



QUARTERLY REPORT 3

FOR THE PERIOD ENDED JULY 31, 2009

Diagno Cure

Empowering
Oncology Decisions

MESSAGE TO SHAREHOLDERS

Dear Shareholders,

As we begin the last quarter of our financial year, it is a good time to review our accomplishments to date and to set the stage for next year. In our first three quarters, we completed several important steps in our business plan, and we continue to hold a solid financial position. While our business plan requires patience as we continue to implement its different phases, progress has been accomplished in achieving the Company's key strategic initiatives and mission.

Penetration of PCA3 Prostate Cancer Test

Over the past nine months, PCA3, DiagnoCure's highly specific marker for prostate cancer, was the focus of an impressive amount of media coverage around the world. To date, more than 20 peer-reviewed publications support the clinical utility of the test, while other studies continue to demonstrate the limitations of the broadly used Prostate Specific Antigen (PSA) test and to emphasize the need for tests to more accurately diagnose prostate cancer. The clinical community believes it is important to have a test that will reduce unnecessary, expensive and invasive biopsies caused by the poor specificity of the current PSA test, which is less than 25%. DiagnoCure believes that the PCA3 test holds the clinical potential to fill this need.

In May of this year, Gen-Probe, DiagnoCure's partner for the development and commercialization of the PCA3 test, invested US\$5 million in DiagnoCure and received 4.9 million DiagnoCure's convertible preferred shares in return. As a result, if these shares were converted, Gen-Probe would own in excess of 10% of DiagnoCure. This investment was part of a new amendment to the companies' six-year old collaboration agreement, which called for new milestones with regard to a submission of the PCA3 prostate cancer test to the U.S. Food and Drug Administration (FDA).

Pursuing their commitment to advance the commercial development of the PCA3 test, Gen-Probe announced on August 27 that they had begun a U.S. clinical trial of the PROGENSA® PCA3 test with the intent of securing regulatory approval from the FDA. The study will enroll from 10 or more clinical trial sites about 500 men who have had a negative prostate biopsy. Gen-Probe's stated goal is to complete the study in less than one year and then submit a Premarket Approval Application (PMA) to the FDA. Such approval would allow Gen-Probe to market and commercialize the PCA3 prostate cancer test in the United States, thereby maximizing its economic value. The initiation of this study represents an important milestone in the commercialization of the PCA3 in the U.S.

Gen-Probe is clearly focusing on PCA3 as a cornerstone product in the growth strategy of their cancer franchise. They have stated that they remain "bullish" on the potential of PCA3 to drive significant future value based on the current strong European sales and continuously growing body of peer-reviewed clinical evidence. Accordingly, Gen-Probe has expanded their European commercialization organization by doubling their team to 30 people this year, and supporting a dedicated multi-language website for PCA3 (www.pca3.org) where physicians and patients can find comprehensive information about the test. In addition, they are participating in numerous medical conferences featuring the test. Their efforts are producing a significant year-over-year sales growth rate. Although there are quarterly fluctuations in sales, which are also affected by

foreign exchange rate variations, royalties received by DiagnoCure are increasing and the upward trend remains strong.

Launch of the Previstage™ GCC Colorectal Cancer Test

In line with its stated vision and business plan, in 2008 DiagnoCure initiated the pilot phase of its commercialization plan for the Previstage™ GCC Colorectal Cancer Staging Test. At the end of August 2009, over 60 hospitals had requested sample collection kits for the Previstage™ GCC test, and DiagnoCure's U.S. clinical laboratory had received over 50 orders from 25 different physicians, 40% of which are now repeat customers.

Our phased launch plan has been executed with a three-prong strategy based on addressing the decision-makers who must adopt a new test for it to be successful: the physicians, patients and payers. Following this carefully phased commercialization approach, DiagnoCure has made important progress on all three fronts.

For reaching physicians, the Company hired an initial sales team of three experienced and highly skilled specialty representatives, and focused its efforts primarily on the Boston and New Jersey areas based on the high concentration of target facilities and clinicians in these geographic areas. Throughout the year, the sales and marketing team exhibited the Previstage™ GCC test at key medical conferences, including the Gastrointestinal Cancers Symposium presented by the American Society of Clinical Oncology (ASCO) in January 2009 and the ASCO Meeting in June 2009. In addition, the sales and marketing team has held many local tumor and advisory board meetings with key physicians to discuss the clinical usefulness of the test.

A significant milestone was reached with the publication, in February 2009, of the results of a major 5-year prospective study conducted by Dr. Scott Waldman from Thomas Jefferson University in the *Journal of the American Medical Association*. The study showed that the GCC status of the lymph nodes surrounding the tumor was the single most important predictor of the risk of recurrence in colorectal cancer patients.

In fiscal Q3, in order to foster the integration of the GCC test into physicians' standard practice, the Company launched the PIONEER GCC Registry, which aims to enroll 500 patients with a billable test order over the next year. This observational study will link their GCC test results with the treatment decision and the clinical outcome.

To engage patients and their caregivers, who more and more are taking part in treatment decisions, the Company launched in March a website designed specifically to help educate recently diagnosed patients and their caregivers (www.mypersonalcancerdiagnosis.com). The site has already achieved significant visitor interest from U.S. internet users, and in June, it was granted an APEX Award of Excellence, which recognizes excellence in communications. In addition, the Company is working with key patient groups to further disseminate important information about Previstage™ GCC and colorectal cancer staging directly to patients.

With regard to payers, the Company's reimbursement program is progressing on track. Our billing partner, Premier Source, is filing claims with insurance companies and pursuing appeals when required. To date, as expected, a number of tests have been paid in full or in part on a case-by-case basis. The Company intends to intensify its reimbursement over the coming months, with economics-based papers and further clinical studies.

Financial Liquidity

These initiatives are supported by a strong financial base. In late June, DiagnoCure issued a short-form preliminary prospectus aimed at raising additional funding to support its development initiatives. Management met with numerous healthcare-focused investment firms throughout the U.S. and Canada. Many expressed interest in the Company's business plan, and recognized the market potential of both its PCA3 and Previstage™ GCC tests, and the value of its pipeline and its intellectual property portfolio. However, given the market conditions, the Company decided to withdraw its prospectus.

The Company is committed to delivering value to its shareholders. DiagnoCure currently has \$17.2 million in cash, which should be sufficient to carry out the Company's activities for almost two years at the current rate of spending. Management will continue to consider appropriate financing opportunities, including potential partnerships, to support the development of its projects and leverage the value of its pipeline, and will continue to rigorously control its expenses to assure financial stability while remaining committed its short- and long-term milestones and to its stated vision and business plan.

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 the audited consolidated financial statements for the year ended October 31, 2008 and related notes. Management's comments were prepared to explain the Company's operations, performance and financial position as of July 31, 2009. 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, 2008. Amounts are in Canadian dollars unless otherwise noted. The information contained herein is up to date as of September 3rd, 2009.

Overview

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

In 1998, the Company initiated the commercialization of its first diagnostic test, ImmunoCyt™ / uCyt+™ for bladder cancer in Europe and, in 2000, obtained a 510(k) clearance from the Food and Drug Administration (FDA) for the commercialization of the test in the United States. In August 2008, as DiagnoCure looked to maximize the value of its portfolio and focus on high-value molecular diagnostics, the Company entered into a product divestment agreement for ImmunoCyt™ / uCyt+™ with Scimedx Corporation, a U.S.-based company. Terms of the agreement were not disclosed.

In May 2000, DiagnoCure obtained an exclusive worldwide license from the University of Nijmegen, The Netherlands, to commercialize the PCA3 molecular marker in prostate cancer. In 2003, DiagnoCure developed its second diagnostic test, uPM3™, based on measuring the expression of the PCA3 molecular marker. uPM3™ was first sold in 2003 in the United States in an Analyte Specific Reagents (ASR) format. That same year, 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 PCA3 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. 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. In November 2006, Gen-Probe received the European CE Mark for its PROGENSA® PCA3 test and subsequently introduced the test in selected sites in Europe. As of the fall of 2008, the PROGENSA® PCA3 was available from over 30 sites in Europe and the Middle East. On April 29th, 2009, DiagnoCure and Gen-Probe executed an amendment to their 2003 license agreement, establishing new FDA submission milestones and key distribution arrangements to leverage the full market potential of the PCA3-based test for prostate cancer in the United States, Europe and around the world. Pursuant to the amendment, Gen-Probe acquired on May 7, 2009, 4.9 million shares of newly issued DiagnoCure convertible preferred stock for US\$5.0 million. In addition, Gen-Probe

committed to make annual payments of US\$500,000 to DiagnoCure until specific milestones are met.

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. In 2008, after completing the development of one of the GCC diagnostic applications, the Company launched its Previstage™ GCC Colorectal Cancer Staging Test from 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 provided 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.

2009 First Nine Months Highlights

The Company presented its proprietary laboratory-developed test, the Previstage™ GCC Colorectal Cancer Staging Test, at the Gastrointestinal Cancers Symposium of the American Society of Clinical Oncology (ASCO), held in January in San Francisco. In conjunction with this annual symposium, DiagnoCure was selected to provide an educational grant to an Independent Satellite Symposium, “*Molecular Markers and Prognosis of Patients with Colorectal Cancer*”. An independent panel of three key colorectal cancer opinion leaders, all members of DiagnoCure’s Strategic Advisory Board, Dr. Edith P. Mitchell (Thomas Jefferson University), Dr. Stanley Hamilton (University of Texas M.D. Anderson Cancer Center) and Dr. Daniel Sargent (Mayo Clinic), reviewed different markers for the prognosis of colorectal cancer patients.

On February 18th, 2009, the *Journal of the American Medical Association* (JAMA), published positive results from a major prospective 5-year multicenter study of 425 enrolled patients demonstrating that guanylyl cyclase C (GCC), DiagnoCure’s marker, is the strongest independent predictor of colorectal cancer recurrence in patients considered low risk by current assessment methods. The study was conducted by investigators from Thomas Jefferson University, with contributions from McGill University, the Fox Chase Cancer Center and others. The study was conducted on a group of 257 colorectal cancer patients who were thought to have a lower risk of recurrence, according to histopathology (stage I and II patients). When GCC was considered with other factors, patients whose nodes were GCC positive were 4.7 times more likely to develop disease recurrence than those whose nodes were GCC negative. In fact, patients with GCC positive nodes had a risk of recurrence comparable to that of patients considered higher risk by histopathology (stage III).

On April 29th, 2009, DiagnoCure and Gen-Probe executed an amendment to their 2003 license agreement, establishing new FDA submission milestones and key distribution arrangements to leverage the full market potential of the PCA3-based test for prostate cancer in the United States, Europe and around the world. Pursuant to the amendment, Gen-Probe has acquired, on May 7, 2009, 4.9 million shares of newly issued DiagnoCure convertible preferred stock for US\$5.0 million. As part of the contract amendment, Gen-Probe will make annual payments of US\$500,000 to DiagnoCure until specific milestones are met. Half of the amounts paid will be applied against future royalties payable to DiagnoCure.

Also on April 29th, 2009, Gen-Probe announced that they intended to initiate before the end of the year a 500-patient multicenter clinical study designed to secure regulatory approval from

the FDA, which would allow Gen-Probe to fully promote and sell the PCA3 test in the United States. Subsequent to the third quarter end, on August 27, 2009, Gen-Probe announced the beginning of this clinical trial.

On June 25, 2009, DiagnoCure filed a preliminary short form prospectus with the security authorities in all provinces of Canada with respect to a proposed offering of its common shares. Given the market conditions, the Company has decided on July 21, 2009, to withdraw the preliminary short form prospectus.

Operating Results

For the Three-Month Period Ended July 31, 2009

Total revenues for the third quarter of 2009 were \$396,468 compared with \$486,074 for the third quarter of 2008. In the third quarter of 2009, royalty revenues amounted to \$113,687 compared with \$64,239 for the corresponding period of 2008. Royalties revenues from Gen-Probe increased by 64% or \$41,141, from \$64,239 to \$105,380 for the third quarter of 2009. This increase is mostly attributable to the sales of PROGENSA® PCA3 in Europe by Gen-Probe. Also in the third quarter of 2009, DiagnoCure recorded royalties of \$8,307 from Scimedx related to ImmunoCyt™ / uCyt+™, compared with \$111,753 of direct sales of ImmunoCyt™ / uCyt+™ for the same period of 2008. DiagnoCure ceased selling directly its bladder cancer test, ImmunoCyt™ / uCyt+™, as Scimedx is now taking the lead and paying royalties to DiagnoCure. Also in this quarter, DiagnoCure sold its last clinical samples to Gen-Probe in support of their prostate cancer testing R&D. For the corresponding quarter of 2008 DiagnoCure had sold clinical samples to Gen-Probe for an amount of \$39,179. As part of the amended agreement signed with Gen-Probe on April 29, 2009, DiagnoCure recorded a portion of the contractual annual payment, that is, \$145,767 for the third quarter of 2009. Also during the quarter, DiagnoCure received reimbursement for its Previstage™ GCC Colorectal Cancer Staging Test for an amount of \$24,782.

Interest income decreased by \$158,670, to \$112,232 for the third quarter of 2009 compared with \$270,902 for the third quarter of 2008. The decrease is attributable to DiagnoCure's use of fund to finance its operating activities and the lower interest rates on its investments.

Cost of sales decreased by \$70,990 from \$87,541 for the third quarter of 2008 to \$16,551 for the same quarter of 2009. This decrease is related to the end of direct ImmunoCyt™ / uCyt+™ sales by DiagnoCure and to the end of prostate cancer related sample sales during the quarter as stated above. The cost of sales for this quarter represents the cost related to the Previstage™ GCC Colorectal Cancer Staging Test reimbursed.

Operating expenses decreased by \$163,717, from \$4,606,507 for the third quarter of 2008 to \$4,442,790 for the third quarter of 2009. This decrease reflects the impact of the reduction of work force in November 2008 and the reduction in R&D expenses related to the completion of the Previstage™ GCC Colorectal Cancer Staging Test. The decrease is offset by a loss on foreign exchange related to conversion in C\$ of the cash and investments the Company held in US\$ at the end of the quarter. The Company maintains U.S. denominated liquidities in order to finance its U.S. activities expenses. Total operating expenses decreased primarily as a result of the following:

- Research and development expenses, net of investment tax credits, decreased by \$591,341, from \$2,080,430 for the third quarter of 2008 to \$1,489,089 for the same quarter of 2009.

The decrease in research and development expenses is attributable the impact of the reduction of work force in November 2008 and the reduction in R&D expenses related to the completion of the Previstage™ GCC Colorectal Cancer Staging Test.

- Selling and business development expenses decreased by \$27,421, from \$968,669 for the third quarter of 2008 to \$941,248 for the same quarter of 2009. This decrease is attributable to a reduction of professional fees related to business development.
- General and administrative expenses increased by \$102,468, from \$845,299 for the third quarter of 2008 to \$947,767 for the same quarter of 2009. This \$309,184 increase is attributable to the public offering announced in June 2009 and later withdrawn. Without this non recurrent expense, the administrative expenses would have decreased by \$206,716 mostly as a result of lower salary expenses.
- Stock-based compensation expenses, a non-cash charge, decreased by \$175,595 from \$316,772 for 2008 to \$141,177 for the same period of 2009. This decrease is attributable to the lower value of the options granted during the period. The decrease also reflects the end of the charges recognition associated to previously granted options.
- Loss on foreign exchange increased by \$491,429 from a gain of \$11,841 in the third quarter of 2008 to a loss of \$479,588 in the corresponding quarter of 2009. This increase is attributable to the conversion in C\$ of the cash and investments the Company held in US\$ at the end of the quarter. The Company maintains cash and investments in U.S. dollars in order to finance its U.S. activities.

Based on the above, for the third quarter of 2009, DiagnoCure recorded a net loss of \$4,034,364 or \$0.09 per share, compared with \$4,207,974 or \$0.10 per share, for the same period of 2008. These results are substantially in line with Management's expectations and reflect activities undertaken during this quarter, in line with the Company's plans and on-going commitment to develop high-value diagnostic tests for the detection and management of cancer.

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

	2009 \$	2008 \$	2007 \$
Sales	24,782	150,933	66,591
Revenue under research and license agreement	259,454	64,239	62,205
Interest	112,232	270,902	433,649
Total revenues	396,468	486,074	562,445
Cost of sales	16,551	87,541	52,474
Gross margin	379,917	398,533	509,971
Operating expenses (before stock-based compensation and loss (gain) on foreign exchange)	3,822,025	4,301,576	2,306,141
Net loss (before stock-based compensation and loss (gain) on foreign exchange)	(3,442,108)	(3,903,043)	(1,796,170)
Stock-based compensation	141,177	316,772	376,584
Loss (gain) on foreign exchange	479,588	(11,841)	15,700
Net loss before income taxes	(4,062,873)	(4,207,974)	(2,188,454)
Future income taxes	28,509	—	—
Net loss	(4,034,364)	(4,207,974)	(2,188,454)
Basic net loss per share	(0.09)	(0.10)	(0.05)
Diluted net loss per share	(0.08)	(0.10)	(0.05)
Weighted average number of common shares outstanding	42,849,475	42,792,445	40,950,786

This unaudited selected financial data has been prepared in accordance with Canadian generally accepted accounting principles.

For the Nine-Month Period Ended July 31, 2009

Total revenues for the nine-month period ended July 31, 2009 were \$1,263,743 compared with \$1,493,638 for the same period of 2008. In the first nine months of 2009, royalty revenues amounted to \$433,749 compared with \$151,617 for the corresponding period of 2008. Royalties revenues from Gen-Probe increased by 152% or \$231,181, from \$151,617 to \$382,798 for the first nine months of 2009. This increase is mostly attributable to the sales of PROGENSA® PCA3 in Europe by Gen-Probe. Also in the first nine months of 2009, DiagnoCure recorded royalties of \$50,951 from Scimedx, related to ImmunoCyt™ / uCyt+™. Direct sales of DiagnoCure's bladder cancer test, ImmunoCyt™ / uCyt+™, were \$44,827 for the first nine months of 2009 compared with \$278,348 for the same period of 2008. These 2009 ImmunoCyt™ / uCyt+™ sales represent the last direct sales as Scimedx is now taking the lead and paying royalties to DiagnoCure. Also in this nine-month period, DiagnoCure sold clinical samples to Gen-Probe in support of their prostate cancer testing R&D, for an amount of \$56,099 compared with \$122,373 for the same period of 2008. In the last quarter, DiagnoCure stopped selling clinical samples to Gen-Probe. As part of the amended agreement signed with Gen-Probe on April 29, 2009, DiagnoCure recorded a portion of the contractual annual payment, that is, \$145,767 for the third quarter of 2009. Also during the period, DiagnoCure received reimbursement for its Previstage™ GCC Colorectal Cancer Staging Test for an amount of \$26,942.

Interest income decreased by \$533,341 to \$407,959 for the first nine months of 2009 compared with \$941,300 for the same period of 2008. The decrease is attributable to DiagnoCure's use of fund to finance the operating activities and to lower interest rates on its investments.

Cost of sales decreased by \$198,276, from \$244,081 for the first nine months of 2008 to \$45,805 for the same period of 2009. This decrease is related to the end of direct ImmunoCyt™ / uCyt+™ sales by DiagnoCure as stated above and to lower sample sales as Gen-Probe reduced its samples needs for its product development. The cost of sales portion related to the Previstage™ GCC Colorectal Cancer Staging Test reimbursed was \$18,745 for the first nine months of 2009.

Operating expenses decreased from \$11,515,214 for the first nine months of 2008 to \$11,402,975 for the same period of 2009, a decrease of \$112,239. This decrease reflects the impact of the reduction of work force in November 2008 and the reduction in R&D expenses related to the completion of the Previstage™ GCC Colorectal Cancer Staging Test. The decrease is offset by a loss on foreign exchange, related to conversion in C\$ of the cash and investments the Company held in US\$ at the end of the quarter and the issue expenses of \$309,184 related to the June public offering. The Company maintains U.S. denominated liquidities in order to finance its U.S. activities expenses. Without these two items, the total expenses would have decreased by \$858,610. Total operating expenses decreased primarily as a result of the following:

- Research and development expenses, net of investment tax credits, decreased by \$801,087, from \$4,908,540 for the first nine months of 2008 to \$4,107,453 for the same period of 2009. The decrease in research and development expenses is attributable the impact of the reduction of work force in November 2008 and the reduction in R&D expenses related to the completion of the Previstage™ GCC Colorectal Cancer Staging Test.

- Selling and business development expenses increased by \$424,059, from \$2,153,449 for the first nine months of 2008 to \$2,577,508 for the same period of 2009. This increase is attributable to the Company's U.S. sales and marketing initiatives to promote and offer the Previstage™ GCC Colorectal Cancer Staging Test. To promote the test, the Company contributed to a special educational grant for an independent satellite symposium on Molecular Markers held in conjunction with the January 2009 Gastrointestinal Cancers Symposium of the American Society of Clinical Oncology.
- General and administrative expenses increased by \$33,005, from \$2,409,793 for the first nine months of 2008 to \$2,442,798 for the same period of 2009. This \$33,005 increase is attributable to the public offering (\$309,184) announced in June 2009 and later withdrawn. Without this non recurrent expense, the administrative expenses would have decreased by \$206,716 mostly as a result of lower salary expenses.
- Stock-based compensation expenses, a non-cash charge, decreased by \$434,160, from \$925,470 for the first nine months of 2008 to \$491,310 for the same period in 2009. This decrease is attributable to the lower value of the options granted during the period. The decrease also reflects the end of the charges recognition associated to previously granted options.
- Loss on foreign exchange increased by \$437,187 from a gain of \$2,486 in the first nine month of 2008 to a loss of \$434,701 for the corresponding period of 2009. This increase is attributable to conversion in C\$ of the cash and investments the Company held in US\$ at the end of the quarter. The Company maintains cash and investments in U.S. dollars in order to finance its U.S. activities.

Based on the above, for the first nine months of 2009, DiagnoCure recorded a net loss of \$10,097,256 or \$0.24 per share, compared with \$10,265,657 or \$0.24 per share, for the same period of 2008. These results are substantially in line with Management's expectations and reflect activities undertaken during this 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. At the end of the period, cash, short-term and long-term investments stood at \$17,249,422, down from \$20,130,705 as of October 31, 2008. This decrease of \$2,881,283 is due to the use of liquidity to finance the operating activities of the nine-month period ended on July 31, 2009, including \$5,805,326 generated from financing activities, mainly related to the issuance of 4.9 million convertible preferred shares to Gen-Probe as per the agreement signed on April 29, 2009. Management is satisfied that it has adequate cash resources to finance the Company's operations, and will monitor its cash levels.

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

	2009	2008	2007
	\$	\$	\$
Sales	127,868	400,721	338,634
Revenue under research and license agreement	727,916	151,617	1,795,996
Interest	407,959	941,300	836,951
Total revenues	1,263,743	1,493,638	2,971,581
Cost of sales	45,805	244,081	195,819
Gross margin	1,217,938	1,249,557	2,775,762
Operating expenses (before stock-based compensation, loss (gain) on foreign exchange and restructuring charges)	10,476,964	10,592,230	6,420,675
Net loss (before stock-based compensation, loss (gain) on foreign exchange and restructuring charges)	(9,259,026)	(9,342,673)	(3,644,913)
Restructuring charges	—	—	912,685
Stock-based compensation	491,310	925,470	1,259,084
Loss (gain) on foreign exchange	434,701	(2,486)	19,344
Net loss before income taxes	(10,185,037)	(10,265,657)	(5,836,026)
Future income taxes	87,781	—	—
Net loss	(10,097,256)	(10,265,657)	(5,836,026)
Basic loss per share	(0.24)	(0.24)	(0.16)
Diluted loss per share	(0.21)	(0.24)	(0.16)
Weighted average number of common shares outstanding	42,815,150	42,096,998	37,311,232

This unaudited selected financial data has been prepared in accordance with Canadian generally accepted accounting principles.

Total Assets and Shareholders' Equity

Total assets amounted to \$29,340,753 as of July 31, 2009, compared with \$33,146,066 as of October 31, 2008, mostly as a result of the use of liquidity to finance the operating activities. The book value per Common Share was \$0.60 as of July 31, 2009, compared with \$0.69 per Common Share as of October 31, 2008.

Balance Sheet (Unaudited)

As of July 31

	2009	2008	2007
	\$	\$	\$
Total assets	29,340,753	36,996,019	42,937,956
Shareholders' equity	25,842,928	33,013,201	41,052,289
Number of common shares outstanding	42,849,475	42,792,475	40,950,786

Cash Position and Financing Sources

Cash flows required from operating activities during the third quarter of 2009 amounted to \$2,582,305 compared with \$3,097,592 required in the third quarter of 2008. This decrease of \$515,287 is mostly due to the decrease in research and development expenses attributable to the impact of the reduction of work force in November 2008 and the reduction in R&D expenses related to the completion of the Previstage™ GCC Colorectal Cancer Staging Test. Investment activities generated cash flows of \$1,177,668 for the third quarter of 2009 compared with

\$4,132,741 for the third quarter of 2008. During the third quarter of 2009, acquisition of tangible and intangible capital assets amounted to \$57,428 compared with \$219,290 for the same period of 2008. This decrease is mostly attributable to less acquisition of property plant and equipment as the Company's U.S. laboratory is now operational. Financing activities, primarily from the issuance of convertible preferred shares relative to the agreement signed with Gen-Probe, generated cash flows of \$5,805,326 for the third quarter of 2009. For the corresponding period of 2008, the Company did not issue any share.

Cash Flows for the Third Quarters (Unaudited)

	2009 \$	2008 \$	2007 \$
Cash flows related to operating activities	(2,582,305)	(3,097,592)	(2,707,854)
Cash flows related to investing activities	1,177,668	4,132,741	(10,288,980)
Cash flows related to financing activities	5,805,326	—	—

Cash flows required from operating activities during the first nine months of 2009 amounted to \$8,593,597 compared with \$7,983,891 required for the same period of 2008. This increase of \$609,706 is attributable to the difference in non-cash working capital, mostly due to the decrease in account receivable related to the reception of Gen-Probe annual payment in the third quarter of 2009. Investment activities generated cash flows of \$8,079,512 for the first nine months of 2009 compared with \$11,071,502 for the same period of 2008. During the first nine months of 2009, acquisition of tangible and intangible capital assets amounted to \$96,712 compared with \$1,663,769 for the same period of 2008. This decrease is mostly attributable to intellectual properties milestones paid in the first nine month of 2008 and to less acquisition of property plant and equipment as the Company's U.S. laboratory is now operational. Financing activities, primarily from the issuance of convertible preferred shares relative to the agreement signed with Gen-Probe, generated cash flows of \$5,809,026 for the first nine month of 2009 compared with \$154,766 for the corresponding period of 2008.

DiagnoCure will continue to invest its cash reserve in liquid, high-grade investments, guaranteed by the government. The financial crisis has had no impact on the Company's investments in the first nine months of 2009, except that the decrease in interest rates has resulted in lower revenues for the Company. Furthermore, in the coming months, we could see the same impact on the interest revenue that will be generated by these investments, as a result of the recent decrease in the key interest rate of the Bank of Canada.

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

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

	2009 \$	2008 \$	2007 \$
Cash flows related to operating activities	(8,593,597)	(7,983,891)	(3,831,247)
Cash flows related to investing activities	8,079,512	11,071,502	(8,088,652)
Cash flows related to financing activities	5,809,026	154,766	23,482,591

Issued and Outstanding Share Capital

As of September 3, 2009, the Company had 42,949,475 common shares issued and outstanding, 4,900,000 convertible preferred shares and 2,786,934 stock options granting the right to acquire an equal amount of common shares.

Off-Balance Sheet Arrangements and Other Commitments

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 may have to be paid by the Company over the next years is \$2,125,000.

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.

As at July 31, 2009, DiagnoCure had 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 July 31, 2009, approximately \$18.50 million of funds from the July 2004 public offering have been spent on specific projects and for general corporate purposes listed in the table below. Since cash flows of the Company are derived from numerous sources, in order to determine how the proceeds of the public offering are spent and allocated, certain assumptions were required. Those assumptions are as follows:

- Day-to-day administrative and operating expenses for the Company are funded from the licence payments that DiagnoCure receives from Gen-Probe, interest income and gross margin realized on our sales.
- Additional funds over those required to fund items above are 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, 2009	Amount spent for the nine-month period ended July 31, 2009
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 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	\$7.50 million	\$1.50 million
Acquire complementary technologies and uses for other general corporate purposes	\$5.33 million	\$4.50 million	—

With this financing, the Company has completed the uPM3™ prostate cancer test and has continued the advancement of other cancer tests. In 2006, the Company elected to cease its activities with respect to the automation of ImmunoCyt+™ / uCyt+™ and in 2008 has completed a divestment agreement with Scimedx. The Company is now receiving royalties on the ImmunoCyt+™ / uCyt+™ product sales realized by Scimedx.

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 5.80 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, 2009, approximately \$20.80 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 the table below):

Description of “Use of Proceeds”	Amount spent as at July 31, 2009
Acquire and integrate or partner with one or more reference laboratories	\$4.60 million
Expand the product portfolio	\$3.50 million
Acquire or in-license additional cancer biomarkers and for product development purposes.	\$12.70 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 audited consolidated financial statements included in the fiscal 2008 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, treated as a reduction to research and development expenses, amounted to \$338,152 for the first nine months of 2009 compared with \$368,389 for the same period in 2008 and are based on Management's estimates of amounts to be recovered. While these amounts are subject to review by tax authorities, Management believes that its estimate of these amounts is reasonable.

Impairment of Long-Term Assets

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

Stock-Based Compensation Plan

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

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 payments			
Contractual obligations	Total	Year 1	Years 2 and 3	Years 4 and 5
Lease agreements	\$1,754,087	\$563,313	\$687,678	\$503,096

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.

New Accounting Policies

The Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA) as at November 1st, 2008:

Section 3064, “Goodwill and Intangible Assets”, 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.

CICA 1400, “General Standards of Financial Statement Presentation”, was amended to include requirements to assess and disclose an entity’s ability to continue as going concern.

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the AcSB released Section 1582 “Business Combinations”, Section 1601 “Consolidated Financial Statements” and Section 1602 “Non-Controlling Interest”, which replace Section 1581 “Business Combinations” and Section 1600 “Consolidated Financial Statements”.

Section 1582 provides the Canadian equivalent to IFRS 3 “Business Combinations”. The new recommendations require measuring business acquisitions at the fair value of the acquired business, including the measurement at fair value of items such as non-controlling interests and contingent payment considerations. Also, the previously unrecognized deferred tax assets related to the acquiree subsequent to the business combination are recognized in the consolidated statements of income rather than as a reduction of goodwill. In addition, business acquisition related costs are expensed as incurred.

The adoption of Section 1582 should have a material effect on the accounting for business combinations that will occur subsequent to February 1, 2009. Past acquisitions are not restated.

Section 1601, together with Section 1602, replaces Section 1600. Section 1601 establishes standards for the preparation of consolidated financial statements and is aligned with the corresponding provisions of Section 1600.

Section 1602 is aligned with the corresponding provisions of IAS 27, “Consolidated and Separate Financial Statements” and establishes standards for accounting for non-controlling interests in a subsidiary subsequent to a business combination. Section 1602 introduces a number of changes, for example:

- In the consolidated balance sheets and consolidated statements of shareholders’ equity, non-controlling interests are now presented as a separate component of shareholders’ equity rather than as a liability;
- Non-controlling interests are no longer recorded as a deduction of net income and total comprehensive income as a result of their presentation in equity;
- For the purpose of computing EPS, net income is attributed between the shareholders of DiagnoCure Inc. and the non-controlling interests based on their respective economic interests. The components of OCI are attributed following the same logic; and
- Changes in non-controlling ownership interests not resulting in a loss of control are accounted for as equity transactions, with no gains and losses recorded in the consolidated statements of income.

Fair Value Measurements

In January 2009, the Emerging Issues Committee issued EIC-173 "Credit risk and the fair value of financial assets and financial liabilities", which requires that the fair value of financial instruments, including derivative financial instruments, take into account the counterparties' credit risks for assets and the Company's credit risk for liabilities. This interpretation must be applied retrospectively without restatement of prior years. The Company has adopted this interpretation effective February 1, 2008.

The adoption of these new sections do not have any material impact on the Company financial statement.

Recent Accounting Pronouncements

The CICA plans to converge Canadian GAAP 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.

Financial Instruments

In June 2009, the CICA issued amendments to Section 3862 "Financial Instruments—Disclosures" adding enhanced disclosure requirements about fair value measurements and liquidity risk of financial instruments for publicly accountable enterprises. The amendments will be effective for annual financial statements relating to fiscal years ending after September 30, 2009, and will have no effect on results, financial position or cash flows. The Company does not foresee that these amendments' adoption in its annual financial statements will have a material effect on its disclosures.

Procedures and Controls Regarding Disclosure

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

An evaluation was completed under their supervision in order to measure the effectiveness of the controls and procedures relating to the preparation of disclosure documentation, including this Management's Discussion and Analysis and this Quarterly Report. Based upon this evaluation, the President and Chief Executive Officer, and the Senior Vice President and Chief Financial Officer of the Company concluded that disclosure controls and procedures were effective as at the end of the quarter ended July 31, 2009, 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 operations is essential to ensure future success and is as such a risk factor. The reader is referred to the applicable general risks 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 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 risks 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 and there was, to the knowledge of Management, no event or circumstance in the third quarter of 2009 likely to cause actual results to differ materially from these forward looking-statements. In addition, the reader is referred to the applicable general risks 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 unless required by the applicable securities laws and regulations.

Further information about DiagnoCure may be obtained on the Company's web site at www.diagnocure.com. Additional information, including the Company's Annual Information Form and Annual report, is also available on SEDAR at www.sedar.com.

Québec, Canada

September 3rd, 2009

(Signed)

John C. Schafer
President and Chief Executive Officer

(Signed)

Jean-François Bureau
Senior Vice President and Chief Financial Officer

NOTICE OF DISCLOSURE OF NON-AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED JULY 31, 2009 AND 2008

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, 2009 and 2008, 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 3rd day of September 2009

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS (UNAUDITED)

For the periods ended July 31

	Three-month periods		Nine-month periods	
	2009	2008	2009	2008
	\$	\$	\$	\$
Revenues				
Sales	24,782	150,933	127,868	400,721
Cost of sales	(16,551)	(87,541)	(45,805)	(244,081)
	8,231	63,392	82,063	156,640
Revenue under research and license agreements	259,454	64,239	727,916	151,617
Interest	112,232	270,902	407,959	941,300
	379,917	398,533	1,217,938	1,249,557
Operating expenses				
Research and development expenses	1,583,229	2,193,823	4,445,605	5,277,529
Investment tax credits	(94,140)	(113,393)	(338,152)	(368,989)
	1,489,089	2,080,430	4,107,453	4,908,540
Selling and business development expenses	941,248	968,669	2,577,508	2,153,449
General and administrative expenses	947,767	845,299	2,442,798	2,409,793
Stock-based compensation	141,177	316,772	491,310	925,470
Depreciation of property, plant and equipment	139,876	132,844	436,813	363,317
Amortization of intangibles	297,663	269,812	892,291	744,164
Loss (gain) on foreign exchange	479,588	(11,841)	434,701	(2,486)
Financial expenses	6,382	4,522	20,101	12,967
	4,442,790	4,606,507	11,402,975	11,515,214
Loss before income taxes	(4,062,873)	(4,207,974)	(10,185,037)	(10,265,657)
Future income taxes	28,509	—	87,781	—
Net loss and comprehensive loss	(4,034,364)	(4,207,974)	(10,097,256)	(10,265,657)
Basic net loss per share	(0.09)	(0.10)	(0.24)	(0.24)
Diluted net loss per share	(0.08)	(0.10)	(0.21)	(0.24)
Weighted average number of common shares outstanding	42,849,475	42,792,445	42,815,150	42,096,998

CONSOLIDATED STATEMENTS OF DEFICIT

(UNAUDITED)

For the nine-month periods ended July 31

	2009	2008
	\$	\$
Deficit, beginning of period	(69,315,440)	(55,481,462)
Net loss	(10,097,256)	(10,265,657)
Preferred shares issue expenses	(70,174)	
Deficit, end of period	(79,482,870)	(65,747,119)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

For the periods ended July 31

	Three-month periods		Nine-month periods	
	2009	2008	2009	2008
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss	(4,034,364)	(4,207,974)	(10,097,256)	(10,265,657)
Adjustment for:				
Stock-based compensation	141,177	316,772	491,310	925,470
Depreciation and amortization	437,539	402,656	1,329,104	1,107,481
Future income taxes	(28,509)	—	(87,781)	—
	(3,484,157)	(3,488,546)	(8,364,623)	(8,232,706)
Net change in non-cash working capital items	901,852	390,954	(228,974)	248,815
Cash flows related to operating activities	(2,582,305)	(3,097,592)	(8,593,597)	(7,983,891)
INVESTING ACTIVITIES				
Change in temporary investments	309,425	3,476,855	2,318,786	11,346,557
Change in long-term investments	925,671	865,295	5,857,438	1,378,833
Acquisition of property, plant and equipment	(46,194)	(194,581)	(70,647)	(621,705)
Acquisition of intangibles	(11,234)	(24,709)	(26,065)	(1,042,064)
Disposal of intangibles	—	9,881	—	9,881
Cash flows related to investing activities	1,177,668	4,132,741	8,079,512	11,071,502
FINANCING ACTIVITIES				
Issue of common shares <i>[note 6]</i>	18,500	—	22,200	154,766
Issue of preferred shares <i>[note 6]</i>	5,857,000	—	5,857,000	—
Preferred shares issue expenses	(70,174)	—	(70,174)	—
Cash flows related to financing activities	5,805,326	—	5,809,026	154,766
Net increase (decrease) in cash and cash equivalents for the period	4,400,689	1,035,149	5,294,941	3,242,377
Cash and cash equivalents, beginning of period	1,790,679	2,858,814	896,427	651,586
Cash and cash equivalents, end of period	6,191,368	3,893,963	6,191,368	3,893,963

See accompanying notes

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	July 31, 2009 \$	October 31, 2008 \$
ASSETS		
Current assets		
Cash and cash equivalents	6,191,368	896,427
Temporary investments	9,157,953	11,476,739
Accounts receivable	323,770	352,493
Investment tax credits receivable	824,301	486,149
Prepaid expenses	186,521	187,588
	16,683,913	13,399,396
Long-term investments	1,900,101	7,757,539
Property, plant and equipment	1,114,722	1,480,888
Intangibles	9,642,017	10,508,243
	29,340,753	33,146,066
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	2,570,677	2,491,289
Future income tax liabilities	927,148	1,014,929
Shareholders' equity		
Capital stock <i>[note 6]</i>		
Common shares	91,927,263	91,885,595
Preferred Shares	5,857,000	—
Contributed surplus <i>[note 6]</i>	7,541,535	7,069,693
Deficit	(79,482,870)	(69,315,440)
	25,842,928	29,639,848
	29,340,753	33,146,066

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

As of July 31, 2009

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, 2008, 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, 2008, 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) Significant Accounting Policies

Revenue recognition

The Company's product revenues for tests performed are recognized when the following criteria of revenue recognition are met: (1) persuasive evidence that an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed or determinable; and (4) collectability is reasonably assured. Criterion (2) is satisfied when the Company performs the test and generates and delivers a report to the physician. Determination of criteria (3) and (4) is based on Management's judgment regarding the nature of the fee charged for products or services delivered and the collectability of those fees. Product revenues where the criteria set forth in (1) and (2) above are met, and (3) and (4) above are not met, are recognized on a cash basis when cash is received.

The Company generally bills third-party payers for the Previstage™ GCC Colorectal Cancer Staging Test upon generation and delivery of a Previstage™ GCC Result Report to the physician. As such, the Company takes assignment of benefits and the risk of collection with the third-party payor. The Company usually bills the patient directly for amounts owed after multiple requests for payment have been denied or only partially paid by the insurance carrier. As a relatively new test, the Previstage™ GCC Colorectal Cancer Staging Test may be considered investigational by payors and not covered under their reimbursement policies. Consequently, the Company pursues case-by-case reimbursement where policies are not in place or payment history has not been established. As a result, at the time of delivery of the Previstage™ GCC Result Report to the physician, and in the absence of a reimbursement contract or sufficient payment history, collectability cannot reasonably be assured and revenues are therefore only recognized at the time cash is collected.

3) Significant Accounting Policies (Cont'd)

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

Interest income is recognized on an accrual basis.

4) New Accounting Policies

The Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA) as at November 1st, 2008:

Section 3064, "Goodwill and Intangible Assets", 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.

CICA 1400, "General Standards of Financial Statement Presentation", was amended to include requirements to assess and disclose an entity's ability to continue as going concern.

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the AcSB released Section 1582 "Business Combinations", Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interest", which replace Section 1581 "Business Combinations" and Section 1600 "Consolidated Financial Statements".

Section 1582 provides the Canadian equivalent to IFRS 3 "Business Combinations". The new recommendations require measuring business acquisitions at the fair value of the acquired business, including the measurement at fair value of items such as non-controlling interests and contingent payment considerations. Also, the previously unrecognized deferred tax assets related to the acquiree subsequent to the business combination are recognized in the consolidated statements of income rather than as a reduction of goodwill. In addition, business acquisition related costs are expensed as incurred.

The adoption of Section 1582 should have a material effect on the accounting for business combinations that will occur subsequent to February 1, 2009. Past acquisitions are not restated.

Section 1601, together with Section 1602, replaces Section 1600. Section 1601 establishes standards for the preparation of consolidated financial statements and is aligned with the corresponding provisions of Section 1600.

Section 1602 is aligned with the corresponding provisions of IAS 27, "Consolidated and Separate Financial Statements" and establishes standards for accounting for non-controlling interests in a subsidiary subsequent to a business combination. Section 1602 introduces a number of changes, for example:

- In the consolidated balance sheets and consolidated statements of shareholders' equity, non-controlling interests are now presented as a separate component of shareholders' equity rather than as a liability;

4) New Accounting Policies (Cont'd)

- Non-controlling interests are no longer recorded as a deduction of net income and total comprehensive income as a result of their presentation in equity;
- For the purpose of computing EPS, net income is attributed between the shareholders of DiagnoCure Inc. and the non-controlling interests based on their respective economic interests. The components of OCI are attributed following the same logic; and
- Changes in non-controlling ownership interests not resulting in a loss of control are accounted for as equity transactions, with no gains and losses recorded in the consolidated statements of income.

Fair value measurements

In January 2009, the Emerging Issues Committee issued EIC-173 "Credit risk and the fair value of financial assets and financial liabilities", which requires that the fair value of financial instruments, including derivative financial instruments, take into account the counterparties' credit risks for assets and the Company's credit risk for liabilities. This interpretation must be applied retrospectively without restatement of prior years. The Company has adopted this interpretation effective February 1, 2008.

The adoption of these new sections does not have any material impact on the Company financial statement.

5) Restructuring Charges

On December 13, 2006, the Company announced a shift in business strategy, including the decision to discontinue supporting R&D activities related to improvements in its cell-based bladder cancer diagnostic test and a reduction in marketing initiatives for this product. This decision 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 total restructuring charge was \$1,317,719 of which \$1,150,134 was paid as of July 31, 2009, and \$167,585 is still outstanding.

	Opening balance of liabilities as of October 31, 2008	Cost engaged and past in charge	Adjustments	Closing balance as of July 31, 2009
	\$	\$	\$	\$
Provision for vacated leased premises	363,151	195,566	—	167,585
	363,151	195,566	—	167,585

No additional charges related to 2007 restructuring are expected for the 2009 financial year.

6) Capital Stock

Authorized

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

Common, voting and participating shares.

6) Capital Stock (Cont'd)

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.

Common Shares

	July 31, 2009	October 31, 2008
	\$	\$
Issued and fully paid		
42,849,475 common shares (42,794,475 as at October 31, 2008)	91,927,263	91,885,595

	July 31, 2009	
	Number of shares	Amount \$
Capital Stock		
Balance, beginning of period	42,794,475	91,885,595
Issuance of common shares	55,000	22,200
Portion previously recognized to surplus as part of stock-based compensation	—	19,468
Balance, end of period	42,849,475	91,927,263

Preferred Shares

	July 31, 2009	October 31, 2008
	\$	\$
Issued and fully paid		
4,900,000 Preferred shares (— as at October 31, 2008)	5,857,000	—

	July 31, 2009	
	Number of shares	Amount \$
Capital Stock		
Balance, beginning of period	—	—
Issuance of preferred shares	4,900,000	5,857,000
Balance, end of period	4,900,000	5,857,000

On April 29, 2009, DiagnoCure and Gen-Probe executed an amendment to their 2003 license agreement. On May 7, 2009, pursuant to the amendment, Gen-Probe acquired 4.9 million of newly issued DiagnoCure convertible preferred shares for US\$5.0 million representing a premium of 19.8% over the average market price of the common shares of DiagnoCure during the 20 trading days prior to April 28, 2009. These convertible preferred shares are non-voting, with a fixed, preferential and non-cumulative dividend of 6% per annum, and may be exchanged for common shares on a one-for-one basis. DiagnoCure has the option to redeem the preferred shares or to require their conversion into common shares in certain circumstances.

Stock options

During the three-month period ended January 31, 2009, the Company granted 296,000 (313,500 in 2008) options to certain employees and directors. The weighted average fair value of stock options granted during this period amounted to \$0.62 (\$1.31 in 2008) per stock option.

During the three-month period ended April 30, 2009, the Company did not grant options (300,000 in 2008) to employees and directors. The weighted average fair value of stock options granted during the second quarter of 2008 was \$1.34 per stock option.

6) Capital Stock (Cont'd)

During the three-month period ended July 31, 2009, the Company granted 7,000 (30,900 in 2008) options to certain employees and directors. The weighted average fair value of stock options granted during this period amounted to \$0.62 (\$2.18 in 2008) 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:

	Three-month periods January 31		Three-month periods April 30		Three-month periods July 31	
	2008	2009	2008	2009	2008	2009
	Risk-free interest rate	3.93%	2.44%	3.69%	—	3.80%
Expected life	8 years	8 years	8 years	—	8 years	8 years
Expected volatility factor	70%	76%	70%	—	70%	76%
Expected dividend yield	—	—	—	—	—	—

Contributed surplus

	2009
	\$
Balance as of October 31, 2008	7,069,693
Stock-based compensation expense	491,310
Stock options cancelled	(19,468)
Balance as of July 31, 2009	7,541,535

7) Financial Instruments

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. The classification of the financial instruments as well as their carrying values and fair values are shown in the table below:

July 31, 2009						
	Held for trading	Held-to-maturity	Loans and receivables	Other financial liabilities	Carrying value Total	Fair value Total
	\$	\$	\$	\$	\$	\$
Financial assets						
Cash and cash equivalents	6,191,368	—	—	—	6,191,368	6,191,368
Temporary investments	—	9,157,953	—	—	9,157,953	9,238,716
Accounts receivable	—	—	288,644	—	288,644	288,644
Long-term investments	—	1,900,101	—	—	1,900,101	1,971,459
	6,191,368	11,058,054	288,644	—	17,538,066	17,690,457
Financial liabilities						
Accounts payable	—	—	—	2,511,548	2,511,548	2,511,548

7) Financial Instruments (Cont'd)

October 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	896,427	—	—	—	896,427	896,427
Temporary investments	—	11,476,739	—	—	11,476,739	11,484,734
Accounts receivable	—	—	268,552	—	268,552	268,552
Long-term investments	—	7,757,539	—	—	7,757,539	7,853,710
	896,427	19,234,278	268,552	—	20,399,257	20,503,423
Financial liabilities						
Accounts payable	—	—	—	2,401,456	2,401,456	2,401,456

Foreign currency risk

The Company operates internationally and a portion of its expenses are incurred in U.S. dollars. A significant change in the currency exchange rate between the Canadian dollar relative to the U.S. dollar could have a material effect on its consolidated results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

The Company maintains available for sale cash equivalents, accounts payable and accrued liabilities in U.S. dollars and is therefore exposed to foreign exchange risk on these balances.

The significant balances in foreign currencies as at July 31, 2009 are as follow:

	U.S. dollars \$
Cash and cash equivalents	4,708,050
Accounts receivable	250,399
Accounts payable	(566,579)
Net exposure	4,391,870

Based on the aforementioned net exposure as at July 31, 2009, and assuming that all other variables remain constant, a 5% rise or fall in the Canadian dollar against the U.S. dollar would have resulted in (increase) decrease in the net loss as follows:

	Canadian dollars	
	Appreciates 5% \$	Depreciates 5% \$
Against U.S. dollar		
Net loss	219,594	(219,594)

8) Segmented Information

Information pertaining to segmented results for the periods ended July 31, 2009 and 2008 is as follows:

	Three-month periods					
	Consolidated Amounts		Biotechnologies		Laboratory Services	
	2009	2008	2009	2008	2009	2008
	\$	\$	\$	\$	\$	\$
Revenue from external sales	284,236	215,172	259,454	215,172	24,782	—
Interest Revenues	112,232	270,902	111,800	270,509	432	393
Loss before the following items:	1,960,177	1,403,594	1,140,030	654,837	820,147	748,757
Stock-based compensation	141,177	316,772	141,177	316,772	—	—
Depreciation and amortization	437,539	402,656	397,308	380,447	40,231	22,209
Segmented loss	2,538,893	2,123,022	1,678,515	1,352,056	860,378	770,966
Net R&D expenses	1,489,089	2,080,430	784,683	1,530,559	704,406	549,871
Financial expenses	6,382	4,522	2,527	2,073	3,855	2,449
Net loss	4,034,364	4,207,974	2,465,725	2,884,668	1,568,639	1,323,286

	Nine-month periods					
	Consolidated Amounts		Biotechnologies		Laboratory Services	
	2009	2008	2009	2008	2009	2008
	\$	\$	\$	\$	\$	\$
Revenue from external sales	855,784	552,338	828,842	552,338	26,942	—
Interest revenues	407,959	941,300	405,558	940,907	2,401	393
Loss before the following items:	4,149,288	3,311,199	1,882,489	1,576,541	2,266,799	1,734,658
Stock-based compensation	491,310	925,470	491,310	925,470	—	—
Depreciation and amortization	1,329,104	1,107,481	1,201,600	1,071,939	127,504	35,542
Segmented loss	5,969,702	5,344,150	3,575,399	3,573,950	2,394,303	1,770,200
Net R&D expenses	4,107,453	4,908,540	2,328,612	3,847,988	1,778,841	1,060,552
Financial expenses	20,101	12,967	8,575	8,773	11,526	4,194
Net loss	10,097,256	10,265,657	5,912,586	7,430,711	4,184,670	2,834,946

The business segment Laboratory Services reflects the Company's U.S. activities and its Previstage™ GCC staging test initiative. The Laboratory Services activities are performed by the subsidiary DiagnoCure U.S., GP. The business segment Biotechnologies reflects the Company's Canadian activities and its R&D initiative to develop diagnostic tests. This segment also includes some administrative activities. The Biotechnologies activities are performed by DiagnoCure, Inc. Assets relating to the Biotechnologies segment represent 98% of the consolidated assets and are located in Canada.

8) Segmented Information (Cont'd)

For the biotechnologies segment, one American client represented 91% (50% in 2008) of the revenues from external sales.

In the first nine months of 2009, the total external sales are attributable to the United States. In the first nine months of 2008, \$350,370 was attributable to the United States, \$59,293 to Canada and \$142,675 to Europe. The Company determines the revenues by country based on where the product or service is delivered.

9) 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 which amounts to \$25,842,928 (\$29,639,848 as of October 31, 2008) 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 necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of debt or equity, through merger and acquisitions transactions, by securing additional partnerships or research and development collaboration or by disposing of assets.

Management is satisfied that it has adequate cash resources to finance the Company's activities, and will monitor its cash levels.

10) Comparative Figures

Certain of the 2008 figures have been reclassified in order to conform to the presentation adopted in 2009.