the Company under this agreement for the year ended October 31, 2007 totalled \$71,111 (\$163,333 in 2006), was measured at the exchange value and charged to research development expenses.

19. Segmented and Geographical Information

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

For the years ended October 31, 2007 and 2006, two products accounted for the Company's sales resulting from continuing operations, which were predominantly sold in the United States and Europe. The United States, Europe and Canada sales accounting for 15%, 59% and 26% [63%, 21% and 16% in 2006] respectively of the total sales of these fiscal years [note 15]. Company's sales to one client located in the United States represent 21% [53% in 2006] of total sales from continued operations.

20. Comparative Figures

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

Diagno Cure

Empowering
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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



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