

QUARTERLY REPORT 3

FOR THE PERIOD ENDED JULY 31, 2008



MESSAGE TO SHAREHOLDERS

During the third quarter ended July 31, 2008, DiagnoCure Inc. achieved significant milestones towards the commercialization of the Previstage™ GCC Colorectal Cancer Staging Test, which was officially launched on August 26, 2008. The sales team is now actively promoting and offering the test to clinicians across the United States. While the PCA3 marker for prostate cancer continued to be presented and discussed in scientific meetings in Europe and the United States and received great reviews, Gen-Probe recently announced in their second quarter conference call that their European sales of PCA3 were now exceeding the sales in the United States. In addition, during the quarter, DiagnoCure strengthened its executive team with the appointment of a new Vice President, Marketing and National Sales, Phillip Wells.

Highlights

In May, at the American Society of Clinical Oncology (ASCO) annual meeting in Chicago, attended by 30,000 health practitioners concerned with cancer, DiagnoCure introduced Previstage™ GCC, a molecular diagnostic solution for the need to more accurate staging of colorectal cancer. This major milestone allowed the Company to educate the oncology community about the potential of Previstage™ GCC. ASCO also featured a number of important studies about colorectal cancer, including one from Dr. Scott Waldman, from the Thomas Jefferson University, who conducted a prospective, 5-year NIH-sponsored study on GCC; Dr. Waldman presented his discovery and clinical implications of the GCC marker. Key opinion leaders from the colorectal cancer treatment community expressed interest in the Company's Previstage™ GCC test and Dr. Waldman's presentation.

In July, four prominent colorectal cancer key opinion leaders agreed to serve on the Strategic Advisory Board of the Company's wholly owned subsidiary, DiagnoCure Oncology Laboratories, based in West Chester, PA. The mandate of these renowned specialists consists of advising DiagnoCure on a number of issues related to the Previstage™ GCC test and the Company's commercialization efforts.

During the quarter, DiagnoCure Oncology Laboratories completed the development and validation of Previstage™ GCC. On August 26, the Company announced that it had received approval from the U.S. regulatory authorities with the specific CLIA certification for its clinical laboratory, a major accomplishment required for the Company to launch Previstage™ GCC. The test is now offered and promoted directly to clinicians across the United States, and following the summer pre-launch marketing campaign, many physicians have already expressed interest in the test.

During the quarter, the PCA3 test for prostate cancer has been a subject of several key presentations, exhibits and scientific articles, featuring the test's value and potential for measuring prostate cancer aggressiveness. These received significant high visibility press coverage in the United States and in Europe. In addition, the results of the latest studies may further increase the market potential of PCA3.

In their second quarter conference call on July 31, Gen-Probe, to which DiagnoCure licensed its PCA3 marker, announced that the PCA3 assay sales in Europe are now exceeding sales in the U.S. This reflects Gen-Probe's ability to actively promote PCA3 in Europe, where they have obtained the necessary CE mark approval for commercialization. Such regulatory approval has yet to be obtained in the U.S.

As DiagnoCure looked to maximize the value of its portfolio and focus on high-value molecular diagnostics, the Company actively sought out a partner that would efficiently commercialize ImmunoCyt™ /uCyt+™, its bladder cancer test. In July, DiagnoCure entered into a product divestment agreement for ImmunoCyt™ /uCyt+™ with U.S.-based Scimedx Corporation.

In summary, DiagnoCure successfully achieved its key milestones during the quarter and is on track with its business plan. With the testing information that the Company can now provide to physicians and patients to help answer critical clinical questions, DiagnoCure has definitely taken a leadership position in delivering Personalized Diagnostics.

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, 2007 and related notes. Management's comments were prepared to explain the Company's operations, performance and financial position as of July 31, 2008. 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, 2007. The information contained herein is up to date as of August 29, 2008.

Overview

DiagnoCure Inc. (hereafter called the "Company" or "DiagnoCure") is a life sciences company commercializing high-value cancer diagnostic tests and lab services that increase clinician and patient confidence in making critical treatment decisions.

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. As DiagnoCure looked to maximize the value of its portfolio and focus on high-value molecular diagnostics, the Company actively sought out a partner that would efficiently commercialize ImmunoCyt™ /uCyt+™. In July, DiagnoCure entered into a product divestment agreement for ImmunoCyt™ /uCyt+™ with U.S.-based Scimedx Corporation. Terms of the agreement were not disclosed.

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. This revenue has been recognized and amortized over a 42-month period ended in April 2007. The final payment has 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 diagnostic rights to the GCC marker and its potential use in two high-value molecular tests for colorectal cancer, as well as an option to lease a CLIA-certified U.S. service laboratory to commercialize molecular cancer diagnostics tests. This agreement with TDT significantly strengthened DiagnoCure's position in molecular diagnostics for cancer. After completing the development of one of the GCC tests, the Company launched its Previstage™ GCC Colorectal Cancer Staging Test last August through its CLIA-certified laboratory in West Chester, PA.

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. DiagnoCure intends to complete the development of the tests and conduct additional validating clinical studies.

2008 First Nine Months Highlights

On December 5, 2007, DiagnoCure announced that it had signed a lease on a fully equipped service laboratory in West Chester, PA. The Company intends to use this lab to commercialize its proprietary molecular tests for colorectal and other cancers.

On January 25, 2008, the Company exhibited its Previstage™ GCC Colorectal Cancer Staging Test at the American Society of Clinical Oncology - The Gastrointestinal Cancers Symposium (ASCO GI) to surgeons, oncologists, radiologists and other clinical specialists who focus on treating patients with colorectal and other cancers of the gastrointestinal tract.

Also in January, DiagnoCure announced the appointment of J.F. Bureau, CFA, as Senior Vice President and Chief Financial Officer. Mr. Bureau's experience spans nearly twenty years in the North American and European financial markets.

Commercialization of PCA3 continued to expand in Europe with Gen-Probe announcing additions to its sales and marketing team in the area. On February 13, 2008, during their fourth quarter earnings webcast, Gen-Probe announced that they would postpone their PCA3 pivotal study in the United States, a prerequisite to an FDA submission. DiagnoCure is pursuing constructive discussions with Gen-Probe, and is committed to achieving an outcome that will best benefit its shareholders, patients and their physicians.

On March 19, 2008, the Company announced that new clinical data from a study of 570 men published in the peer-reviewed *Journal of Urology* (179:1587-1592, 2008) supported the use of a PCA3-based test as a tool for determining biopsy outcome. The new study confirmed that PCA3, DiagnoCure's highly specific prostate cancer marker, and the world's first gene-based urine test to help detect prostate cancer, can provide clinicians with valuable information that helps guide diagnosis.

At the end of March, DiagnoCure and Gen-Probe participated in the European Association of Urology (EAU) annual meeting. Two posters discussing the clinical utility of the PCA3 test for prostate cancer risk were presented and well received by the attending health practitioners.

In May, the PCA3 test was a subject of several key presentations and three exhibits at the meeting of the American Urological Association in Orlando, Florida, attended by urologists from around the

world. Gen-Probe featured the test in its booth. In addition, exhibits from Dianon (LabCorp) and AmeriPath (Quest) had their versions of the test, using Gen-Probe's PCA3 analyte specific reagents, prominently featured. Dr. Yves Fradet, Founder and Chief Medical Officer of DiagnoCure, presented the latest clinical information on PCA3 to an audience of an estimated 10,000 attendees.

Also in May, a second article published in the *Journal of Urology* (179:1804-1810, 2008) concluded that PCA3 scores correlate with both tumor volumes and prostatectomy Gleason scores, both of which are measures of prostate cancer aggressiveness. As a result, researchers suggested that PCA3 may have clinical applicability in identifying men who have low-volume or low-grade prostate cancer and who could be followed with active surveillance instead of requiring immediate treatment. This article received significant press coverage of high visibility in the United States and in Europe, and the study may further increase the market potential of PCA3.

At the end of May, during the American Society of Clinical Oncology (ASCO) annual meeting in Chicago, DiagnoCure introduced Previstage™ GCC, a molecular diagnostic solution to the need for more accurate staging of colorectal cancer. ASCO also featured a number of important studies about colorectal cancer, including one from Dr. Scott Waldman on his discovery and clinical implications of the GCC marker. Key opinion leaders from the colorectal cancer treatment community expressed interest in the Company's Previstage™ GCC test and Dr. Waldman's presentation.

On June 2nd, DiagnoCure opened the sessions at the 34th Annual International Clinical Ligand Assay Society Meeting, held in Coral Springs, Florida, with a presentation on its GCC testing research. Research data on "Molecular Detection of Colorectal Cancer Lymph Node Micrometastasis" was presented, featuring a statistical review and discussion of the beneficial role of GCC in the staging of colorectal cancer. During the same event, the PCA3-based test was also featured in a presentation.

On June 13, DiagnoCure announced that Mr. Alain Rhéaume was succeeding Mr. Paul Gobeil as Chairman of the Board of directors of the Company. Mr. Rhéaume is Founder and Managing Partner of Trio Capital Inc. He cumulates over 30 years of experience in management in both the public and private sectors. He has been Director of DiagnoCure's Board and a member of the Audit Committee since 2005. Mr. Gobeil asked to be relieved of his duties as Chairman of the Board. The Company will continue to enjoy his broad experience as he pursues his 10-year tenure as a DiagnoCure Board member.

DiagnoCure appointed Mr. Phillip Wells as new Vice President, Marketing and National Sales on June 26, to drive its Previstage' launch and commercial growth of the Company. He has 30 years of experience in marketing in the global healthcare sector, where he held various positions in sales management, marketing, managed care, business development and participated in many successful product launches. Mr. Wells joined DiagnoCure Inc. in 2007 as Senior Director of Reimbursement, where he has been responsible for developing and implementing corporate strategies for gaining reimbursement for the Company's high-value tests.

In his June edition, the *European Urology Journal* published an article on the clinical utility of the PCA3 urine test in repeated biopsy cases. This European study in men with one or two previous negative biopsies indicated that the PCA3 assay may aid in deciding which patients need a repeat biopsy. An increasing PCA3 score corresponds with an increasing probability of a positive repeat biopsy. Additionally, the PCA3 score had greater diagnostic accuracy than PSA for predicting repeat prostate biopsy outcome, even at a sensitivity of 80–90%. The utility of the PCA3 score is independent of the

number of previous biopsies, prostate volume, and total PSA. The PCA3 score may also be indicative of the aggressiveness of prostate cancer.

On June 29, DiagnoCure and Dr. Scott Waldman, from Thomas Jefferson University, were speakers, in Boston, Massachusetts, in a session at the Eastern Cooperative Oncology Group (ECOG), one of the largest clinical cancer research organizations in the United States. Both parties discussed with members of the GI (gastro-intestinal) committee the importance of DiagnoCure's GCC mRNA molecular marker in the staging of colorectal cancer.

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In their second quarter conference call on July 31, Gen-Probe, to which DiagnoCure licensed its PCA3 marker in 2003, announced that the PCA3 assay sales in Europe are now exceeding sales in the U.S. This reflects Gen-Probe's ability to actively promote PCA3 in Europe, where they have obtained the necessary CE mark approval for commercialization. Such regulatory approval has yet to be obtained in the U.S.

As DiagnoCure looked to maximize the value of its portfolio and focus on high-value molecular diagnostics, the Company actively sought out a partner that would efficiently commercialize ImmunoCyt™ /uCyt+™, its bladder cancer test. In July, DiagnoCure entered into a product divestment agreement for ImmunoCyt™ /uCyt+™ with U.S.-based Scimedx Corporation.

On August 26, the Company announced that it received approval from the U.S. regulatory authorities with the specific CLIA certification required to launch Previstage™ GCC. The test is now offered and promoted directly to clinicians across the United States, and following the summer pre-launch marketing campaign, many physicians have already expressed interest in the test.

Financial Results

For the Three-Month Period Ended July 31, 2008

Total revenues for the third quarter of 2008 were \$486,074 compared with \$562,445 for the third quarter of 2007. This decrease of \$76,371 is mostly attributable to the decrease in the interest revenue for the quarter. Royalty revenues from Gen-Probe increased in the third quarter of 2008 to \$64,239, compared to \$39,106 for the third quarter of 2007. Sales of DiagnoCure's non-invasive bladder cancer test, ImmunoCyt™ / uCyt+™, were \$111,754 for the third quarter of 2008 versus \$63,161 for the same period a year ago. Income from research and development contracts, predominantly with Gen-Probe, has decreased in 2008 by \$23,099 as specific PCA3-related contracted R&D projects are completed. Also in this quarter, DiagnoCure sold clinical samples to Gen-Probe, in support of their prostate cancer testing R&D, for an amount of \$39,179 compared with \$3,430 in the third quarter of 2007.

Interest income decreased by \$162,747, to \$270,902 for the third quarter of 2008 compared with \$433,649 for the third quarter of 2007. The decrease is attributable to DiagnoCure's use of fund to finance the operating activities and the reduction of interest levels in its investments.

Cost of sales increased by \$35,067, from \$52,474 for the third quarter of 2007 to \$87,541 for the third quarter of 2008. This increase is related to higher samples and ImmunoCyt™ / uCyt+™ sales.

Operating expenses increased by \$1,908,082 from \$2,698,425 for the third quarter of 2007 to \$4,606,507 for the third quarter of 2008, and reflect the beginning of the Company's U.S. clinical laboratory and the pre-launch of the Previstage™ GCC Colorectal Cancer Staging Test. Total operating expenses increased primarily as a result of the following:

- Research and development expenses, net of investment tax credits, increased by \$1,261,853, from \$716,478 for the third quarter of 2007 to \$1,978,331 for the same quarter in 2008. The increase in research and development expenses is attributable to the development and transfer, to our U.S. laboratory, of the GCC colorectal cancer staging test.
- General and administrative expenses were relatively stable at \$833,458 for the third quarter of 2008 compared to \$840,354 in 2007, for a decrease of \$6,896.
- Selling and business development expenses increased by \$528,826 from \$541,942 for the third quarter of 2007 to \$1,070,768 for the same quarter in 2008. This increase reflects the initiatives of the sales team which is now actively promoting and offering the Previstage™ GCC Colorectal Cancer Staging Test to clinicians across the United States.
- Stock-based compensation expenses, a non-cash charge, decreased by \$59,812, from \$376,584 for the third quarter of 2007 to \$316,772 for the same period in 2008. This decrease is attributable to the reduction in value of the latest granted options. The decrease also reflects the end of the charges recognition associated to previously granted options.

Based on the above, for the third quarter of 2008, DiagnoCure recorded a net loss of \$4,207,974 or \$0.10 per share, compared with \$2,188,454, or \$0.05 per share, for the third quarter of 2007. These results are substantially in line with Management expectations and reflect the pre-marketing and final development activities that led to the launch of the Previstage™ GCC test in late August 2008.

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

	2008	2007	2006
	\$	\$	\$
			(Restated)
Sales	150,933	66,591	171,895
Revenue under research and license agreement	64,239	62,205	791,087
Interest	270,902	433,649	207,965
Total revenues	486,074	562,445	1,170,947
Cost of sales	87,541	52,474	103,860
Gross margin	398,533	509,971	1,067,087
Operating expenses (before stock-based compensation)	4,289,735	2,321,841	2,304,135
Net loss (before stock-based compensation)	(3,891,202)	(1,811,870)	(1,237,048)
Stock-based compensation	316,772	376,584	284,806
Net loss from continuing operations	(4,207,974)	(2,188,454)	(1,521,854)
Net loss from discontinued operations	---	---	(92,164)
Net loss	(4,207,974)	(2,188,454)	(1,614,018)
Basic and diluted loss per share			
From continuing operations	(0.10)	(0.05)	(0.04)
From discontinued operations	---	---	(0.00)
Basic and diluted loss per share	(0.10)	(0.05)	(0.04)
Weighted average number of common shares outstanding	42,792,445	40,950,786	34,424,258

For the Nine-Month Period Ended July 31, 2008

Total revenues for the nine-month period ended July 31, 2008 were \$1,493,638 compared with \$2,971,581 for the same period of 2007. In the first nine months of 2008, DiagnoCure had no revenue recognition of the continued calendar payments and research agreement from Gen-Probe compared with \$1,545,336 from the prior year nine first months. 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 \$151,617 for the first nine months of 2008, compared with \$84,056 for the corresponding period of 2007. Sales of DiagnoCure's non-invasive bladder cancer test, ImmunoCytTM / uCytTM, were \$278,348 for the nine-month period ended July 31, 2008 versus \$272,133 for the same period a year ago. Income from research and development contracts, predominantly with Gen-Probe, has decreased in 2008 by \$166,604 as specific PCA3-related contracted R&D projects are completed. Also in this period, DiagnoCure sold clinical samples to Gen-Probe, in support of their prostate cancer testing R&D, for an amount of \$122,373 compared with \$66,501 in the same period of 2007.

Interest income increased by \$104,349, to \$941,300 for the first nine-month of 2008 compared with \$836,951 for the same period of 2007. The increase is attributable to the net proceeds of \$23,353,098 received in April 2007 (see *Use of Proceeds from April 2007 Financing*).

Cost of sales increased by \$48,262, from \$195,819 for the first nine months of 2007 to \$244,081 for the first nine months of 2008. This increase is related to higher sample sales.

Operating expenses increased from \$8,611,788 for the first nine months of 2007 to \$11,515,214 for the same period in 2008, an increase of \$2,903,426, reflecting the beginning of the Company's U.S. clinical laboratory activities and the pre-launch of the PrevistageTM GCC Colorectal Cancer Staging Test. Total operating expenses increased primarily as a result of the following:

- Research and development expenses, net of investment tax credits, increased by \$2,424,634, from \$2,102,434 for the first nine months of 2007 to \$4,527,068 for the same period in 2008. The increase in research and development expenses is attributable to the development and transfer, to the Company's U.S. laboratory, of the GCC colorectal cancer staging test. DiagnoCure has launched the Previstage™ GCC Colorectal Cancer Staging Test on August 26, 2008.
- General and administrative expenses increased from \$2,239,830 for the first nine months of 2007 to \$2,407,307 for the same period in 2008. This increase of \$167,477 is attributable to the expenses incurred for the establishment of the Company's U.S. laboratory.
- Selling and business development expenses increased by \$884,128, from \$1,650,793 for the first nine months of 2007 to \$2,534,921 for the same period in 2008. This increase is attributable to the beginning of the Company's U.S. sales and marketing initiatives to promote and offer the Previstage™ GCC Colorectal Cancer Staging Test.
- 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. There were no restructuring charges for the first nine months of 2008.
- Stock-based compensation expenses, a non-cash charge, decreased by \$333,614, from \$1,259,084 for the first nine months of 2007 to \$925,470 for the same period in 2008. This decrease is attributable to the reduction in value of the latest granted options. The decrease also reflects the end of the charges recognition associated to previously granted options.

Based on the above, for the nine-month period ended July 31, 2008, DiagnoCure recorded a net loss of \$10,265,657 or \$0.24 per share, compared with \$5,836,026 or \$0.16 per share, for the same period of 2007. These results are substantially in line with Management expectations and reflect activities undertaken during the period in line with the Company's plans and on-going commitment to develop high-value diagnostic tests for the detection and management of cancer. In particular, the first nine months of 2008 results reflect the beginning of the Company's U.S. initiatives and the pre-launch activities of the Previstage™ GCC Colorectal Cancer Staging Test. As at July 31, 2008, short-term and long-term investments stood at \$23,384,513, down from \$32,867,526 as of October 31, 2007. This decrease of \$9,483,013 is due to the use of cash to finance the operating activities and acquisitions for this period. Management is satisfied that it has adequate cash resources and will monitor its cash level, as sales and marketing activities accelerate.

Nine-Month Period Results Ended July 31 (Unaudited)

	2008	2007	2006
	\$	\$	\$(Restated)
Sales	400,721	338,634	792,558
Revenue under research and license agreement	151,617	1,795,996	3,013,931
Interest	941,300	836,951	591,993
Total revenues	1,493,638	2,971,581	4,398,482
Cost of sales	244,081	195,819	432,290
Gross margin	1,249,557	2,775,762	3,966,192
Operating expenses (before stock-based compensation and restructuring charges)	10,589,744	6,440,019	5,069,185
Net loss (before stock-based compensation and restructuring charges)	(9,340,187)	(3,664,257)	(1,102,993)
Restructuring charges	---	912,685	---
Stock-based compensation	925,470	1,259,084	935,499
Net loss from continuing operations	(10,265,657)	(5,836,026)	(2,038,492)
Net loss from discontinued operations	---	---	(80,173)
Net loss	(10,265,657)	(5,836,026)	(2,118,665)
Basic and diluted loss per share			
From continuing operations	(0.24)	(0.16)	(0.07)
From discontinued operations	---	---	(0.00)
Basic and diluted loss per share	(0.24)	(0.16)	(0.07)
Weighted average number of common shares outstanding	42,096,998	37,311,232	34,208,933

Total Assets and Shareholders' Equity

Total assets amounted to \$36,996,019 as of July 31, 2008, compared with \$43,585,440 as of October 31, 2007. The book value per Common Share is \$0.77 as of July 31, 2008 compared with \$1.00 per Common Share as of October 31, 2007.

Balance Sheet (Unaudited)

	2008	2007	2006
	\$	\$	\$
Total assets before discontinued operations	36,996,019	42,937,956	22,719,580
Assets related to discontinued operations	---	---	555,044
Total assets	36,996,019	42,937,956	23,274,624
Shareholders' equity	33,013,201	41,052,289	21,312,643
Number of common shares outstanding	42,792,475	40,950,786	34,449,642

Cash Position and Financing Sources

Cash flow required from operating activities during the third quarter of 2008 amounted to \$3,097,592 compared with \$2,707,854 required in the third quarter of 2007, an increase of \$389,738 which is attributable to an increased loss for this quarter, in part due to the beginning of the Company's U.S. initiatives and the pre-launch activities of the Previstage™ GCC Colorectal Cancer Staging Test. Investments activities generated cash flow of \$4,132,741 for the third quarter of 2008 to finance the operating activities while, for the same period of 2007, investing activities required cash flow of \$10,288,980, representing the investment done following the April 2007 financing. During the third quarter of 2008, acquisition of tangible and intangible capital assets amounted to \$219,290, relating mostly to the GCC license compared with \$541,255 for the third quarter of 2007. There were no financing activities, in the third quarter of 2007 and 2008.

Cash Flows for the Third Quarters (Unaudited)

	2008	2007	2006
	\$	\$	\$
			(Restated)
Cash flows related to operating activities	(3,097,592)	(2,707,854)	(1,435,471)
Cash flows related to investing activities	4,132,741	(10,288,980)	923,909
Cash flows related to financing activities	---	---	49,766
Cash flows related to discontinued operations	---	---	(76,890)

Cash flow required from operating activities during the first nine months of 2008 amounted to \$7,983,891 compared with \$3,831,247 required in the same period of 2007, totalling an increase of \$4,152,644 which is attributable to an increased loss for this period, mostly due to the beginning of the Company's U.S. initiatives and the pre-launch activities of the Previstage™ GCC Colorectal Cancer Staging Test. Investment activities generated cash flow of \$11,071,502 for the first nine months of 2008 while, for the same period of 2007, investing activities required cash flow of \$8,088,652 representing the investment done following the April 2007 financing. During the first nine months of 2008, acquisition of tangible and intangible capital assets amounted to \$1,663,769, relating mostly to the GCC license compared with \$2,029,486 for the first nine months of 2007. For the same period of 2007, 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 \$154,766 for the corresponding period of 2008. In 2008 the financing activities were primarily generated from the issue of common shares relative to the exercising of options by former employees.

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

	2008	2007	2006
	\$	\$	\$
			(Restated)
Cash flows related to operating activities	(7,983,891)	(3,831,247)	(2,066,309)
Cash flows related to investing activities	11,071,502	(8,088,652)	1,977,390
Cash flows related to financing activities	154,766	23,482,591	145,133
Cash flows related to discontinued operations	---	---	(92,299)

Issued and Outstanding Share Capital

As of August 29, 2008, the Company had 42,792,475 commons shares issued and outstanding and 3,363,225 stock options, granting the right to acquire an equal amount of common shares.

Off-Balance Sheet Arrangements

As of July 31, 2008, DiagnoCure has not entered into any off-balance sheet arrangement except for the lease agreements described in the "Contractual Obligations" section presented herein.

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, 2008, approximately \$16.80 million of funds from the July 2004 public offering have been spent on specific projects and for general corporate purposes listed in the table below. Since cash flows of the Company are derived from numerous sources, in order to determine how the proceeds of the public offering are spent and allocated, certain assumptions were required. Those assumptions are as follows:

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

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

Description of “Use of Proceeds”	Estimated total use of proceeds as disclosed at time of July 2004 public offering	Amount spent as at July 31, 2008
Improve the uPM3 TM 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 ImmunoCyt+ TM / uCyt+ TM 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	\$5.80 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 July 31, 2008, approximately \$13.00 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, 2008
Acquire and integrate or partner with one or more reference laboratories	\$2.20 million
Expand the product portfolio	\$1.70 million
Acquire or in-license additional cancer biomarkers and for product development purposes.	\$9.10 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 2007 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 \$368,989 for the first nine months of 2008 compared with \$382,941 in 2007 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.

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 1	Years 2 and 3	Years 4 and 5	Years 6 +
Lease Agreements	\$2,527,021	\$563,313	\$999,443	\$503,095	\$461,170

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. The annual payment for the coming year under this lease agreement amounts to \$328,088.

On December 5, 2007, DiagnoCure signed a lease for 11,329 sq. ft. in a building where its U.S. clinical laboratory activities are located, under a lease expiring in 2015. The annual payment for the coming year under this lease agreement amounts to \$235,225.

During the year ended October 31, 2007, the Company entered into license 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.

Change in Accounting Policies

The following accounting standards were recently issued by the CICA.

Section 1535, "Capital Disclosures", establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure of the entity's objectives, policies and process for managing capital, the quantitative data about what the entity regards as capital, whether the entity has complied with any capital requirements, and, if it not complied, the consequences of such non-compliance. Disclosure requirements pertaining to Section 1535 are contained in note 8.

Section 3862, "Financial Instruments – Disclosures", describes the required disclosure for the assessment of the significance of financial instruments for entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. Disclosure requirements pertaining to Section 3862 are contained in note 7.

Section 3863, "Financial Instruments – Presentation", establish standards for presentation of the financial instruments and non-financial derivatives. It carries forward the presentation related requirements of Section 3861 "Financial Instruments – Disclosure and Presentation". Disclosure requirements pertaining to Section 3863 are contained in note 7.

Recent accounting pronouncements

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets". Section 3064, which replaces Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs", establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This standard is effective for the Company for interim and annual financial statements beginning on November 1, 2008. The Company is currently assessing the impact of the adoption of this new Section on its financial statements.

The CICA plans to converge Canadian GAPP with International Financial Reporting Standards [IFRS] over a transition period to end in 2011. The Company is currently assessing the impact of the transition to IFRS on its financial statements.

Risk Factors

The Company's activities are subject to some risk factors that generally affect life sciences 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 ensure 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.diagnocure.com

Quebec, Canada
August 29, 2008

(signed)

John C. Schafer
President and Chief Executive Officer

(signed)

J.F. Bureau
Senior Vice President and Chief Financial Officer

DIAGNOCURE INC.

NOTICE OF DISCLOSURE OF NON-AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED JULY 31, 2008 AND 2007

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, 2008 and 2007, 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 29th day of August 2008

CONSOLIDATED STATEMENTS
(UNAUDITED)

FOR THE PERIODS ENDED JULY 31

Consolidated Statements of Operations and Comprehensive Loss

	three-month period		nine-month period	
	2008	2007	2008	2007
	\$	\$	\$	\$
Revenues				
Sales	150,933	66,591	400,721	338,634
Cost of sales	(87,541)	(52,474)	(244,081)	(195,819)
Gross margin	63,392	14,117	156,640	142,815
Revenue under research and license agreement	64,239	62,205	151,617	1,795,996
Interest	270,902	433,649	941,300	836,951
	398,533	509,971	1,249,557	2,775,762
Operating expenses				
Research and development expenses	2,091,724	822,592	4,896,057	2,485,375
Investment tax credits	(113,393)	(106,114)	(368,989)	(382,941)
	1,978,331	716,478	4,527,068	2,102,434
General and administrative expenses	833,458	840,354	2,407,307	2,239,830
Selling and business development expenses	1,070,768	541,942	2,534,921	1,650,793
Restructuring charges (note 5)	---	---	---	912,685
Stock-based compensation	316,772	376,584	925,470	1,259,084
Depreciation of property, plant and equipment	132,844	100,512	363,317	294,237
Financial expenses	4,522	18,057	12,967	26,117
Amortization of intangibles	269,812	104,498	744,164	126,608
	4,606,507	2,698,425	11,515,214	8,611,788
Loss from continuing operations before income taxes	(4,207,974)	(2,188,454)	(10,265,657)	(5,836,026)
Provision for income taxes	---	---	---	---
Net loss and comprehensive loss	(4,207,974)	(2,188,454)	(10,265,657)	(5,836,026)
Basic and diluted loss per share	(0.10)	(0.05)	(0.24)	(0.16)
Weighted average number of common shares outstanding	42,792,445	40,950,786	42,096,998	37,311,232

CONSOLIDATED STATEMENTS
(UNAUDITED)

FOR THE PERIODS ENDED JULY 31

Consolidated Statements of Deficit

	2008	2007
	\$	\$
Deficit beginning of period	(55,481,462)	(44,523,341)
Add		
Net Loss	(10,265,657)	(5,836,026)
Common share issue expenses	---	(1,801,902)
Deficit, end of period	(65,747,119)	(52,161,269)

CONSOLIDATED STATEMENTS
(UNAUDITED)

FOR THE PERIODS ENDED JULY 31

Consolidated Statements of Cash Flows

	three-month period		nine-month period	
	2008	2007	2008	2007
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss from continuing operations	(4,207,974)	(2,188,454)	(10,265,657)	(5,836,026)
Adjustments for:				
Stock-based compensation	316,772	376,584	925,470	1,259,084
Depreciation and amortization	402,656	205,010	1,107,481	420,845
	(3,488,546)	(1,606,860)	(8,232,706)	(4,156,097)
Net change in non-cash working capital items	390,954	(1,100,994)	248,815	324,850
Cash flows related to operating activities	(3,097,592)	(2,707,854)	(7,983,891)	(3,831,247)
INVESTING ACTIVITIES				
Change in investments	4,342,150	(9,747,725)	12,725,390	(6,059,166)
Acquisition of property, plant and equipment	(194,581)	(265,226)	(621,705)	(443,422)
Acquisition of intangibles	(24,709)	(276,029)	(1,042,064)	(1,586,064)
Disposal of intangibles	9,881	---	9,881	---
Cash flows related to investing activities	4,132,741	(10,288,980)	11,071,502	(8,088,652)
FINANCING ACTIVITIES				
Issue of common shares	---	---	154,766	25,284,493
Issue expenses related to common shares	---	---	---	(1,801,902)
Cash flows related to financing activities	---	---	154,766	23,482,591
Net increase (decrease) in cash and cash equivalents	1,035,149	(12,996,834)	3,242,377	11,562,692
Cash and cash equivalents, beginning of period	2,858,814	24,739,454	651,586	179,928
Cash and cash equivalents, end of period	3,893,963	11,742,620	3,893,963	11,742,620

CONSOLIDATED BALANCE SHEETS

	(UNAUDITED)	
	JULY 31, 2008	OCTOBER 31, 2007
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	3,893,963	651,586
Temporary investments	13,228,899	24,575,456
Accounts receivable	300,687	272,523
Investment tax credits receivable	854,391	485,402
Prepaid expenses	211,734	213,588
Total current assets	18,489,674	26,198,555
Long-term investments	6,261,651	7,640,484
Property, plant and equipment	1,421,133	1,162,745
Intangibles	10,823,561	8,583,656
	36,996,019	43,585,440
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	2,932,791	2,288,677
Total current liabilities	2,932,791	2,288,677
Future income tax liabilities	1,050,027	1,105,292
Shareholders' equity		
Capital stock (note 6)	92,562,940	89,609,479
Contributed surplus (note 6)	6,197,380	6,063,454
Deficit	(65,747,119)	(55,481,462)
	33,013,201	40,191,471
	36,996,019	43,585,440

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

AS OF JULY 31, 2008

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, 2007 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, 2007 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 Company intends to continue its research and development and marketing efforts. The Company's operations are subject to all the inherent risks related to setting up and running an emerging biotechnology company, such as successfully completing its research and development activities, marketing its products and obtaining the required financing.

3. Change in Accounting Policies

The following accounting standards were recently issued by the CICA.

Section 1535, "Capital Disclosures", establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure of the entity's objectives, policies and process for managing capital, the quantitative data about what the entity regards as capital, whether the entity has complied with any capital requirements, and, if it not complied, the consequences of such non-compliance. Disclosure requirements pertaining to Section 1535 are contained in note 8.

Section 3862, "Financial Instruments – Disclosures", describes the required disclosure for the assessment of the significance of financial instruments for entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. Disclosure requirements pertaining to Section 3862 are contained in note 7.

Section 3863, "Financial Instruments – Presentation", establish standards for presentation of the financial instruments and non-financial derivatives. It carries forward the presentation related requirements of Section 3861 "Financial Instruments – Disclosure and Presentation". Disclosure requirements pertaining to Section 3863 are contained in note 7.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

AS OF JULY 31, 2008

4. Recent accounting pronouncements

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets". Section 3064, which replaces Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs", establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This standard is effective for the Company for interim and annual financial statements beginning on November 1, 2008. The Company is currently assessing the impact of the adoption of this new Section on its financial statements.

The CICA plans to converge Canadian GAPP with International Financial Reporting Standards [IFRS] over a transition period to end in 2011. The Company is currently assessing the impact of the transition to IFRS on its financial statements.

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. For the fiscal year 2007 the non-recurring restructuring charge was \$1,262,685, of which \$917,985 was paid as of July 31, 2008, and \$344,700 is still to be paid. For fiscal 2008, no additional charge related to restructuring are expected.

	Items paid as at July 31, 2008 \$	Liabilities as at July 31, 2008 \$	Total restructuring charges \$
Retention bonuses and termination benefits	636,144	---	636,144
Legal and outplacement fees	85,152	67,389	152,541
Provision for vacated leased premises	196,689	277,311	474,000
Total	917,985	344,700	1,262,685

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

AS OF JULY 31, 2008

6. Capital Stock

Authorized

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

Common, voting and participating shares.

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

	(UNAUDITED)	
	JULY 31, 2008	OCTOBER 31, 2007
	\$	\$
Issued and fully paid		
42,792,475 common shares (41,718,463 as of October 31, 2007)	92,562,940	89,609,479

	JULY 31, 2008	
	Number of shares	Amount \$
Capital stock		
Balance, beginning of period	41,718,463	89,609,479
Issuance of common shares	1,074,012	2,161,917
Portion previously recognized to contributed surplus as part of stock-based compensation	---	791,544
Balance, end of period	42,792,475	92,562,940

Stock Options

During the period ended July 31, 2008, the Company granted 644,400 options to its directors and certain current and new key employees. The weighted average fair value of stock options granted during this period amounted to \$1.36 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	3.80%
Expected life	8 years
Expected volatility in the market price of the shares	70%
Expected dividend yield	---

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

AS OF JULY 31, 2008

6. Capital Stock (Cont'd)

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

Contributed Surplus

For stock options granted to directors and key employees, 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, 2007	6,063,454
Stock-based compensation expense	925,470
Stock options exercised	(113,400)
Stock options expired or cancelled	(678,144)
Balance as of July 31, 2008	6,197,380

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

AS OF JULY 31, 2008

7. Financial Instruments

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

July 31, 2008						
	Held for trading	Held to maturity	Loans and receivables	Other financial liabilities	Carrying value Total	Fair value Total
Financial assets						
Cash and Cash						
Equivalents	3,893,963	---	---	---	3,893,963	3,893,963
Temporary investments	---	13,228,899	---	---	13,228,899	13,244,663
Accounts receivable	---	---	237,071	---	237,071	237,071
Long-term investments	---	6,261,651	---	---	6,261,651	6,347,924
	3,893,963	19,490,550	237,071	---	23,621,584	23,723,621
Financial liabilities						
Accounts payable	---	---	---	2,892,291	2,892,291	2,892,291
	---	---	---	2,892,291	2,892,291	2,892,291

October 31, 2007						
	Held for trading	Held to maturity	Loans and receivables	Other financial liabilities	Carrying value Total	Fair value Total
Financial assets						
Cash and Cash						
Equivalents	651,586	---	---	---	651,586	651,586
Temporary investments	---	24,575,456	---	---	24,575,456	24,578,003
Accounts receivable	---	---	213,683	---	213,683	213,683
Long-term investments	---	7,640,484	---	---	7,640,484	7,621,743
	651,586	32,215,940	213,683	---	33,081,209	33,065,015
Financial liabilities						
Accounts payable	---	---	---	2,274,277	2,274,277	2,274,277
	---	---	---	2,274,277	2,274,277	2,274,277

Fair Value

Fair Value is the amount of consideration that would be agreed upon in arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The Company uses the following methods and assumptions to establish the fair value for each class of financial instruments for which their carrying amounts are included in the interim consolidated balance sheet as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

AS OF JULY 31, 2008

7. Financial Instruments (Cont'd)

Held for trading

Cash and cash equivalents – The carrying amount is recorded at the fair market value determined using quoted market prices.

Held to maturity

Temporary and long-term investments were classified as held to maturity. The carrying amount is recorded at the amortized cost.

Loans and receivables

Receivables – The carrying amount is a reasonable approximation of fair value due to the short-term nature of the accounts.

Other financial liabilities

Accounts payable – The carrying amounts included on the balance sheet are measured at amortized cost which approximates fair value due to the short-term nature of the accounts payable.

Risk arising from financial instruments

The Company does not use financial derivatives.

Foreign currency risk

We operate internationally and a portion of our expenses are incurred in US dollars. A significant change in the currency exchange rate between the Canadian dollar relative to the US dollar could have a material effect on our consolidated results of operations, financial position or cash flows. We have not hedged our exposure to currency fluctuations.

Credit Risk

Cash equivalents and investments are mainly investments in Canadian bond's that are convertible into a known amount of cash. The bonds are government guaranteed, subject to minimal risk of changes in value.

Liquidity risk and market risk

The Company's investment policy is to invest its excess cash in high-grade investments bonds with varying terms to maturity, selected with regard to the expected timing of expenditures for continuing operations.

Our investments are comprised of government guaranteed bonds subject to minimal fluctuations in value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

AS OF JULY 31, 2008

8. Management of capital

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern, to provide returns for shareholders and to minimize its cost of capital.

In the management of capital, the Company includes shareholders' equity in the definition of capital.

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to fund its research and development activities and to maintain its ongoing operations. To secure additional capital, the Company may attempt to raise additional funds through the issuance of debt or equity, by securing additional partnerships or by disposing of assets.

There has been no change with respect to the overall capital risk management strategy during the nine-month period ended July 31, 2008.

The Company is satisfied that it has adequate cash resources to carry out its research and development activities and its ongoing operations and will monitor its cash level, as sales and marketing activities accelerate.

9. Comparative Figures

Certain of the 2007 figures have been reclassified in order to conform with the presentation adopted in 2008.