



Quarterly Report 3

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Period ended July 31, 2010

MESSAGE TO SHAREHOLDERS

Dear Shareholders:

We are pleased to introduce DiagnoCure's financial results for the third quarter for the fiscal year 2010. During this past quarter, the Company has taken steps to maximize the return on investment in its U.S. service laboratory and the Previstage™ GCC Colorectal Cancer Staging test; moreover Gen-Probe, DiagnoCure's commercial partner, provided positive news with regard to the results of their pivotal FDA trial on PCA3, the Company's proprietary prostate cancer biomarker.

PCA3 prostate cancer biomarker

On July 29, 2010, during the conference call of their second quarter earnings, Gen-Probe announced that they had completed the data analysis of their pivotal FDA trial on the PCA3 prostate cancer biomarker. Although they prefer to disclose the full data in relevant medical meetings after they file the test with the FDA, they indicated that the results met their internal expectations, and were consistent with other studies previously presented and published. Gen-Probe's management stated that they are now preparing for an FDA filing during the third quarter "with great enthusiasm and a strong sense of medical and economic urgency."

Gen-Probe also mentioned that beta units of their new automated platform, PANTHER, have been placed in a number of sites in Europe, and that the development remains on track for a European launch by year-end. DiagnoCure believes that this new platform will enable laboratories to process the PCA3 test more efficiently and should therefore have a positive impact on the sales of the test.

Previstage™ GCC Colorectal Cancer Staging Test

On August 3, DiagnoCure reported that the New York State Department of Health had issued a Clinical Laboratory Permit to DiagnoCure Oncology Laboratories (DOL), the Company's CLIA-approved and CAP-accredited laboratory in West Chester, Pennsylvania. This permit allows the laboratory to process commercial samples originating in New York for the Previstage™ GCC Colorectal Staging Test. It is also a reflection of the high quality of the test and services offered by DOL. Earning the permit requires successful completion of an evaluation program that many consider to be the most rigorous in the U.S. The program includes on-site inspections, proficiency testing, and assessment of personnel qualifications to ensure the accuracy and reliability of laboratory test results.

The NY state permit completes the other state licenses and accreditations received since 2008, which means DOL can now offer the Previstage™ GCC test in all states in the U.S. Moreover, year-to-date, the Company has experienced 158% growth year-to-date in surgeons ordering the test for the first time. This is an important adoption milestone, as surgeons are accountable for managing the stage of a patient's cancer and deciding whether to refer a patient to an oncologist to discuss adjuvant treatment. We believe that this market penetration, coupled with the roll out of the Company's colorectal disease management program, should allow DiagnoCure Oncology Laboratories to have sustainable future growth.

Also in the third quarter, Chantal Miklosi joined DiagnoCure as the new Chief Financial Officer. Mrs. Miklosi brought over 15 years experience in investment banking and finance. Prior to joining DiagnoCure, Mrs. Miklosi was the Managing Director and Chief Financial Officer at JMP

Securities in San Francisco, a publicly traded investment bank and asset management firm, where she was responsible for the firm's accounting and financial operations. Before that, she served as a Senior Finance Executive for Orrick, Herrington & Sutcliffe LLP, a national U.S. law firm and as Senior Director of Financial Planning and Analysis at Versata, a publicly traded software company. Additionally, she has worked as an investment banker at Thomas Weisel Partners, Montgomery Securities and Nesbitt Burns. Mrs. Miklosi holds a MBA from the University of Western Ontario, Ivey School of Business and a BBA in finance from HEC Montreal.

More recently, in late August, DiagnoCure has retained the services of JMP Securities LLC, to assist the Company in determining the best option to drive the growth of its U.S.-based subsidiary, DiagnoCure Oncology Laboratories. One of these options may include investments from partnerships or investors with dilution only occurring at DiagnoCure's ownership of the U.S. laboratory operations, without any diluting effect on the ownership of other assets of the Company, including the exclusive rights to the PCA3 prostate cancer biomarker. JMP was chosen among the best firms, for its track record and specialized expertise in the healthcare industry. In working with JMP, DiagnoCure aims to determine the most effective method to roll out the Company's U.S. colorectal cancer disease management program, and hence maximize the return on investment in terms of long-term shareholder value.

(Signed)
Yves Fradet
President and Chief Medical Officer
(Chief Executive Officer)

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, 2009 and related notes. Management's comments were prepared to explain the Company's operations, performance and financial position as of July 31, 2010. 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, 2009. Amounts are in Canadian dollars unless otherwise noted. The information contained herein is up to date as of September 9th, 2010.

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, in order to maximize the value of its portfolio and focus on high-value molecular diagnostics, DiagnoCure 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 relation with 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, California, 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 end of 2009, the PROGENSA[®] PCA3 was available from over 40 sites in Europe. On April 29, 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 DiagnoCure Series A Convertible Preferred Shares 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.

2010 First Nine Months Highlights

In January 2010, at the Gastrointestinal Cancers Symposium of the American Society of Clinical Oncology (ASCO GI), DiagnoCure presented the results of a new study on the GCC marker used in its Previstage™ GCC Colorectal Cancer Staging Test. The study demonstrated that patients who had at least one GCC positive lymph node were two times more likely to experience disease recurrence than patients who had no GCC positive lymph nodes. This study, which included 123 patients was also published in May 2010 in the Journal of Clinical Pathology.

On February 15, 2010, the Company announced some changes aimed at optimizing its enterprise's structure. Henceforth, the Company will be managed according to two separate reporting entities, that is the Quebec operations comprised of the head office and R&D activities, and the West Chester, PA, service laboratory operations focused on the commercialization of molecular cancer tests, in particular DiagnoCure's Previstage™ GCC Colorectal Cancer Staging Test.

This realignment, coupled with a selective reduction in personnel that maintained all of the Company's core competencies, is expected to allow DiagnoCure to preserve all the liquidity necessary to support its operations until the sales of Previstage™ GCC ramp up and the PCA3 test is approved for sale in the U.S. This approval is now anticipated to occur in 2011, following the expected 2010 submission of a Premarket Approval application (PMA) by DiagnoCure's partner, Gen-Probe, to the U.S. Food and Drug Administration.

In early March 2010, PCA3's clinical utility was confirmed in two large worldwide studies, conducted on a subset of about 2,400 patients from GlaxoSmithKline's REDUCE trial of dutasteride. The studies were presented at the American Society of Clinical Oncology's Genitourinary Cancers Symposium (ASCO GU) in San Francisco. The results demonstrated that PCA3 can help determine whether men suspected of having prostate cancer should undergo a repeat biopsy and can predict the risk of having an aggressive cancer.

In April 2010, PCA3 was the topic of over 13 presentations at the 2010 European Association of Urology (EAU) meeting, the world largest urology event, held in Barcelona, Spain, with 14,000 registrants. PCA3 was discussed by prominent researchers who presented reviews and data on the clinical utility of the test in the management of prostate cancer. In particular, Pr. Alexandre de la Taille from the urology service of Henri Mondor hospital, Creteil, France, presented the results of a new European study of 516 men. The study suggested that PCA3 could be useful for

predicting the outcome of an initial prostate biopsy, thereby reducing prostate biopsies by 40%, while missing only 5% of the high grade cancers on the initial diagnosis.

In late May, at the meeting of the American Urology Association, PCA3 was also featured in 12 presentations. In particular, a multi-practice American study on about 1,900 men concluded that PCA3 could predict the outcome of the first biopsy better than the traditional PSA test. In the study, men with a PCA3 score over 35 had an 80% risk of having prostate cancer.

On August 3, 2010, DiagnoCure reported that the New York State Department of Health had issued a Clinical Laboratory Permit to its U.S. service laboratory, DiagnoCure Oncology Laboratories. The NY state permit completes the other licenses and accreditations received since 2008, which means the laboratory can now offer the Previstage™ GCC test in all states in the U.S. To date, the Company has experienced 158% growth year-to-date in colorectal surgeons ordering the test for the first time. This is an important adoption milestone, as surgeons are accountable for managing the stage of a patient's cancer and deciding whether to refer a patient to an oncologist to discuss adjuvant treatment. We believe that this market penetration, coupled with the roll out of the Company's colorectal disease management program, should allow DiagnoCure Oncology Laboratories to have sustainable future growth.

In late August, DiagnoCure has retained the services of JMP Securities LLC, to assist the Company in determining the best option to drive the growth of its U.S. based subsidiary, DiagnoCure Oncology Laboratories. One of these options may include investments from partnerships or investors with dilution only occurring at DiagnoCure's ownership of the U.S. laboratory operations, without any diluting effect on the ownership of other assets of the Company, including the exclusive rights to the PCA3 prostate cancer biomarker. JMP was chosen among the best firms, for its track record and specialized expertise in the healthcare industry. In working with JMP, DiagnoCure aims to determine the most effective method to roll out the Company's U.S. colorectal cancer disease management program, and hence maximize the return on investment in terms of long-term shareholder value.

Changes to the leadership of the Company

Dr. Yves Fradet, co-founder of DiagnoCure, became Chairman of the Board on January 14, 2010 and President of DiagnoCure on February 15, 2010. He replaced Mr. Alain Rhéaume and Mr. John Schafer, who were respectively chairman and CEO of the Company. Since Dr. Fradet is not an independent board member, Mr. Paul Gobeil was appointed Lead Director of DiagnoCure's Board of Directors.

Also, as part of the realignment of activities, on February 15, 2010 Mrs. Paule De Blois was appointed Senior Vice President, Operations of DiagnoCure, Inc. Mrs. De Blois has been with the Company for the past five years, most recently as Vice President of Corporate Affairs.

With regard to its service laboratory operations, DiagnoCure appointed in April 2010 Mrs. Valerie Palmieri as President of DiagnoCure Oncology Laboratories. Mrs. Palmieri brings to DiagnoCure more than 25 years of experience in the laboratory industry, including executive positions at DIANON Systems and Laboratory Corporation of America, responsible for laboratory services, business strategic planning, cost management, quality, customer retention and operations management. Since her appointment, Mrs. Palmieri has initiated a review of the Company's laboratory business model, and put together a new advisory group of key opinion leaders in the field of colorectal cancer. Under her leadership, it is expected that DiagnoCure Oncology Laboratories will grow into a profitable colorectal cancer management laboratory, centered around the Company's Previstage™ GCC Colorectal Cancer Staging Test.

Also in the third quarter, Chantal Miklosi joined DiagnoCure as the new Chief Financial Officer. Mrs. Miklosi brought over 15 years experience in investment banking and finance. Prior to joining DiagnoCure, Mrs. Miklosi was the Managing Director and Chief Financial Officer at JMP Securities in San Francisco, a publicly traded investment bank and asset management firm, where she was responsible for the firm's accounting and financial operations. Before that, she served as a Senior Finance Executive for Orrick, Herrington & Sutcliffe LLP, a national U.S. law firm and as Senior Director of Financial Planning and Analysis at Versata, a publicly traded software company. Additionally, she has worked as an investment banker at Thomas Weisel Partners, Montgomery Securities and Nesbitt Burns. Mrs. Miklosi holds a MBA from the University of Western Ontario, Ivey School of Business and a BBA in finance from HEC Montreal.

Operating Results

For the Three-Month Period Ended July 31, 2010

Total revenues for the third quarter of 2010 were \$355,998 compared with \$396,468 for the third quarter of 2009. In the third quarter of 2010, royalty revenues amounted to \$174,476 compared with \$113,687 for the corresponding period of 2009. Royalty revenues from Gen-Probe increased by \$57,280, from \$105,380 to \$162,660 for the third quarter of 2010. Without the effect of the exchange rate variation, royalty revenues from Gen-Probe would have increased by 48% from US\$106,865 for the third quarter of 2009 to US\$158,076 for the same quarter of 2010. This increase is mostly attributable to the sales of PROGENSA[®] PCA3 in Europe and the United States by Gen-Probe. Also in the third quarter royalties from Scimedx, related to ImmunoCyt[™] / uCyt+[™] increase from \$8,307 to \$11,816 for the third quarter of 2010. As part of the amended agreement signed with Gen-Probe on April 29, 2009, DiagnoCure recorded a portion of the annual payment that is \$134,244, for the third quarter of 2010 compared with \$145,767 for the third quarter of 2009. This decrease of \$11,523 is only attributable to a difference in the exchange rate. Also during the quarter ended July 31, 2010, DiagnoCure received reimbursement for its Previstage[™] GCC Colorectal Cancer Staging Test for an amount of \$8,868 compared with \$24,782 for the third quarter of 2009.

Interest income decreased by \$73,822, to \$38,410 for the third quarter of 2010 compared with \$112,232 for the third quarter of 2009. 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 \$12,298, from \$16,551 for the third quarter of 2009 to \$4,253 for the same quarter of 2010. The cost of sales for this quarter represents the cost related to the Previstage[™] GCC Colorectal Cancer Staging Test reimbursed.

Operating expenses decreased by \$2,440,452, from \$4,442,790 for the third quarter of 2009 to \$2,002,338 for the third quarter of 2010. This decrease reflects the impact of the enterprise structure optimization announced in February 2010. Total operating expenses decreased primarily as a result of the following:

- ▶ Research and development expenses, net of investment tax credits, decreased by \$647,545, from \$1,489,089 for the third quarter of 2009 to \$841,544 for the same quarter of 2010. The decrease in research and development expenses is attributable to the completion of the development of the Previstage[™] GCC Colorectal Cancer Staging Test and to the enterprise structure optimization.

- ▶ Selling and business development expenses decreased by \$687,595, from \$941,248 for the third quarter of 2009 to \$253,653 for the same quarter of 2010. This decrease is attributable to a reduction of professional fees and salaries following the enterprise structure optimization announced in February 2010.
- ▶ General and administrative expenses decreased by \$535,286, from \$947,767 for the third quarter of 2009 to \$412,481 for the same quarter of 2010. This decrease is attributable to salaries reduction following the enterprise structure optimization announced in February 2010.
- ▶ Stock-based compensation expenses, a non-cash charge, decreased by \$20,661 from \$141,177 for 2009 to \$120,516 for the same period of 2010. 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.
- ▶ Foreign exchange expenses decreased by \$515,342 from a loss of \$479,588 in the third quarter of 2009 to a gain of \$35,754 in the corresponding quarter of 2010. This decrease 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 2010, DiagnoCure recorded a net loss of \$1,650,593 or \$0.04 per share, compared with \$4,034,364 or \$0.08 per share, for the same period of 2009. These results reflect activities undertaken during this quarter and on-going commitment to develop high-value diagnostic tests for the detection and management of cancer. These results also reflect the enterprise structure optimization announced on February 15, 2010, to ensure that it has sufficient cash resources to fund its research and development activities and to maintain its ongoing operations.

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

	2010 \$	2009 \$	2008 \$
Sales	8,868	24,782	150,933
Revenue under research and license agreement	308,720	259,454	64,239
Interest	38,410	112,232	270,902
Total revenues	355,998	396,468	486,074
Cost of sales	4,253	16,551	87,541
Gross margin	351,745	379,917	398,533
Operating expenses (before stock-based compensation and loss (gain) on foreign exchange)	1,917,576	3,822,025	4,301,576
Net loss (before stock-based compensation and loss (gain) on foreign exchange)	(1,565,831)	(3,442,108)	(3,903,043)
Stock-based compensation	120,516	141,177	316,772
Loss (Gain) on foreign exchange	(35,754)	479,588	(11,841)
Net loss before income taxes	(1,650,593)	(4,062,873)	(4,207,974)
Future income taxes	—	28,509	—
Net loss	(1,650,593)	(4,034,364)	(4,207,974)
Basic and diluted loss per share	(0.04)	(0.09)	(0.10)
Weighted average number of common shares outstanding	42,976,140	42,849,475	42,792,445

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

For the Nine-Month Period Ended July 31, 2010

Total revenues for the nine-month period ended July 31, 2010 were \$1,062,492 compared with \$1,263,743 for the same period of 2009. In the first nine months of 2010, royalty revenues amounted to \$490,864 compared with \$433,749 for the corresponding period of 2009. Royalty revenues from Gen-Probe increased by \$87,384 or 23%, from \$382,798 to \$470,182 for the first nine months of 2010. Without taking into account of the effect of the exchange rate variation, royalty revenues from Gen-Probe have increased by 47%, from US\$308,580 for the first nine-month of 2009 to US\$454,710 for the same period of 2010. This increase is mostly attributable to the sales of PROGENSA[®] PCA3 in Europe and the United States by Gen-Probe. Also in the first nine months of 2010, DiagnoCure recorded royalties of \$20,682 from Scimedx, related to ImmunoCyt[™] / uCyt+[™], compared to \$50,951 for the first nine-month of 2009. Direct sales of ImmunoCyt[™] / uCyt+[™] by DiagnoCure were \$44,827 for the first nine months of 2009. These 2009 ImmunoCyt[™] / uCyt+[™] sales represent the last direct sales as Scimedx is now taking the lead and paying royalties to DiagnoCure. For the first nine-month of 2009 DiagnoCure had sold clinical samples to Gen-Probe in support of their prostate cancer testing R&D for an amount of \$56,099. There was no sale of clinical samples to Gen-Probe in the first nine-month of 2010 since DiagnoCure sold the last clinical samples to Gen-Probe in the second quarter of 2009. Pursuant to the amendment agreement signed with Gen-Probe on April 29, 2009, DiagnoCure recorded a portion of the annual payment that is \$411,707 for the first nine months of 2010 compared with \$145,767 for the same period of 2009. Also, during the first nine-month period ending July 31, 2010, DiagnoCure received reimbursement for its Previstage[™] GCC Colorectal Cancer Staging Test for an amount of \$29,377 compared with \$26,942 for the same period of 2009.

Interest income decreased by \$277,416, to \$130,543 for the first nine months of 2010 compared with \$407,959 for the same period of 2009. The decrease is attributable to DiagnoCure's use of fund to finance the operating activities and to the lower interest rates on its investments.

Cost of sales decreased by \$27,942, from \$45,805 for the first nine months of 2009 to \$17,863 for the same period of 2010. This decrease is related to the end of direct ImmunoCyt[™] / uCyt+[™] sales by DiagnoCure and to the end of samples sales to Gen-Probe during the third quarter of 2009 as stated above. The cost of sales for this period represents the cost related to the Previstage[™] GCC Colorectal Cancer Staging Test reimbursed.

Operating expenses decreased by \$2,682,832 from \$11,402,975 for the first nine months of 2009 to \$8,720,143 for the same period of 2010. This decrease reflects the impact of the enterprise structure optimization announced in February 2010. Total operating expenses decreased primarily as a result of the following:

- ▶ Research and development expenses, net of investment tax credits, decreased by \$818,534, from \$4,107,453 for the first nine-month of 2009 to \$3,288,919 for the same period of 2010. The decrease in research and development expenses is attributable to the completion of the development of the Previstage[™] GCC Colorectal Cancer Staging Test and to the enterprise structure optimization.
- ▶ Selling and business development expenses decreased by \$1,198,335, from \$2,577,508 for the first nine-month of 2009 to \$1,379,173 for the same period of 2010. This decrease is attributable to a reduction of professional fees and salaries following the enterprise structure optimization announced in February 2010.

- ▶ General and administrative expenses decreased by \$825,168, from \$2,442,798 for the first nine-month of 2009 to \$1,617,630 for the same period of 2010. This decrease is attributable to salaries reduction following the enterprise structure optimization announced in February 2010.
- ▶ Restructuring charges for the first nine-month of 2010 were \$716,028, compared to no charges for the same period of 2009, and are attributable to changes to the enterprise structure to optimize its growth potential. Henceforth, the Company is now comprised of two business segments: (1) administrative headquarters and R&D activities in Quebec City, and (2) DiagnoCure Oncology Laboratories (DOL), DiagnoCure's U.S. wholly-owned sales, marketing and service laboratory operations. This realignment of operations has also resulted in a reduction of personnel in all functional areas.
- ▶ Stock-based compensation expenses, a non-cash charge, decreased by \$155,267 from \$491,310 for the first nine-month of 2009 to \$336,043 for the same period of 2010. 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 decreased by \$307,836 from a loss of \$434,701 in the first nine-month of 2009 to a loss of \$126,865 in the corresponding period of 2010. This increase is attributable to the conversion in C\$ of the cash and investments the Company held in US\$ at the end of the period. 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 2010, DiagnoCure recorded a net loss of \$7,675,514 or \$0.18 per share, compared with \$10,097,256 or \$0.21 per share, for the same period of 2009. These results reflect activities undertaken during this period and on-going commitment to develop high-value diagnostic tests for the detection and management of cancer. These results also reflect the enterprise structure optimization announced on February 15, 2010, to ensure that it has sufficient cash resources to fund its research and development activities and to maintain its ongoing operations. At the end of the period, cash, short-term and long-term investments stood at \$8,182,119, down from \$14,554,889 as of October 31, 2009. This decrease of \$6,372,770 is due to the use of liquidity to finance the operating activities of the nine-month period ended on July 31, 2010. Following the reorganization of its enterprise structure, Management is satisfied that the use of cash resources has been substantially reduced and is now sufficient to finance the Company's activities.

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

	2010	2009	2008
	\$	\$	\$
Sales	29,377	127,868	400,721
Revenue under research and license agreement	902,572	727,916	151,617
Interest	130,543	407,959	941,300
Total revenues	1,062,492	1,263,743	1,493,638
Cost of sales	17,863	45,805	244,081
Gross margin	1,044,629	1,217,938	1,249,557
Operating expenses (before stock-based compensation, loss (gain) on foreign exchange and restructuring charges)	7,541,207	10,476,964	10,592,230
Net loss (before stock-based compensation and restructuring charges)	(6,496,578)	(9,259,026)	(9,342,673)
Restructuring charges	716,028	—	—
Stock-based compensation	336,043	491,310	925,470
Loss (Gain) on foreign exchange	126,865	434,701	(2,486)
Net loss before income taxes	(7,675,514)	(10,185,037)	(10,265,657)
Future income taxes	—	87,781	—
Net loss	(7,675,514)	(10,097,256)	(10,265,657)
Basic and diluted loss per share	(0.18)	(0.24)	(0.24)
Weighted average number of common shares outstanding	42,966,267	42,815,150	42,096,998

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 \$18,492,733 as of July 31, 2010, compared with \$29,340,753 as of July 31, 2009. The book value per Common Share was \$0.37 as of July 31, 2010, compared with \$0.54 per Common Share as of October 31, 2009.

Balance Sheet (Unaudited)

As of July 31

	2010	2009	2008
	\$	\$	\$
Total assets	18,492,733	29,340,753	36,996,019
Shareholders' equity	15,896,356	25,842,928	33,013,201
Number of common shares outstanding	42,976,140	42,849,475	42,792,475

Cash Position and Financing Sources

Cash flows required from operating activities during the third quarter of 2010 amounted to \$1,437,268 compared with \$2,582,305 required in the third quarter of 2009. This decrease of \$1,145,037 is mostly due to the reduction of the operating expenses following the enterprise structure optimization announced in February 2010. Investment activities required cash flows of \$902,952 for the third quarter of 2010, due to reinvestment of liquidities in temporary investments, compared with \$1,177,668 generated for the third quarter of 2009. During the third quarter of 2010, acquisition of tangible and intangible capital assets amounted to \$15,577 compared with \$57,428 for the same period of 2009. 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 in the third quarter of 2009.

Cash Flows for the Third Quarters (Unaudited)

	2010	2009	2008
	\$	\$	\$
Cash flows related to operating activities	(1,437,268)	(2,582,305)	(3,097,592)
Cash flows related to investing activities	(902,952)	1,177,668	4,132,741
Cash flows related to financing activities	—	5,805,326	—

Cash flows required from operating activities during the first nine-month of 2010 amounted to \$6,488,030 compared with \$8,593,597 required in the first nine-month of 2009. This decrease of \$2,105,567 is mostly due to the reduction of the operating expenses following the enterprise structure optimization announced in February 2010. Investment activities generated cash flows of \$3,009,721 for the first nine-month of 2010 compared with \$8,079,512 for the same period of 2009. During the first nine-month of 2010, acquisition of tangible and intangible capital assets amounted to \$65,753 compared with \$96,712 for the same period of 2009. This decrease is mostly attributable to acquisition of property plant and equipment. Financing activities, primarily from the issuance of common shares relative to the exercising of options by employees in the first nine-month of 2010, generated cash flows of \$11,582 compared with \$5,809,026 in the same period of 2009, attributable to the issuance of convertible preferred shares relative to the agreement signed with Gen-Probe.

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 2010, except that the decrease in interest rates has resulted in lower revenues for the Company.

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 Period Ended July 31 (Unaudited)

	2010	2009	2008
	\$	\$	\$
Cash flows related to operating activities	(6,488,030)	(8,593,597)	(7,983,891)
Cash flows related to investing activities	3,009,721	8,079,512	11,071,502
Cash flows related to financing activities	11,582	5,809,026	154,766

Issued and Outstanding Share Capital

As of September 9, 2010, the Company had 42,976,140 common shares issued and outstanding, 4,900,000 Series A Convertible Preferred Shares and 2,235,541 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, 2010, 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, 2010, approximately \$22.50 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, 2010	Amount spent for the nine-month period ended July 31, 2010
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	\$10.40 million	\$2.25 million
Acquire complementary technologies and uses for other general corporate purposes	\$5.33 million	\$5.60 million	\$1.00 million

As at July 31, 2010, the total net proceeds have been spent.

With this financing, the Company has completed the uPM3TM 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+TM / uCyt+TM and in 2008 has completed a divestment agreement with Scimedx. The Company is now receiving royalties on the ImmunoCyt+TM / uCyt+TM 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. As at July 31, 2010, the total net proceeds have been spent on acquiring or in-licensing additional cancer biomarkers, for product development purposes and for general corporate purposes.

Use of Estimates

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

Investment Tax Credits

The Company incurred research and development expenses, which are eligible for investment tax credits. These credits treated as a reduction to research and development expenses, amounted to \$278,101 for the first nine months of 2010 compared with \$338,152 for the same period in 2009 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:

Contractual obligations	Required Payments			
	Total	Year 1	Years 2 and 3	Years 4 and 5
Lease agreements	\$1,332,045	\$367,779	\$503,096	\$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 \$123,033.

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 \$244,746.

During the year ended October 31, 2007, the Company entered into license agreements with third parties regarding certain intellectual property rights. Those agreements were 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.

Recent Accounting Pronouncements

International financial reporting standards

On February 13, 2008, the Accounting Standards Board confirmed the date of the changeover from GAAP to International Financial Reporting Standards (IFRS). Canadian publicly accountable enterprises must adopt IFRS for the interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company's IFRS changeover date will be November 1, 2011.

The Company plans to setup a project structure to achieve the changeover of its consolidated financial statements to IFRS in fiscal 2010. The Company will analyze, recommend accounting policy choices and implements each IFRS standards. The Board of Directors, under the recommendation of the Audit and Risk Management Committee will approve accounting policy choices and make sure that information technology, internal control, contractual and any other adjustments are made.

The Company developed a work plan which phases are outlined in the following tables, with actions, timelines and progress.

Phase 1: Preliminary study and diagnostic

Actions	<ol style="list-style-type: none"> 1. Identification of the IFRS standards that will require changes with regard to measurement in the consolidated financial statements and disclosure. 2. Rank of standards based on their anticipated impact on the Company's consolidated financial statements and the effort their implementation will require.
Timeline	End of 2010 fiscal year.
Progress	Started

Phase 2: Standards analysis

Actions	<ol style="list-style-type: none"> 1. Analysis of the differences between GAAP and IFRS. 2. Selection of the accounting policies that the Company will apply on an ongoing basis. 3. Company's selection of IFRS 1 exemptions at the date of transition. Calculation of the quantitative impact on the consolidated financial statements. Disclosure analysis. 4. Preparation of draft consolidated financial statements and notes. Identification of collateral impact in the following areas: <ul style="list-style-type: none"> ▶ Information technology ▶ Internal control over financial reporting ▶ Disclosure controls and procedures ▶ Contracts ▶ Compensation ▶ Taxation ▶ Training
Timeline	End of 2011 fiscal year.
Progress	Not yet started.

Phase 3: Implementation

Actions	<ol style="list-style-type: none"> 1. Preparation of the opening balance sheet at the date of transition. 2. Compilation of the comparative financial data. 3. Production of the interim consolidated financial statements and the associated disclosure. 4. Production of the annual consolidated financial statements and the associated disclosure. 5. Implementation of changes regarding collateral impact.
Timeline	<ul style="list-style-type: none"> ▶ At the end of fiscal 2011, opening balance sheet, comparative financial data under IFRS and changes regarding collateral impacts will be completed. ▶ In fiscal 2012, the Company will produce interim and annual consolidated financial statements and disclosure in accordance with IFRS.
Progress	Not yet started.

Throughout the IFRS transition project, the Company will provide update reports on the work plan. The Company will also explain the main differences between the existing accounting policies and those that will be implemented under IFRS (both narrative and quantitative information), as well as the selection of IFRS 1 exemptions available at the date of transition.

Procedures and Controls Regarding Disclosure

The President and Chief Medical Officer (Chief Executive Officer), and the Chief Financial Officer of the Company are responsible for the implementation and maintenance of disclosure controls and procedures and of the internal control over financial reporting, 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 and of the internal control over financial reporting, 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 Medical Officer (Chief Executive Officer), and the Chief Financial Officer of the Company concluded that disclosure controls and procedures and the internal control over financial reporting were effective as at the end of the quarter ended July 31, 2010. More specifically 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.

Furthermore, the design of the internal control over financial reporting provides reasonable assurance that the Company's financial information is reliable and that its financial statements are prepared for external purposes in accordance with Canadian GAAP.

Risk Factors

The Company's activities are subject to some risk factors that generally affect biotechnology companies. The profitability of the Company will depend on 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 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's expectations and there was, to the knowledge of Management, no event or circumstance in the third quarter of 2010 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, is available on SEDAR at www.sedar.com.

Québec, Canada

September 9, 2010

(Signed)

Yves Fradet

President and Chief Medical Officer
(Chief Executive Officer)

(Signed)

Chantal Miklosi

Chief Financial Officer

Notice of Disclosure of Non-Auditor Review of Interim Financial Statements for the Nine-months Ended July 31, 2010 and 2009

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, 2010 and 2009, 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 9th day of September 2010

Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

For the periods ended July 31

	Three-month periods		Nine-month periods	
	2010	2009	2010	2009
	\$	\$	\$	\$
Revenues				
Sales	8,868	24,782	29,377	127,868
Cost of sales	(4,253)	(16,551)	(17,863)	(45,805)
	4,615	8,231	11,514	82,063
Revenue under research and license agreement	308,720	259,454	902,572	727,916
Interest	38,410	112,232	130,543	407,959
	351,745	379,917	1,044,629	1,217,938
Operating expenses				
Research and development expenses	896,461	1,583,229	3,567,020	4,445,605
Investment tax credits	(54,917)	(94,140)	(278,101)	(338,152)
	841,544	1,489,089	3,288,919	4,107,453
Selling and business development expenses	253,653	941,248	1,379,173	2,577,508
General and administrative expenses	412,481	947,767	1,617,630	2,442,798
Restructuring charges (note 4)	—	—	716,028	—
Stock-based compensation	120,516	141,177	336,043	491,310
Depreciation of property, plant and equipment	106,992	139,876	348,377	436,813
Amortization of intangibles	298,360	297,663	894,554	892,291
Loss (gain) on foreign exchange	(35,754)	479,588	126,865	434,701
Financial expenses	4,546	6,382	12,554	20,101
	2,002,338	4,442,790	8,720,143	11,402,975
Loss before income taxes	(1,650,593)	(4,062,873)	(7,675,514)	(10,185,037)
Future income taxes	—	28,509	—	87,781
Net loss and comprehensive loss	(1,650,593)	(4,034,364)	(7,675,514)	(10,097,256)
Basic and diluted net loss per share	(0.04)	(0.08)	(0.18)	(0.21)
Weighted average number of common shares outstanding	42,976,140	42,849,475	42,966,267	42,815,150

See accompanying notes

Consolidated Statements of Deficit

(Unaudited)

For the nine-month periods ended July 31

	2010	2009
	\$	\$
Deficit, beginning of period	(82,250,669)	(69,315,440)
Net loss	(7,675,514)	(10,097,256)
Preferred shares issue expenses	—	(70,174)
Deficit, end of period	(89,926,183)	(79,482,870)

Consolidated Statements of Cash Flows

(Unaudited)

For the periods ended July 31

	Three-month periods		Nine-month periods	
	2010	2009	2010	2009
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss	(1,650,593)	(4,034,364)	(7,675,514)	(10,097,256)
Adjustment for:				
Stock-based compensation	120,516	141,177	336,043	491,310
Depreciation and amortization	405,352	437,539	1,242,931	1,329,104
Foreign exchange loss (gain)	47,576	—	(169,431)	—
Future income taxes	—	(28,509)	—	(87,781)
	(1,077,149)	(3,484,157)	(6,265,971)	(8,364,623)
Net change in non-cash working capital items	(360,119)	901,852	(222,059)	(228,974)
Cash flows related to operating activities	(1,437,268)	(2,582,305)	(6,488,030)	(8,593,597)
INVESTING ACTIVITIES				
Change in temporary investments	(887,375)	309,425	2,251,562	2,318,786
Change in long-term investments	—	925,671	823,912	5,857,438
Acquisition of property, plant and equipment	(875)	(46,194)	(40,567)	(70,647)
Acquisition of intangibles	(14,702)	(11,234)	(25,186)	(26,065)
Cash flows related to investing activities	(902,952)	1,177,668	3,009,721	8,079,512
FINANCING ACTIVITIES				
Issue of common shares (note 5)	—	18,500	11,582	22,200
Issue of preferred shares (note 5)	—	5,857,000	—	5,857,000
Preferred shares issue expenses	—	(70,174)	—	(70,174)
Cash flows related to financing activities	—	5,805,326	11,582	5,809,026
Effect of exchange rate on cash and cash equivalents	(47,576)	—	169,431	—
Net increase (decrease) in cash and cash equivalents for the period	(2,387,796)	4,400,689	(3,297,296)	5,294,941
Cash and cash equivalents, beginning of period	3,902,617	1,790,679	4,812,117	896,427
Cash and cash equivalents, end of period	1,514,821	6,191,368	1,514,821	6,191,368

See accompanying notes

Consolidated Balance Sheets

	(Unaudited) July 31, 2010 \$	October 31, 2009 \$
ASSETS		
Current assets		
Cash and cash equivalents	1,514,821	4,812,117
Temporary investments	6,667,298	8,918,860
Accounts receivable	287,445	235,333
Investment tax credits receivable	636,715	906,170
Prepaid expenses	206,458	296,690
	9,312,737	15,169,170
Long-term investments	—	823,912
Property, plant and equipment	692,066	999,876
Intangibles	8,487,930	9,357,298
	18,492,733	26,350,256
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	1,132,607	1,965,316
Deferred revenues	448,841	145,766
Future income tax liabilities	1,014,929	1,014,929
Shareholders' equity		
Capital stock (note 5)		
Common shares	92,036,202	92,015,103
Preferred shares	5,857,000	5,857,000
Contributed surplus (note 5)	7,929,337	7,602,811
Deficit	(89,926,183)	(82,250,669)
	15,896,356	23,224,245
	18,492,733	26,350,256

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

As of July 31, 2010

1. FINANCIAL INFORMATION

The 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, 2009, consolidated balance sheet is derived from the Company's audited financial statements. These unaudited interim financial statements should be read in conjunction with in the Company's audited financial statements for the year ended October 31, 2009, 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. RECENT ACCOUNTING PRONOUNCEMENTS

The CICA plans to replace the Canadian GAAP with the 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.

4. RESTRUCTURING CHARGES

December 2006 restructuring charges

On December 13, 2006, the Company announced a shift in its business strategy, including the decision to discontinue supporting R&D activities related to improvements in its cell-based bladder cancer diagnostic test and a reduction in marketing initiatives for this product. This decision has resulted in a realignment of resources to support the new strategy, with changes in the requisite skills of Company researchers and a reduction in the number of employees supporting certain research and development projects, including related marketing and administrative positions. The total restructuring charge was \$1,317,719 of which \$1,317,719 was paid as of July 31, 2010.

4. RESTRUCTURING CHARGES (cont'd)

	Opening balance of liabilities as of October 31, 2009	Items paid during the period	Adjustments	Closing balance as of July 31, 2010
	\$	\$	\$	\$
Provision for vacated leased premises	118,788	118,788	—	—

No additional charges related to the 2007 restructuring are expected for the 2010 financial year.

February 2010 restructuring charges

On February 15, 2010, DiagnoCure has announced changes to its enterprise structure to optimize its growth potential. Henceforth, the Company is now comprised of two business segments: (1) administrative headquarters and R&D in Quebec City, and (2) DiagnoCure Oncology Laboratories (DOL), DiagnoCure's U.S. wholly-owned sales, marketing and service laboratory operations. This decision has resulted in a reduction of personnel in all areas of the Company. The total restructuring charge was \$716,028 of which \$708,551 was paid as of July 31, 2010, and \$7,477 is still outstanding.

	Incurred liabilities as of July 31, 2010	Items paid during the period	Adjustments	Closing balance as of July 31, 2010
	\$	\$	\$	\$
Provision for severance indemnities	676,650	669,173	—	7,477
Legal and outplacement fees	39,378	39,378	—	—
	716,028	708,551	—	7,477

No additional charges related to the 2010 restructuring are expected for the 2010 financial year.

5. CAPITAL STOCK

Authorized

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

Common, voting and participating shares.

Preferred shares, issuable in series, non-voting, of which the rights, privileges, restrictions and conditions attached to each series will be determined by the directors upon the issuance of each series. They have a fixed, preferential and non-cumulative dividend of 6% per annum, and may be exchanged at the option of the holder 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.

5. CAPITAL STOCK (cont'd)

Common Shares

	July 31, 2010	October 31, 2009
	\$	\$
Issued and fully paid		
42,976,140 common shares (42,957,475 as at October 31, 2009)	92,036,202	92,015,103
	July 31, 2010	
	Number of	Amount
	shares	\$
Capital Stock		
Balance, beginning of period	42,957,475	92,015,103
Issuance of common shares	18,665	11,582
Portion previously recognized to surplus as part of stock-based compensation	—	9,517
Balance, end of period	42,976,140	92,036,202

Preferred Shares

	July 31, 2010	October 31, 2009
	\$	\$
Issued and fully paid		
4,900,000 Series A Convertible Preferred shares (4,900,000 as at October 31, 2009)	5,857,000	5,857,000
	July 31, 2010	
	Number of	Amount
	shares	\$
Capital Stock		
Balance, beginning of period	4,900,000	5,857,000
Issuance of preferred shares	—	—
Balance, end of period	4,900,000	5,857,000

Stock options

During the three-month period ended January 31, 2010, the Company did not grant options (296,000 in 2009) to certain employees and directors. The weighted average fair value of stock options granted during the first quarter of 2009 was \$0.62 per stock option.

During the three-month period ended April 30, 2010, the Company granted 550,000 options (none in 2009) to certain employees and directors. The weighted average fair value of stock options granted during the second quarter of 2010 was \$0.87 per stock option.

During the three-month period ended July 31, 2010, the Company granted 50,000 options (7,000 in 2009) to certain employees and directors. The weighted average fair value of stock options granted during the third quarter of 2010 was \$0.76 (\$0.62 in 2009) 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		April 30		July 31	
	2010	2009	2010	2009	2010	2009
Risk-free interest rate	—	2.44%	3.27%	—	2.94%	3.05%
Expected life	—	8 years	8 years	—	8 years	8 years
Expected volatility factor	—	76%	74%	—	74%	76%
Expected dividend yield	—	—	—	—	—	—

5. CAPITAL STOCK (cont'd)

Contributed surplus

	2010 \$
Balance as of October 31, 2009	7,602,811
Stock-based compensation expense	336,043
Stock options exercised	(9,517)
Balance as of July 31, 2010	<u>7,929,337</u>

6. 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, 2010				Carrying value Total	Fair value Total
	Held for trading \$	Held-to- maturity \$	Loans and receivables \$	Other financial liabilities \$	\$	\$
Financial assets						
Cash and cash equivalents	1,514,821	—	—	—	1,514,821	1,514,821
Temporary investments	—	6,667,298	—	—	6,667,298	6,672,529
Accounts receivable ⁽¹⁾	—	—	198,268	—	198,268	198,268
Long-term investments	—	—	—	—	—	—
	<u>1,514,821</u>	<u>6,667,298</u>	<u>198,268</u>	<u>—</u>	<u>8,380,387</u>	<u>8,385,618</u>
Financial liabilities						
Accounts payable ⁽²⁾	—	—	—	1,073,488	1,073,488	1,073,488

	October 31, 2009				Carrying value total	Fair value total
	Held for trading \$	Held-to- maturity \$	Loans and receivables \$	Other financial liabilities \$	\$	\$
Financial assets						
Cash and Cash equivalents	4,812,117	—	—	—	4,812,117	4,812,117
Temporary investments	—	8,918,860	—	—	8,918,860	8,985,988
Accounts receivable ⁽¹⁾	—	—	190,522	—	190,522	190,522
Long-term investments	—	823,912	—	—	823,912	835,616
	<u>4,812,117</u>	<u>9,742,772</u>	<u>190,522</u>	<u>—</u>	<u>14,745,411</u>	<u>14,824,243</u>
Financial liabilities						
Accounts payable ⁽²⁾	—	—	—	1,897,497	1,897,497	1,897,497

⁽¹⁾ Excluding investment tax credits, commodity and other taxes

⁽²⁾ Excluding other accruals

6. FINANCIAL INSTRUMENTS (cont'd)

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 dollars 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 are as follow:

	2010 US dollars \$	2009 US dollars \$
Cash and cash equivalents	654,683	4,708,050
Accounts receivable	158,076	250,399
Accounts payable	(350,013)	(566,579)
Net exposure	462,746	4,391,870

Based on the aforementioned net exposure as at July 31, 2010 and 2009, and assuming that all other variable remain constant, a 5% rise or fall in the Canadian dollar against the US dollar would have resulted in (increase) decrease in the net loss as follows:

	2010 Canadian dollars		2009 Canadian dollars	
	Appreciates 5% \$	Depreciates 5% \$	Appreciates 5% \$	Depreciates 5% \$
Against US dollar				
Net loss	23,137	(23,137)	219,594	(219,594)

7. SEGMENTED INFORMATION

Information pertaining to segmented results for the periods ended July 31, 2010 and 2009 is as follows:

7. SEGMENTED INFORMATION (cont'd)

	Three-month periods					
	Consolidated		Biotechnologies		Laboratory Services	
	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$
Revenue from external sales	317,588	284,236	308,720	259,454	8,868	24,782
Interest Revenues	38,410	112,232	38,410	111,800	—	432
Loss before the following items:	278,635	1,960,177	36,161	1,140,030	242,474	820,147
Stock-based compensation	120,516	141,177	120,516	141,177	—	—
Depreciation and amortization	405,352	437,539	363,190	397,308	42,162	40,231
Segmented loss	804,503	2,538,893	519,867	1,678,515	284,636	860,378
Net R&D expenses	841,544	1,489,089	295,907	784,683	545,637	704,406
Financial expenses	4,546	6,382	2,772	2,527	1,774	3,855
Net loss	1,650,593	4,034,364	818,546	2,465,725	832,047	1,568,639

	Nine-month periods					
	Consolidated		Biotechnologies		Laboratory Services	
	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$
Revenue from external sales	931,949	855,784	902,572	828,842	29,377	26,942
Interest revenues	130,543	407,959	130,543	405,558	—	2,401
Loss before the following items:	2,795,067	4,149,288	1,105,822	1,882,489	1,689,245	2,266,799
Stock-based compensation	336,043	491,310	336,043	491,310	—	—
Depreciation and amortization	1,242,931	1,329,104	1,118,805	1,201,600	124,126	127,504
Segmented loss	4,374,041	5,969,702	2,560,670	3,575,399	1,813,371	2,394,303
Net R&D expenses	3,288,919	4,107,453	1,845,341	2,328,612	1,443,578	1,778,841
Financial expenses	12,554	20,101	6,377	8,575	6,177	11,526
Net loss	7,675,514	10,097,256	4,412,388	5,912,586	3,263,126	4,184,670

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 97% of the consolidated assets and are located in Canada.

For the biotechnologies segment, one American client represented 96% (91% in 2009) of the revenues from external sales.

For the first nine-month period of 2010 and 2009, the total external sales were attributable to the United States. The Company determines the revenues by country based on where the product or service is delivered.

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 which amounts to \$15,896,356 (\$23,224,245 as of October 31, 2009) 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.

Following the reorganization of its enterprise structure announced on February 15, 2010, Management is satisfied that it has adequate cash resources to finance the Company's activities, and will monitor its cash levels.