



Diagno Cure

Quarterly Report 1
Period ended January 31, 2011

MESSAGE TO SHAREHOLDERS

Dear Shareholders:

We are pleased to introduce DiagnoCure's financial results for the first quarter of fiscal year 2011. As planned, our financial position is well under control as we continue to assess the options to grow our U.S. service laboratory operations, and review opportunities for a revised business strategy of DiagnoCure Inc.

In early February 2011, during its Q4-2010 earnings call, Gen-Probe, the Company's partner for the commercialization of the PCA3 prostate cancer test, mentioned that the PROGENSA® PCA3 test is under active review by the U.S. Food and Drug Administration (FDA) and that the company is pleased with the current level of engagement and dialogue. Gen-Probe has not yet been given a date for the expected review by the FDA's immunology advisory panel.

In January 2011, the results of the first phase of a new clinical study on DiagnoCure's Previstage™ GCC Colorectal Cancer Staging Test, called VITAR (Validating Indicators To Associate Recurrence Risk), were presented at the American Society of Clinical Oncology Gastrointestinal Cancers Symposium by the study Principal Investigator, Daniel Sargent, PhD, Professor of Biostatistics and Oncology at Mayo Clinic. The study included 241 stage II colon cancer patients from six North American clinical sites and aimed at further classifying the risk of recurrence of these patients.

Stage II patients are considered at low risk of recurrence by traditional assessment methods, which examine under a microscope thin slices of lymph nodes resected during the colorectal surgery. Yet an average recurrence rate of 20% is observed in these patients, probably because of cancer cells that were present in the lymph nodes but were missed by the microscopic evaluation. In this stage II population, the VITAR study demonstrated that DiagnoCure's Previstage™ GCC Colorectal Cancer Staging Test can stratify patients into high and low risk of recurrence groups, thereby providing relevant and more accurate clinical information for physicians to make more personalized treatment decisions.

In the study, at least half of each lymph node resected was examined with the Previstage™ GCC Colorectal Cancer Staging Test, which uses a genomic technology that is 100,000 times more sensitive than a microscope. All the patients had undergone colorectal cancer surgery in the prior ten years and their health condition was known at least three years following the surgery; none had received adjuvant chemotherapy. In a subset of 181 patients with traditionally favorable prognostic factors (T3 tumor and 12 or more lymph nodes examined), the Previstage™ GCC test classified 1/3 of patients as having a high risk of recurrence following surgery and 2/3 of patients at low risk of recurrence. In this subset, the high risk group had a 6 times greater likelihood of recurrence than the low risk group (27% versus 4%).

With regard to the financing project initiated with JMP Securities for DiagnoCure Oncology Laboratories, discussions are still on-going with potential investors and partners. Through the course of several meetings, selected Key Opinion Leaders and potential partners contributed to optimize the business model aimed at offering integrated health management services for colorectal cancer centered on DiagnoCure's proprietary test, Previstage™ GCC. It is expected that the new model will be launched later this year.

Finally, in order to accelerate its continued growth and leverage its assets and core competencies, DiagnoCure is actively seeking potential partners with synergistic assets. With two genomic tests on the market, the track record of the Company is well established, and is opening various opportunities. In parallel, the diagnostic space is in the midst of a complete reshaping as it evolves towards the realization of personalized medicine. DiagnoCure has the capacity and intends to play a leading role in the transformation of the industry, and contribute to bring to patients the promise of genomic technologies.

(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, 2010 and related notes. Management's comments were prepared to explain the Company's operations, performance and financial position as of January 31, 2011. They compare this first quarter of operating results and cash position with those of the first quarter ended January 31, 2010. Amounts are in Canadian dollars unless otherwise noted. The information contained herein is up to date as of March 7th, 2011.

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, ImmunoCytTM / uCyt+TM 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 ImmunoCytTM / uCyt+TM 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, uPM3TM, based on measuring the expression of the PCA3 molecular marker. uPM3TM 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, 13 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 2010, 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. In September 2010, Gen-Probe announced that it had filed a Premarket Approval Application with the FDA for its PROGENSA[®] PCA3 test.

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.

2011 First Three Months Highlights

In January 2011, the Company announced positive initial results of a multi-center clinical study, for predicting risk of colon cancer recurrence. This study included 241 stage II colon cancer patients, a population categorized as low risk by traditional methods yet with an average recurrence rate of 20%. In this population, the study demonstrated that DiagnoCure's Previstage™ GCC Colorectal Cancer Staging Test can stratify patients into high and low risk of recurrence groups, thereby providing relevant and more accurate clinical information for physicians to make more personalized treatment decisions.

Operating Results

For the Three-Month Period Ended January 31, 2011

Total revenues for the three-month period ended January 31, 2011 were \$362,101 compared with \$362,401 for the same period of 2010. In the first three months of 2011, royalty revenues amounted to \$161,790 compared with \$161,421 for the corresponding period of 2010. Royalty revenues from Gen-Probe increased by \$8,524 or 6%, from \$152,555 to \$161,079 for the first three months of 2011. Without taking into account the effect of the exchange rate variation, royalty revenues from Gen-Probe have increased by 25%, to US\$160,725 for the first three-month of 2011 from US\$128,345 for the same period of 2010. This increase is attributable to the sales of PROGENSA® PCA3 in Europe and the United States by Gen-Probe. Also in the first three months of 2011, DiagnoCure recorded royalties of \$711 from Scimedex, related to ImmunoCyt™ / uCyt+™, compared with \$8,866 for the first three-month of 2010. Pursuant to the amendment agreement signed with Gen-Probe on April 29, 2009, DiagnoCure recorded a portion of the annual payment, that is, \$131,088 for the first three months of 2011 compared with \$145,767 for the same period of 2010. Also, during the first three-month period ended January 31, 2011, DiagnoCure received reimbursement for its Previstage™ GCC Colorectal Cancer Staging Test for an amount of \$46,704 compared with \$3,663 for the same period of 2010.

Interest income decreased by \$28,422, to \$22,519 for the first three months of 2011 compared with \$50,941 for the same period of 2010. The decrease is attributable to DiagnoCure's use of fund to finance the operating activities and to the lower interest rates on its investments.

Operating expenses decreased by \$2,209,724, to \$1,971,232 for the first three months of 2011 from \$4,180,956 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 \$676,438, to \$695,142 for the first three-month of 2011 from \$1,371,580 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 \$553,503, to \$224,969 for the first three-month period of 2011 from \$778,472 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 \$162,619, to \$553,590 for the first three-month period of 2011 from \$716,209 for the same period of 2010. This decrease is attributable to salaries reduction following the enterprise structure optimization announced in February 2010 and to a cost reduction on the Canadian rent following an agreement with the landlord to leave the premises on March 1st 2011 as it bought back the renewal option provided under the lease.

▶ Restructuring charges for the first three-month period of 2010 were \$716,028 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 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, increased by \$24,703 to \$123,697 for the first three-month period of 2011 from \$98,994 for the same period of 2010. This increase is attributable to the higher number of options granted over the last twelve months.

▶ Loss on foreign exchange decreased by \$65,898 to a gain of \$749 in the first three-month period of 2011 from a loss of \$65,149 in the corresponding period of 2010. This decrease is attributable to the lower liquidities held in US\$ compared with the first quarter of 2010 and to the gain generated following the conversion in C\$ at the end of the quarter of the cash the Company received in US\$ in the first quarter.

Based on the above, for the first three months of 2011, DiagnoCure recorded a net loss of \$1,608,543 or \$0.04 per share, compared with \$3,820,089 or \$0.09 per share, for the same period of 2010. 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 in February, 2010, to ensure that the Company 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 \$6,291,784, down from \$6,904,241 as of October 31, 2010. This decrease of \$612,457 is due to the use of liquidity to finance the operating activities of the three-month period ended on January 31, 2011. Following the reorganization of its enterprise structure, Management is satisfied that it has adequate cash resources to finance the Company's activities, and will continue to actively monitor its cash levels.

Results for the Three-Month Periods Ended January 31 (Unaudited)

	2011	2010	2009
	\$	\$	\$
Sales	46,704	3,663	72,522
Revenue under research and license agreement	292,878	307,797	155,777
Interest	22,519	50,941	171,824
Total revenues	362,101	362,401	400,123
Cost of sales	(27,296)	(1,534)	(12,832)
Gross margin	334,805	360,867	387,291
Operating expenses (before stock-based compensation, loss (gain) on foreign exchange and restructuring charges)	1,848,284	3,300,785	3,706,255
Net loss (before stock-based compensation, loss (gain) on foreign exchange and restructuring charges)	(1,513,479)	(2,939,918)	(3,318,964)
Restructuring charges	—	716,028	190,042
Stock-based compensation	123,697	98,994	—
Loss (Gain) on foreign exchange	(749)	65,149	(37,588)
Net loss before income taxes	(1,636,427)	(3,820,089)	(3,471,418)
Future income taxes	27,884	—	30,763
Net loss	(1,608,543)	(3,820,089)	(3,440,655)
Basic and diluted loss per share	(0.04)	(0.09)	(0.08)
Weighted average number of common shares outstanding	42,980,632	42,957,475	42,796,160

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 \$15,570,553 as of January 31, 2011, compared with \$16,809,427 as of October 31, 2010. The book value per Common Share was \$0.31 as of January 31, 2011, compared with \$0.35 per Common Share as of October 31, 2010.

Balance Sheet (Unaudited)

As of January 31

	2011	2010	2009
	\$	\$	\$
Total assets	15,570,553	23,592,696	29,353,762
Shareholders' equity	13,396,785	19,503,150	26,392,935
Number of common shares outstanding	42,982,806	42,957,475	42,799,475

Cash Position and Financing Sources

Cash flows required from operating activities during the first quarter of 2011 amounted to \$635,842 compared with \$1,996,718 in the first quarter of 2010. This decrease of \$1,360,876 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 \$2,128,371 for the first quarter of 2011 compared with \$2,266,121 for the first quarter of 2010. During the first quarter of 2011, acquisition of tangible and intangible capital assets amounted to \$19,617 compared with \$45,226 for the same period of 2010. This decrease is mostly attributable to less 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 quarter of 2011, generated cash flows of \$4,134.

DiagnoCure will continue to invest its cash reserve in liquid, high-grade investments, guaranteed by the government. In the coming months, the interest revenue that will be generated by these investments could be lower as a result of the lower level of 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 First Quarters (Unaudited)

	2011	2010	2009
	\$	\$	\$
Cash flows related to operating activities	(635,842)	(1,996,718)	(3,518,439)
Cash flows related to investing activities	2,128,371	2,266,121	5,615,362
Cash flows related to financing activities	4,134	—	3,700
Effect of exchange rate on cash and cash equivalent	7,101	190,529	—

Issued and Outstanding Share Capital

As of March 7th, 2011, the Company had 42,982,806 common shares issued and outstanding, 4,900,000 Series A Convertible Preferred Shares and 2,127,341 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 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. 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 January 31, 2011, 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 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 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 2010 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 \$86,961 for the first three months of 2011 compared with \$153,398 for the same period in 2010 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	\$541,299	\$193,524	\$163,659	\$184,116

Until March 1st, 2011, DiagnoCure leased 32,808 sq. ft., in a building where its head office and research and development laboratories were located under a lease expiring on February 28, 2011. The annual payment for the current year under this lease agreement amounts to \$27,341.

On January 14, 2011, DiagnoCure signed a lease for 9,627 sq. ft., for a building where its head office and research and development laboratories have been relocated under a lease beginning on March 1st, 2011 and expiring in 2016. The annual payment for the current year under this lease agreement amounts to \$61,372.

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 2011. The annual payment for the current year under this lease agreement amounts to \$104,811.

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 (IFRS)

In February 2008, the AcSB confirmed that Canadian GAAP for publicly accountable entities will be changed to IFRS effective in calendar year 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. First reporting under IFRS is required for the Company's interim and annual financial statements beginning on November 1st, 2011.

The Company has implemented a conversion plan aiming to apply IFRS starting on November 1st, 2011.

With the assistance of an external consultant, the Company will analyze, recommend accounting policy choices and implements each IFRS standard. The Chief Financial Officer and 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 conversion plan includes phases of which actions, timelines and progress are outlined in the following tables:

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	Completed

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 and information systems▶ Internal control over financial reporting▶ Disclosure controls and procedures▶ Contracts▶ Compensation▶ Taxation▶ Training
Timeline	End of 2011 fiscal year.
Progress	Based on Phase 1 conclusions, Management has established a hierarchy of IFRS standards applicable to the Company. The impact of such standards is currently under thorough analysis, and is undetermined as of the date of this report. In addition, IFRS training sessions have been offered over the last months to employees responsible for financial reporting.

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, the Annual Report, the Annual Information Form and the Management Proxy Circular. 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 January 31, 2011. 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 first quarter of fiscal year 2011 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 City, Canada

March 7, 2011

(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 Three-months Ended January 31, 2011 and 2010

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 January 31, 2011 and 2010, 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 7th day of March 2011

Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

For the three-month periods ended January 31

	2011 \$	2010 \$
Revenues		
Sales	46,704	3,663
Cost of sales	(27,296)	(1,534)
	19,408	2,129
Revenue under research and license agreement	292,878	307,797
Interest	22,519	50,941
	334,805	360,867
Operating expenses		
Research and development expenses	782,103	1,524,978
Investment tax credits	(86,961)	(153,398)
	695,142	1,371,580
General and administrative expenses	553,590	716,209
Selling and business development expenses	224,969	778,472
Restructuring charges	—	716,028
Stock-based compensation	123,697	98,994
Loss (gain) on foreign exchange	(749)	65,149
Financial expenses	3,758	5,280
Gain on disposal of property, plant and equipment	(25,822)	—
Amortization of property, plant and equipment	97,882	131,212
Amortization of intangibles	298,765	298,032
	1,971,232	4,180,956
Loss before income taxes	(1,636,427)	(3,820,089)
Future income taxes	27,884	—
Net loss and comprehensive loss	(1,608,543)	(3,820,089)
Basic and diluted net loss per share	(0.04)	(0.09)
Weighted average number of common shares outstanding	42,980,632	42,957,475

See accompanying notes

Consolidated Statements of Deficit

(Unaudited)

For the three-month periods ended January 31

	2011	2010
	\$	\$
Deficit, beginning of period	(91,068,086)	(82,250,669)
Net loss	(1,608,543)	(3,820,089)
Deficit, end of period	(92,676,629)	(86,070,758)

Consolidated Statements of Cash Flows

(Unaudited)

For the three-month periods ended January 31

	2011 \$	2010 \$
OPERATING ACTIVITIES		
Net loss	(1,608,543)	(3,820,089)
Adjustments for:		
Stock-based compensation	123,697	98,994
Gain on disposal of property, plant and equipment	(25,822)	—
Amortization	396,647	429,244
Foreign exchange gain	(7,101)	(190,529)
Future income taxes	(27,884)	—
	(1,149,006)	(3,482,380)
Net change in non-cash working capital items	513,164	1,485,662
Cash flows related to operating activities	(635,842)	(1,996,718)
INVESTING ACTIVITIES		
Net change of temporary investments	2,115,837	1,487,435
Net change of long-term investments	384	823,912
Acquisition of property, plant and equipment	(17,747)	(39,295)
Disposal of property, plant and equipment	31,767	—
Acquisition of intangible assets	(1,870)	(5,931)
Cash flows related to investing activities	2,128,371	2,266,121
FINANCING ACTIVITIES		
Issue of common shares <i>(note 4)</i>	4,134	—
Cash flows related to financing activities	4,134	—
Effect of exchange rate on cash and cash equivalents	7,101	190,529
Net change in cash and cash equivalents for the period	1,503,764	459,932
Cash and cash equivalents, beginning of period	1,135,826	4,812,117
Cash and cash equivalents, end of period	2,639,590	5,272,049

See accompanying notes

Consolidated Balance Sheets

	(Unaudited) January 31, 2011	October 31, 2010
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	2,639,590	1,135,826
Temporary investments	3,629,016	5,744,853
Accounts receivable	210,229	169,486
Investment tax credits receivable	308,319	679,875
Prepaid expenses	354,359	266,988
	7,141,513	7,997,028
Long-term investments	23,178	23,562
Property, plant and equipment	502,205	588,285
Intangibles	7,903,657	8,200,552
	15,570,553	16,809,427
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	916,928	931,317
Deferred revenues	521,863	237,752
	1,438,791	1,169,069
Future income tax liabilities	734,977	762,861
Shareholders' equity		
Capital stock (note 4)		
Common shares	92,044,805	92,036,202
Preferred shares	5,857,000	5,857,000
Contributed surplus (note 4)	8,171,609	8,052,381
Deficit	(92,676,629)	(91,068,086)
	13,396,785	14,877,497
	15,570,553	16,809,427

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

As of January 31, 2011

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, 2010, 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, 2010, 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

In February 2008, the AcSB confirmed that Canadian GAAP for publicly accountable entities will be changed to IFRS effective in calendar year 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. First reporting under IFRS is required for the Company's interim and annual financial statements beginning on November 1st, 2011.

The Company has implemented a conversion plan aiming to apply IFRS starting on November 1st, 2011.

With the assistance of an external consultant, the Company will analyze, recommend accounting policy choices and implements each IFRS standard. The Chief Financial Officer and 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.

4. 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. Series A 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.

Common Shares

	January 31, 2011	October 31, 2010
	\$	\$
Issued and fully paid		
42,982,806 common shares (42,976,140 as at October 31, 2010)	92,044,805	92,036,202
	January 31, 2011	
	Number of	Amount
	shares	\$
Capital Stock		
Balance, beginning of period	42,976,140	92,036,202
Issuance of common shares	6,666	4,134
Portion previously recognized to surplus as part of stock-based compensation	—	4,469
Balance, end of period	42,982,806	92,044,805

Preferred Shares

	January 31, 2011	October 31, 2010
	\$	\$
Issued and fully paid		
4,900,000 Series A Convertible Preferred shares (4,900,000 as at October 31, 2010)	5,857,000	5,857,000
	January 31, 2011	
	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, 2011, the Company did not grant options (none in the first quarter of 2010) to employees or directors.

4. CAPITAL STOCK (cont'd)

Contributed surplus

	2011 \$
Balance as of October 31, 2010	8,052,381
Stock-based compensation expense	123,697
Stock options exercised	(4,469)
Balance as of January 31, 2011	8,171,609

5. 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:

	January 31, 2011					
	Held for trading \$	Held-to- maturity \$	Loans and receivables \$	Other financial liabilities \$	Carrying value Total \$	Fair value Total \$
Financial assets						
Cash and cash equivalents	2,639,590	—	—	—	2,639,590	2,639,590
Temporary investments	—	3,629,016	—	—	3,629,016	3,624,604
Accounts receivable ⁽¹⁾	—	—	167,994	—	167,994	167,994
Long-term investments	—	23,178	—	—	23,178	23,178
	2,639,590	3,652,194	167,994	—	6,459,778	6,455,366
Financial liabilities						
Accounts payable ⁽²⁾	—	—	—	874,928	874,928	874,928

	October 31, 2010					
	Held for trading \$	Held-to- maturity \$	Loans and receivables \$	Other financial liabilities \$	Carrying value total \$	Fair value total \$
Financial assets						
Cash and Cash equivalents	1,135,826	—	—	—	1,135,826	1,135,826
Temporary investments	—	5,744,853	—	—	5,744,853	5,741,079
Accounts receivable ⁽¹⁾	—	—	143,649	—	143,649	143,649
Long-term investments	—	23,562	—	—	23,562	23,562
	1,135,826	5,768,415	143,649	—	7,047,890	7,044,116
Financial liabilities						
Accounts payable ⁽²⁾	—	—	—	863,499	863,499	863,499

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

⁽²⁾ Excluding other accruals

5. 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 are as follow:

	January 31, 2011 US dollars \$	October 31, 2010 US dollars \$
Cash and cash equivalents	856,957	429,903
Accounts receivable	161,434	134,905
Accounts payable	(375,107)	(370,684)
Net exposure	643,284	194,124

Based on the aforementioned net exposure as at January 31, 2011 and October 31, 2010, 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:

	2011 Canadian dollars		2010 Canadian dollars	
	Appreciates 5% \$	Depreciates 5% \$	Appreciates 5% \$	Depreciates 5% \$
Against US dollar				
Net loss	32,164	(32,164)	95,096	(95,096)

6. SEGMENTED INFORMATION

Information pertaining to segmented results for the periods ended January 31, 2011 and 2010 is as follows:

6. SEGMENTED INFORMATION (cont'd)

	Three-month periods					
	Consolidated		Biotechnologies		Laboratory	
	Amounts				Services	
	2011	2010	2011	2010	2011	2010
	\$	\$	\$	\$	\$	\$
Revenue from external sales	339,582	311,460	292,878	307,797	46,704	3,663
Interest Revenues	22,519	50,941	22,519	50,941	—	—
Loss before the following items:	417,183	1,914,991	249,738	725,582	167,445	1,189,409
Stock-based compensation	123,697	98,994	123,697	98,994	—	—
Amortization	396,647	429,244	355,925	388,612	40,722	40,632
	Three-month periods					
	Consolidated		Biotechnologies		Laboratory	
	Amounts				Services	
	2011	2010	2011	2010	2011	2010
	\$	\$	\$	\$	\$	\$
Segmented loss	937,527	2,443,229	729,360	1,213,188	208,167	1,230,041
Net R&D expenses	695,142	1,371,580	317,055	866,366	378,087	505,214
Financial expenses	3,758	5,280	1,746	2,409	2,012	2,871
Future income taxes	(27,884)	—	(27,884)	—	—	—
Net loss	1,608,543	3,820,089	1,020,277	2,081,963	588,266	1,738,126

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 96% of the consolidated assets and are located in Canada.

For the biotechnologies segment, one American client represented 99% (96% in 2010) of the revenues from external sales.

For the first three-month period of 2011 and 2010, 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.

7. 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 \$13,396,785 (\$14,877,497 as of October 31, 2010) in the definition of capital.

7. MANAGEMENT OF CAPITAL (cont'd)

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.

The Company is satisfied that it has adequate cash resources to carry out its research and development activities and its ongoing operations.