



Diagno Cure

Quarterly Report 3

Period ended July 31, 2011

MESSAGE TO SHAREHOLDERS

Dear Shareholders:

We are pleased to introduce DiagnoCure's financial results for the third quarter of fiscal year 2011. This quarter brought the conclusion of the Company's strategic review for its U.S. operations, that is, a comprehensive collaboration agreement with Signal Genetics. In addition, the PROGENSA® PCA3 test was recently approved for commercialization in Canada. In the U.S., the PCA3 assay for prostate cancer is under review by the Food and Drug Administration (FDA).

In May 2011, DiagnoCure's Previstage™ GCC Colorectal Cancer Staging Test was featured at the annual meeting of the American Society of Colon and Rectal Surgeons (ASCRS) held in Vancouver, Canada. In parallel to this key medical conference, the results of the VITAR study (Validating Indicators To Associate Recurrence Risk) on the GCC test, presented earlier at ASCO GI 2011, were published in the peer-reviewed journal *Annals of Surgical Oncology* (May 2011), with Dr. Daniel J. Sargent, Professor of Biostatistics and Oncology at Mayo Clinic as lead author and Principal Investigator of the study.

The published article reported strong results of the first phase of the VITAR study, which was conducted on lymph nodes of 241 stage II colon cancer patients. In a subset of 181 patients with traditionally favourable prognostic factors, that is, an invasive T3 tumor and 12 or more lymph nodes examined, the Previstage™ GCC test classified 1/3 of patients with a high risk of recurrence at five years, and 2/3 of patients at low risk of recurrence. In this subset, the high risk group had a 6 times greater likelihood to recur than the low risk group (27% vs 4%).

On June 29, 2011, DiagnoCure announced a collaboration agreement for a minimum of US\$13.3 million with Signal Genetics regarding its Previstage™ GCC test and its U.S. laboratory operations. This was the conclusion of the strategic review to identify the best option to maximize the growth of DiagnoCure's Previstage™ GCC Colorectal Cancer Staging Test, and more globally, to leverage the Company's investments in its U.S. operations. Over the course of that initiative, DiagnoCure spoke to numerous private investors and potential strategic partners. The Previstage™ GCC test attracted much interest because of its clear clinical relevance for colorectal cancer patients and its robustness. Throughout the process, it became clear that finding the right strategic partner with an existing infrastructure would accelerate and maximize the penetration of Previstage™ GCC in the market. That strategic partner ended up being Signal Genetics.

Signal Genetics was formed just over one year ago by a well-capitalized investor based in New York with an initial emphasis on providing genomic testing for patients with Multiple Myeloma. Signal Genetics management team cumulates many years of experience in running and selling service laboratories. Over the past year the company has successfully launched a gene expression test, MyPRS, to some of the most renowned cancer centers in the U.S. To do this, it counts on internal sales resources as well as partners, such as Caris Life Sciences and Neogenomics Laboratories, two national specialty laboratory companies.

Under the definitive agreements underlying the collaboration between DiagnoCure and Signal Genetics, the latter was granted a worldwide exclusive license to the Previstage™ GCC Colorectal Cancer Staging Test developed by DiagnoCure, and acquired DiagnoCure's U.S. CLIA service laboratory. These two elements of the transaction combined are valued at a minimum of

US\$10.8M over five years, broken down into a US\$5.7M upfront payment for the acquisition of DiagnoCure's U.S. laboratory, and a minimum of US\$5.1M in annual instalments and royalty payments over the first five years of the license agreement. In addition, Signal Genetics will pay DiagnoCure US\$2.5M under an R&D agreement to advance the development of certain genomic tests being developed in its Quebec-based laboratories. All payments will be made in cash.

Since the signature of the collaboration agreement, DiagnoCure and Signal Genetics have been working together through a smooth transition of the laboratory operations and the Previstage™ GCC test. Most former U.S. employees of DiagnoCure were hired by Signal Genetics, thereby keeping a knowledge and expertise base in the Previstage™ GCC test. Signal Genetics has quickly expanded its sales team, including several new hires that have been deployed throughout the U.S., and has secured several new customers that are already driving growth.

Moving forward, this transaction reduces DiagnoCure's cash burn estimated between \$2M to \$2.5M per year. Added to the royalty revenues from Gen-Probe on the PCA3 genomic biomarker for prostate cancer, DiagnoCure now has gained a financial base to leverage its core expertise in developing novel genomic cancer tests, and possibly take advantage of the fast expanding field of Personalized Medicine. That market, specifically with regard to genomic tests, is expected to more than double over the next few years, to \$7B worldwide.

On the PCA3 biomarker front, in August 2011, the PROGENSA® PCA3 test commercialized by Gen-Probe was approved by Health Canada. In the United States, the test is still under active review by the Food and Drug Administration. The date for the expected review by the FDA's Immunology Advisory Panel, which had been confirmed for October 14, 2011, has now been postponed to provide the FDA more time to review and respond to information and materials that have been provided by Gen-Probe in connection with the Panel meeting and the Premarket Approval Application for the PROGENSA® PCA3 Assay. Gen-Probe indicated that they expect the Panel to take place in the first quarter of 2012.

In May 2011, Gen-Probe announced that it had submitted a 510(k) to the FDA for its automated Panther™ system. In August, the system was approved in Canada, with a first utilization for Gen-Probe's sexually transmitted disease tests. At some point, Gen-Probe will move the PCA3 test onto this new system. DiagnoCure believes that this will have a major impact on the adoption of the PCA3 test as it will significantly improve the productivity of laboratories performing molecular testing.

Moving forward, DiagnoCure intends to build on its core expertise in developing clinically relevant and robust genomic tests in cancer. To do so, over the past year, the Company has maintained a core R&D team, which represents 50% of the total headcount. In particular, the Company will leverage its past investments made in its lung cancer program, and make use of the most advanced technology and knowledgebase in genomic science, including bioinformatics. The goal, as it has always been the mission of DiagnoCure, will be to develop genomic diagnostic tests for cancer that meet key clinical questions or dilemmas and provide physicians with the most accurate and patient-specific information possible to make personalized treatment decisions.

(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 July 31, 2011. 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, 2010. Amounts are in Canadian dollars unless otherwise noted. The information contained herein is up to date as of September 2nd, 2011.

Overview

DiagnoCure, Inc. (hereafter called the "Company" or "DiagnoCure") is a life sciences company developing and commercializing high-value cancer diagnostic tests 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. The PROGENSA[®] PCA3 is 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 August 17, 2011, Gen-Probe obtained Canadian regulatory approval for the PROGENSA® PCA3 assay.

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 June 29, 2011, DiagnoCure announced a collaboration with Signal Genetics, a U.S. based company, for a minimum of US\$13.3 million over the first five years. Under the agreements underlying the collaboration, Signal Genetics was granted a worldwide exclusive license to the Previstage™ GCC Colorectal Cancer Staging Test and acquired DiagnoCure's U.S. CLIA service laboratory.

2011 First Nine 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, called VITAR (Validating Indicators To Associate Recurrence Risk), 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.

The results of this study were presented in January 2011 at the Gastrointestinal Cancers Symposium of the American Society of Clinical Oncology, and was published in the peer-reviewed journal *Annals of Surgical Oncology* (May 2011), with Dr. Daniel J. Sargent, Professor of Biostatistics and Oncology at Mayo Clinic as lead author and Principal Investigator.

The published article reported strong results of the first phase of the VITAR study, which was conducted on lymph nodes of 241 stage II colon cancer patients. In a subset of 181 patients with traditionally favourable prognostic factors, that is, an invasive T3 tumor and 12 or more lymph nodes examined, the Previstage™ GCC test classified 1/3 of patients with a high risk of recurrence at five years, and 2/3 of patients at low risk of recurrence. In this subset, the high risk group had a 6 times greater likelihood to recur than the low risk group (27% vs 4%).

On June 15, DiagnoCure reported the issuance of a new U.S. patent, which represents a significant addition to DiagnoCure's PCA3 prostate cancer biomarker portfolio. In addition to providing greater patent protection, this new patent bears an extended expiration date that lengthens by 20 months the term of the license that DiagnoCure granted to its commercial partner, Gen-Probe. As a result, the duration of the Gen-Probe license will be extended to August 2027.

On June 29, the Company announced a collaboration arrangement valued at a minimum of US\$13.3M over the first five years. This collaboration aims to maximize the commercialization of Previstage™ GCC Colorectal Cancer Staging Test, and further develop novel genomic cancer tests in the field of Personalized Medicine.

Under the definitive agreements underlying the collaboration, Signal Genetics was granted a worldwide exclusive license to the Previstage™ GCC Colorectal Cancer Staging Test developed by DiagnoCure, and acquired DiagnoCure's U.S. CLIA service laboratory. These two elements of the transaction combined are valued at a minimum of US\$10.8M over five years, broken down into a US\$5.7M upfront payment for the acquisition of DiagnoCure's U.S. laboratory, and a minimum of US\$5.1M in annual installments and royalty payments over the first five years of the license agreement. In addition, Signal will pay DiagnoCure US\$2.5M under an R&D agreement to advance the development of certain genomic tests being developed in its Quebec-based laboratories. All payments will be made in cash.

On August 17, 2011, DiagnoCure announced that Health Canada had granted regulatory approval to Gen-Probe, the Company's commercial partner for the PCA3 biomarker, for the PROGENSA® PCA3 assay.

Operating Results from Continuing Operations

For the Three-Month Period Ended July 31, 2011

Total revenues for the third quarter of 2011 were \$304,288 compared with \$347,130 for the same period of 2010. In the third quarter of 2011, royalty revenues amounted to \$168,273 compared with \$174,476 for the corresponding period of 2010. Royalty revenues from Gen-Probe decreased by \$7,635 to \$155,025 for the third quarter of 2011 from \$162,660 for the same period of 2010. Without taking into account the effect of the exchange rate variation, royalty revenues from Gen-Probe have increased by 3%, to US\$162,534 for the third quarter of 2011 from US\$158,076 for the same period of 2010. This increase is attributable to increased sales of PROGENSA® PCA3 in Europe and the United States by Gen-Probe. Also in the third quarter of 2011, DiagnoCure recorded royalties of \$13,248 from Scimedex, related to ImmunoCyt™ / uCyt+™, compared with \$11,816 for the same period 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, \$123,800 for the third quarter of 2011, compared with \$131,088 for the same period of 2010.

Interest income decreased by \$26,195, to \$12,215 for the third quarter of 2011 compared with \$38,410 for the same period of 2010. The decrease is attributable to DiagnoCure's use of funds to finance its operating activities.

Operating expenses increased by \$78,955, to \$1,244,631 for the third quarter of 2011 from \$1,165,676 for the same period of 2010. This increase is attributable to administrative professional fees related to the IFRS transition and to consulting fees. Total operating expenses increased primarily as a result of the following:

- ▶ Research and development expenses, net of investment tax credits, decreased by \$33,768, to \$262,139 for the third quarter of 2011 from \$295,907 for the same period of 2010. The decrease in research and development expenses is attributable to the postponement of the second phase of the VITAR clinical study. Under the collaboration arrangement signed on June 28, 2011, the study will now be sponsored by Signal Genetics and will be performed by DiagnoCure.

- ▶ Selling and business development expenses increased by \$8,383, to \$42,725 for the third quarter of 2011 from \$34,342 for the same quarter of 2010. This increase is attributable to the timing of fees related to intellectual properties patents maintenance.
- ▶ General and administrative expenses increased by \$114,779, to \$508,512 for the third quarter of 2011 from \$393,733 for the same period of 2010. This increase is attributable to administrative professional fees related to the IFRS transition and to consulting fees.
- ▶ Stock-based compensation expenses, a non-cash charge, decreased by \$34,857 to \$85,659 for the third quarter of 2011 from \$120,516 for the same period of 2010. This decrease is attributable to the end of expense recognition associated with previously granted options.
- ▶ Gain on foreign exchange decreased by \$42,263 to \$2,521 for the third quarter of 2011 from \$44,784 for the same period of 2010. This decrease is attributable to the lower liquidities held in US\$ compared with the third quarter of 2010.

As noted above, DiagnoCure sold its U.S. CLIA service laboratory on June 28, 2011 for \$5.5M (US\$5.7M). The disposal of the U.S. CLIA service laboratory resulted in a net earnings for discontinued operations of \$3,952,095 for the third quarter of 2011.

Based on the above, for the third quarter of 2011, DiagnoCure recorded a net loss from continuing operations of \$912,459 or \$0.02 per share, compared with \$818,546 or \$0.02 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.

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

	2011 \$	2010 \$	2009 \$
Revenue under research and license agreement	292,073	308,720	259,454
Interest	12,215	38,410	111,800
Total revenues	304,288	347,130	371,254
Operating expenses (before stock-based compensation, and loss (gain) on foreign exchange)	1,161,493	1,089,944	2,251,223
Net loss (before stock-based compensation and loss (gain) on foreign exchange)	(857,205)	(742,814)	(1,879,969)
Stock-based compensation	85,659	120,516	141,177
Loss (Gain) on foreign exchange	(2,521)	(44,784)	473,088
Net loss before income taxes	(940,343)	(818,546)	(2,494,234)
Future income taxes	27,884	—	28,509
Net loss from continuing operations	(912,459)	(818,546)	(2,465,725)
Net (loss) income from discontinued operations	3,952,095	(832,047)	(1,568,639)
Net (loss) income	3,039,636	(1,650,593)	(4,034,364)
Basic and diluted (loss) income per share			
From continuing operations	(0.02)	(0.02)	(0.05)
From discontinued operations	0.09	(0.02)	(0.04)
Basic and diluted (loss) income per share	0.07	(0.04)	(0.09)
Weighted average number of common shares outstanding	42,993,997	42,976,140	42,849,475

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

For the Nine-month Period Ended July 31, 2011

Total revenues for the nine-month period ended July 31, 2011 were \$947,016 compared with \$1,033,115 for the same period of 2010. In the first nine months of 2011, royalty revenues amounted to \$517,168 compared with \$490,864 for the corresponding period of 2010. Royalty revenues from Gen-Probe increased by \$9,762, to \$479,944 for the first nine months of 2011 from \$470,182 for the first nine months of 2010. Without taking into account the effect of the exchange rate variation, royalty revenues from Gen-Probe have increased by 13%, to US\$495,977 for the first nine-month period of 2011 from US\$439,614 for the same period of 2010. This increase is attributable to increased sales of PROGENSA® PCA3 in Europe and the United States by Gen-Probe. Also in the first nine months of 2011, DiagnoCure recorded royalties of \$37,224 from Scimedx, related to ImmunoCyt™ / uCyt+™, compared with \$20,682 for the first nine-month period 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, \$378,690 for the first nine months of 2011, compared with \$411,707 for the same period of 2010.

Interest income decreased by \$79,385, to \$51,158 for the first nine months of 2011 compared with \$130,543 for the same period of 2010. The decrease is attributable to DiagnoCure's use of funds to finance the operating activities.

Operating expenses decreased by \$1,398,611 to \$4,046,892 for the first nine months of 2011 from \$5,445,503 for the same period of 2010. This decrease reflects the impact of the enterprise structure optimization announced in February 2010. This decrease also reflects the postponement of the second phase of VITAR clinical study. Under the collaboration arrangement signed on June 28, 2011, the study will now be sponsored by Signal Genetics and will be performed by DiagnoCure. Total operating expenses decreased primarily as a result of the following:

- ▶ Research and development expenses, net of investment tax credits, decreased by \$881,942, to \$963,399 for the first nine-month period of 2011 from \$1,845,341 for the same period of 2010. The decrease in research and development expenses is attributable to the postponement of the second phase of the VITAR clinical study. Under the collaboration arrangement signed on June 28, 2011, the study will now be sponsored by Signal Genetics and will be performed by DiagnoCure.
- ▶ Selling and business development expenses decreased by \$63,135, to \$142,824 for the first nine-month period of 2011 from \$205,959 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 increased by \$39,645, to \$1,595,277 for the first nine-month period of 2011 from \$1,555,632 for the same period of 2010. This increase is attributable to administrative professional fees related to the IFRS transition and to consulting fees.
- ▶ Restructuring charges for the first nine-month of 2010 were \$229,163 attributable to changes to the enterprise structure to optimize its growth potential. This realignment of operations resulted in a reduction of personnel in all functional areas.

- ▶ Stock-based compensation expenses, a non-cash charge, decreased by \$46,722, to \$289,321 for the first nine-month period of 2011 from \$336,043 for the same period of 2010. The decrease reflects the end of expense recognition associated with previously granted options.
- ▶ Loss on foreign exchange decreased by \$121,246, to \$26,937 for the first nine months of 2011 from \$148,183 for the same period of 2010. This decrease is attributable to the lower liquidities held in US\$ compared with the same period of 2010.

As noted above, DiagnoCure sold its U.S. CLIA service laboratory on June 28, 2011 for \$5.5M (US\$5.7M). The disposal of the U.S. CLIA service laboratory resulted in a net earnings for discontinued operations of \$2,845,878 for the first nine-month period of 2011.

Based on the above, for the first nine months of 2011, DiagnoCure recorded a net loss from continuing operations of \$3,016,224 or \$0.07 per share, compared with \$4,412,388 or \$0.10 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 \$8,834,927, including cash and cash equivalent from discontinued operations, up from \$6,904,241 as of October 31, 2010. This increase of \$1,930,686 is due to the sale of the U.S. CLIA service laboratory to Signal Genetics for \$5.5M (US\$5.7M). Management is satisfied that it has adequate cash resources to finance the Company's activities, and will monitor its cash levels.

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

	2011	2010	2009
	\$	\$	\$
Sales	—	—	100,926
Revenue under research and license agreement	895,858	902,572	727,916
Interest	51,158	130,543	405,558
Total revenues	947,016	1,033,115	1,234,400
Cost of sales	—	—	27,122
Gross margin	947,016	1,033,115	1,207,278
Operating expenses (before stock-based compensation, loss on foreign exchange and restructuring charges)	3,730,634	4,732,114	6,277,876
Net loss (before stock-based compensation, loss on foreign exchange and restructuring charges)	(2,783,618)	(3,698,999)	(5,070,598)
Restructuring charges	—	229,163	—
Loss on foreign exchange	26,937	148,183	438,459
Stock-based compensation	289,321	336,043	491,310
Net loss before income taxes	(3,099,876)	(4,412,388)	(6,000,367)
Future income taxes	83,652	—	87,781
Net loss from continuing operations	(3,016,224)	(4,412,388)	(5,912,586)
Net (loss) income from discontinued operations	2,845,878	(3,263,126)	(4,184,670)
Net loss	(170,346)	(7,675,514)	(10,097,256)
Basic and diluted (loss) income per share			
From continuing operations	(0.07)	(0.10)	(0.14)
From discontinued operations	0.06	(0.08)	(0.10)
Basic and diluted loss per share	(0.01)	(0.18)	(0.24)
Weighted average number of common shares outstanding	42,986,467	42,966,267	42,815,150

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 \$17,320,629 as of July 31, 2011, compared with \$16,809,427 as of October 31, 2010. The book value per Common Share was \$0.35 as of July 31, 2011, compared with \$0.35 per Common Share as of October 31, 2010.

Balance Sheet (Unaudited)

As of July 31

	2011	2010	2009
	\$	\$	\$
Assets from continued operations	16,775,540	17,880,522	28,521,980
Assets related to discontinued operations	545,089	612,211	818,773
Total Assets	17,320,629	18,492,733	29,340,753
Shareholders' equity	15,007,085	15,896,356	25,842,928
Number of common shares outstanding	42,996,805	42,976,140	42,849,475

Cash Position and Financing Sources

Cash flows required from operating activities during the third quarter of 2011 amounted to \$534,546 compared with \$508,930 in the third quarter of 2010. This increase of \$25,616 is mostly due to the administrative expenses as stated above. Investment activities generated cash flows of \$5,524,276 for the third quarter of 2011 compared with \$902,077 required for the third quarter of 2010. This increase is mostly attributable to the gain realized on the disposal of our DiagnoCure's U.S. CLIA laboratory. During the third quarter of 2011, acquisition of tangible and intangible assets amounted to \$7,504 compared with \$14,702 for the same period of 2010. Financing activities, primarily from the issuance of common shares relative to the exercising of options by employees and the reimbursement of long term debt required cash flow of 1,970 for the third quarter of 2011.

Cash Flows for the Three-Month Period Ended July 31 (Unaudited)

	2011	2010	2009
	\$	\$	\$
Cash flows related to operating activities	(534,546)	(508,930)	(1,265,733)
Cash flows related to investing activities	5,524,276	(902,077)	1,222,332
Cash flows related to financing activities	(1,970)	—	5,805,326
Effect of exchange rate on cash and cash equivalent	(4,410)	(47,576)	—

Cash flows required from operating activities during the first nine months of 2011 amounted to \$1,273,283 compared with \$3,131,476 in the first nine months of 2010. This decrease of \$1,858,193 is mostly due to the reduction of the operating expenses in the third quarter of 2011. Investment activities generated cash flows of \$7,204,527 for the first nine months of 2011 compared with \$3,046,883 for the same period of 2010. This increase is mostly attributable to the gain realized on the disposal of our DiagnoCure's U.S. CLIA laboratory. During the first nine months of 2011, acquisition of tangible and intangible assets amounted to \$321,366 compared with \$28,591 for the same period of 2010. This increase is mostly attributable to leasehold

improvements made as a result of the move of the Company's head office to new premises on March 4, 2011. For these leasehold improvements of \$435,669, the Company contracted a loan in the amount of \$152,675 with the landlord bearing interest of 9.53% repayable in 60 monthly instalments of \$3,209 in capital and interest. Financing activities, primarily from the issuance of common shares relative to the exercising of options by employees and the reimbursement of the long term debt generated cash flow of \$4,577 for the first nine months of 2011 compared with \$11,582 for the first nine months of 2010.

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 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 Nine-month Periods Ended July 31 (Unaudited)

	2011	2010	2009
	\$	\$	\$
Cash flows related to operating activities	(1,273,283)	(3,131,476)	(4,589,036)
Cash flows related to investing activities	7,204,527	3,046,883	8,128,458
Cash flows related to financing activities	4,577	11,582	5,809,026
Effect of exchange rate on cash and cash equivalent	(11,318)	169,431	—

Operating Results from Discontinued Operations

For the Three-Month Period Ended July 31, 2011

Please note that the numbers for the third quarter of 2011 represent only two months of operating activities as the U.S. CLIA laboratory was sold on June 28, 2011.

Total revenues for the third quarter of 2011 were \$80,754 compared with \$8,868 for the same period of 2010. During the third quarter, DiagnoCure received reimbursement for its Previstage™ GCC Colorectal Cancer Staging Test for an amount of \$80,754 compared with \$8,868 for the same period of 2010.

Cost of sales increased by \$36,931, to \$41,184 for the third quarter of 2011 from \$4,253 for the same quarter of 2010. The cost of sales represents the cost related to the Previstage™ GCC tests reimbursed.

Operating expenses decreased by \$480,775, to \$355,887 for the third quarter of 2011 from \$836,662 for the same period of 2010. This decrease is attributable to reduced expenses in R&D and selling and business development. Total operating expenses decreased primarily as a result of the following:

- ▶ Research and development expenses decreased by \$388,451, to \$157,186 for the third quarter of 2011 from \$545,637 for the same period of 2010. This decrease is attributable to a reduction in salaries following the enterprise structure optimization announced in February 2010.

- ▶ Selling and business development expenses decreased by \$150,429, to \$68,882 for the third of 2011 from \$219,311 for the same period of 2010. This decrease is attributable to a reduction in salaries and the number of trade shows attendance following the enterprise structure optimization announced in February 2010.

Also during the quarter, DiagnoCure sold its U.S. service CLIA laboratory for \$5.5M (US\$5.7M). This transaction resulted in a net gain on disposal of discontinued assets of \$4,327,824.

Based on the above, for the third quarter of 2011, DiagnoCure recorded a net earnings from discontinued operations of \$3,952,095, compared with a loss of \$832,047, for the same period of 2010.

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

	2011	2010	2009
	\$	\$	\$
Total revenues	80,754	8,868	25,214
Cost of sales	41,184	4,253	16,551
Operating expenses	355,887	836,662	1,563,433
Operating loss before income taxes	(316,317)	(832,047)	(1,554,770)
Net gain on disposal of discontinued assets	4,327,824	—	—
Income taxes	59,412	—	—
Net (loss) Income from discontinued operations	3,952,095	(832,047)	(1,554,770)

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

For the Nine-month Period Ended July 31, 2011

Please note that the numbers for the nine-month period for 2011 represent only eight months of operating activities as the U.S. CLIA laboratory was sold on June 28, 2011.

Total revenues for the first nine months of 2011 were \$152,195 compared with \$29,377 for the same period of 2010. During the period, DiagnoCure received reimbursement for its Previstage™ GCC Colorectal Cancer Staging Test for an amount of \$152,195 compared with \$29,377 for the same period of 2010.

Cost of sales increased by \$65,456, to \$83,319 for the first nine months of 2011 from \$17,863 for the same period of 2010. The cost of sales represents the cost related to the Previstage™ GCC tests reimbursed.

Operating expenses decreased by \$1,783,230, to \$1,491,410 for the first nine months of 2011 from \$3,274,640 for the same period of 2010. This decrease is attributable to reduced expenses in R&D and selling and business development. Total operating expenses decreased primarily as a result of the following:

- ▶ Research and development expenses decreased by \$569,893, to \$873,685 for the first nine months of 2011 from \$1,443,578 for the same period of 2010. This decrease is attributable to a reduction in salaries following the enterprise structure optimization announced in February 2010.

- ▶ Selling and business development expenses decreased by \$779,757, to \$393,457 for the first nine months of 2011 from \$1,173,214 for the same period of 2010. This decrease is attributable to a reduction in salaries and the number of trade shows attendance following the enterprise structure optimization announced in February 2010.

Also during the period DiagnoCure disposed of its U.S. CLIA service laboratory in exchange of \$5.5M (US\$5.7M). This transaction resulted in a net gain on disposal of discontinued assets of \$4,327,824.

Based on the above, for the first nine months of 2011, DiagnoCure recorded a net earnings from discontinued operations of \$2,845,878 or \$0.06 per share, compared with a loss of \$3,263,126 or \$0.08 per share, for the same period of 2010.

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

	2011	2010	2009
	\$	\$	\$
Total revenues	152,195	29,377	29,343
Cost of sales	83,319	17,863	18,683
Operating expenses	1,491,410	3,274,640	4,181,462
Operating income (loss) before income taxes	1,422,534	(3,263,126)	(4,170,802)
Net gain on disposal of discontinued assets	4,327,824	—	—
Income taxes	59,412	—	—
Net (loss) Income from discontinued operations	2,845,878	(3,263,126)	(4,170,802)

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

Issued and Outstanding Share Capital

As of September 2nd, 2011, the Company had 43,013,471 common shares issued and outstanding, 4,900,000 Series A Convertible Preferred Shares and 2,064,007 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 30% 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.

During the quarter, the Company entered into a license agreement with CC Health LLC, a subsidiary of Signal Genetics, regarding certain intellectual property rights. The Company might have to pay \$3,815,200 worth of common shares of DiagnoCure if certain conditions of the agreement are not met.

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, 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 \$145,330 for the first nine months of 2011 compared with \$278,101 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:

Contractual obligations	Required Payments			
	Total	Year 1	Years 2 and 3	Years 4 and 5
Lease agreements	\$388,690	\$81,830	\$163,659	\$143,202

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 4th, 2011 and expiring in 2016. The annual payment for the current year under this lease agreement amounts to \$81,830.

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 analyzes, recommends 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. 5. 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	<p>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 final analysis, by management with the help of an external IFRS consultant. In addition, IFRS training sessions have been offered over the last months to employees responsible for financial reporting.</p> <p>The Company has made significant progress during the last weeks in deeply analyzing and documenting its future accounting under IFRS. Certain conclusions are presented thereafter.</p>

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 year 2011, opening balance sheet, comparative financial data under IFRS and changes regarding collateral impacts will be completed. ▶ During fiscal 2012, the Company will produce interim and annual consolidated financial statements and disclosure in accordance with IFRS.
Progress	<p>The Company is in the process of compiling and analyzing its opening balance sheet prepared in accordance with IFRS as of November 1, 2010 (the "Transition date"), which will be required for comparative purposes in its interim and annual financial statements for fiscal year 2011-2012.</p> <p>Management will start working on the Company's draft financial statements in the coming weeks after it has completed the remaining technical analysis.</p>

To date, the Company has identified the following impacts on its future financial statements under IFRS:

- **IFRS 1 – First-Time Adoption of IFRS**

IFRS 1 is a financial reporting standard that stipulates the requirements for an entity that is preparing IFRS compliant statements for the first time, and applies at the time of changeover. IFRS 1 provides for optional exemptions to the general rule of retrospective application of IFRS. These optional exemptions include:

- (i) Business combinations – IFRS 1 permits entities not to restate business combinations which occurred prior to Transition date.

- (ii) Share-based payments – IFRS 1 permits entities not to restate grants which occurred and vested prior to Transition date, and
- (iii) Fair value as deemed cost – an entity may elect to measure certain types of assets at the Transition date at its fair value or use a previous GAAP revaluation and use that fair value or revaluation as its deemed cost at that date.

While the Company has not finalized certain decisions, it currently anticipates making these IFRS elections under items (i) and (ii).

- **IFRS 2 – *Share-based Payments***

Compared to current accounting policies applied by the Company under Canadian GAAP, IFRS 2 introduces for equity-settled grants with graded vesting conditions in installments a requirement to account for each installment as a separate arrangement with its own distinct fair value measurement. Compensation cost for each tranche is recognized over its own distinct vesting period.

In addition, where it was a policy choice under Canadian GAAP, IFRS 2 requires that a forfeiture rate needs to be taken into account and that represents the expected number of equity instruments that will ultimately vest due to vesting conditions other than market conditions.

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.

The IASB continues to make changes to other IFRSs and has a number of ongoing projects. The Company will continue to monitor all of the IASB projects that are in progress to ensure timely implementation and accounting.

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 July 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 third 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

September 2nd, 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 Nine-month Period Ended July 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 July 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 2nd day of September 2011

Consolidated Statements of Operations and Comprehensive (Loss) Income (Unaudited)

For the periods ended July 31

	Three-month periods		Nine-month periods	
	2011	2010 (Restated— note 4)	2011	2010 (Restated— note 4)
	\$	\$	\$	\$
Revenues				
Revenue under research and license agreement	292,073	308,720	895,858	902,572
Interest	12,215	38,410	51,158	130,543
	304,288	347,130	947,016	1,033,115
Operating expenses				
Research and development expenses	303,442	350,824	1,108,729	2,123,442
Investment tax credits	(41,303)	(54,917)	(145,330)	(278,101)
	262,139	295,907	963,399	1,845,341
General and administrative expenses	508,512	393,733	1,595,277	1,555,632
Selling and business development expenses	42,725	34,342	142,824	205,959
Restructuring charges	—	—	—	229,163
Stock-based compensation	85,659	120,516	289,321	336,043
(Gain) loss on foreign exchange	(2,521)	(44,784)	26,937	148,183
Financial expenses	5,310	2,772	9,010	6,377
(Gain) on disposal of property, plant and equipment	—	—	(24,544)	—
Amortization of property, plant and equipment	43,753	64,830	147,958	224,251
Amortization of intangibles	299,054	298,360	896,710	894,554
	1,244,631	1,165,676	4,046,892	5,445,503
Loss from continuing operations before income taxes	(940,343)	(818,546)	(3,099,876)	(4,412,388)
Future income taxes	27,884	—	83,652	—
Loss and comprehensive loss from continuing operations	(912,459)	(818,546)	(3,016,224)	(4,412,388)
Net earnings (loss) and comprehensive income (loss) from discontinued operations (note 4)	3,952,095	(832,047)	2,845,878	(3,263,126)
Net earnings (loss) and comprehensive income (loss)	3,039,636	(1,650,593)	(170,346)	(7,675,514)
Basic and diluted net loss per share from continuing operations	(0.02)	(0.02)	(0.07)	(0.10)
Basic and diluted net earnings (loss) per share from discontinued operations (note 4)	0.09	(0.02)	0.06	(0.08)
Basis and diluted net earnings (loss) per share	0.07	(0.04)	(0.01)	(0.18)
Weighted average number of common shares outstanding	42,993,997	42,976,140	42,986,467	42,966,267

See accompanying notes

Consolidated Statements of Deficit

(Unaudited)

For the nine-month periods ended July 31

	2011	2010
	\$	\$
Deficit, beginning of period	(91,068,086)	(82,250,669)
Net loss	(170,346)	(7,675,514)
Deficit, end of period	(91,238,432)	(89,926,183)

Consolidated Statements of Cash Flows

(Unaudited)

For the periods ended July 31

	Three-month periods		Nine-month periods	
	2011	2010 (Restated– note 4)	2011	2010 (Restated– note 4)
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss from continuing operations	(912,459)	(818,546)	(3,016,224)	(4,412,388)
Adjustment for:				
Stock-based compensation	85,659	120,516	289,321	336,043
Gain on disposal of property, plant and equipment	—	—	(24,544)	—
Amortization	342,807	363,190	1,044,668	1,118,805
Foreign exchange gain (loss)	4,410	47,576	11,318	(169,431)
Future income taxes	(27,884)	—	(83,652)	—
	(507,467)	(287,264)	(1,779,113)	(3,126,971)
Net change in non-cash working capital items	(27,079)	(221,666)	505,830	(4,505)
Cash flows related to operating activities	(534,546)	(508,930)	(1,273,283)	(3,131,476)
INVESTING ACTIVITIES				
Net change in temporary investments	950,916	(887,375)	2,910,810	2,251,562
Net change in long-term investments	(120)	—	1,503	823,912
Acquisition of property, plant and equipment	(2,926)	—	(303,146)	(3,405)
Disposal of property, plant and equipment	—	—	32,596	—
Disposal of discontinued operations (note 4)	4,580,984	—	4,580,984	—
Acquisition of intangible assets	(4,578)	(14,702)	(18,220)	(25,186)
Cash flows related to investing activities	5,524,276	(902,077)	7,204,527	3,046,883
FINANCING ACTIVITIES				
Issue of Common shares (note 6)	4,066	—	10,613	11,582
Reimbursement of long term debt	(6,036)	—	(6,036)	—
Cash flows related to financing activities	(1,970)	—	4,577	11,582
Effect of exchange rate on cash and cash equivalents	(4,410)	(47,576)	(11,318)	169,431
Net change in cash and cash equivalents from continuing operations	4,983,350	(1,458,583)	5,924,503	96,420
Net change in cash and cash equivalents from discontinued operations (note 4)	95,990	(929,213)	(1,081,504)	(3,393,716)
Net change in cash and cash equivalents for the period	5,079,340	(2,387,796)	4,842,999	(3,297,296)
Cash and cash equivalents, beginning of period	899,485	3,902,617	1,135,826	4,812,117
Cash and cash equivalents, end of period	5,978,825	1,514,821	5,978,825	1,514,821

See accompanying notes

Consolidated Balance Sheets

	(Unaudited) July 31, 2011 \$	(Restated – note 4) October 31, 2010 \$
ASSETS		
Current assets		
Cash and cash equivalents	5,438,388	1,079,084
Temporary investments	2,834,043	5,744,853
Accounts receivable	187,448	169,486
Investment tax credits receivable	366,688	679,875
Prepaid expenses	66,266	113,811
Current assets related to discontinued operations (note 4)	545,089	209,919
	9,437,922	7,997,028
Long-term investments	22,059	23,562
Property, plant and equipment	538,586	238,775
Property, plant and equipment from discontinuing operations (note 4)	—	349,510
Intangibles	7,322,062	8,200,552
	17,320,629	16,809,427
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	824,733	694,379
Deferred revenues	270,458	237,752
Short term portion of long-term debt (note 5)	25,628	—
Current liabilities related to discontinued operations (note 4)	392,505	236,938
	1,513,324	1,169,069
Future income tax liabilities	679,209	762,861
Long-term debt (note 5)	121,011	—
Shareholders' equity		
Capital stock (note 6)		
Common shares	92,057,514	92,036,202
Preferred shares	5,857,000	5,857,000
Contributed surplus (note 6)	8,331,003	8,052,381
Deficit	(91,238,432)	(91,068,086)
	15,007,085	14,877,497
	17,320,629	16,809,427

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

As of July 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. DISCONTINUED OPERATIONS

In an effort to maximize the commercialization of Previstage™ GCC Colorectal Cancer Staging Test, and further develop novel genomic cancer tests in the field of Personalized Medicine, the Company sold on June 28, 2011 its U.S. CLIA service laboratory in exchange of \$5.5M (US\$5.7M) of which were deducted \$950,865 of related transaction expenses and the net book value of the disposed assets of \$253,160, for a net gain of \$4,327,824. As a result, all revenues, expenses, assets and liabilities related to this business segment were classified as discontinued operations and the 2010 comparative financial statements were restated accordingly.

Operations and Comprehensive Incomes (loss) Related to Discontinued Operations

	Three-month periods		Nine-month periods	
	2011	2010	2011	2010
	\$	\$	\$	\$
Revenues				
Sales	80,754	8,868	152,195	29,377
Cost of sales	(41,184)	(4,253)	(83,319)	(17,863)
	39,570	4,615	68,876	11,514
Operating expenses				
Research and development expenses	157,186	545,637	873,685	1,443,578
General and administrative expenses	15,087	18,748	33,186	61,998
Selling and business development expenses	68,882	219,311	393,457	1,173,214
Restructuring charges	—	—	—	486,865
(Gain) loss on foreign exchange	90,810	9,030	86,161	(21,318)
Financial expenses	2,010	1,774	7,026	6,177
Amortization of property, plant and equipment	21,912	42,162	97,895	124,126
	355,887	836,662	1,491,410	3,274,640
Operating loss before income taxes	(316,317)	(832,047)	(1,422,534)	(3,263,126)
Net gain on disposal of discontinued assets	4,327,824	—	4,327,824	—
Income taxes	59,412	—	59,412	—
Net earnings (Loss) and comprehensive incomes (Loss) from discontinued operations	3,952,095	(832,047)	2,845,878	(3,263,126)

Cash flow related to discontinued operations

	Three-month periods		Nine-month periods	
	2011	2010	2011	2010
	\$	\$	\$	\$
Operating activities	95,990	(928,338)	(1,079,959)	(3,356,554)
Investing activities	—	(875)	(1,545)	(37,162)
Net (decrease) increase in cash and cash equivalents from discontinued operations	95,990	(929,213)	(1,081,504)	(3,393,716)

5. LONG-TERM DEBT

A long-term debt was contracted with the landlord of the Company's premises in Quebec City, to finance the acquisition of the leasehold improvements, bearing interest at 9.53%, repayable by monthly installments of \$3,209 in capital and interest, maturing in April 2016.

	July 31, 2011	October 31, 2010
	\$	\$
Long-term debt	146,639	—
Less current portion	25,628	—
Long-term debt end of period	121,011	—

The acquisition of \$152,675 of leasehold improvement financed by this long-term debt is a non cash transaction and is excluded from the consolidated statements of cash flows.

6. 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

	July 31, 2011	October 31, 2010
	\$	\$
Issued and fully paid		
42,996,805 common shares (42,976,140 as at October 31, 2010)	92,057,514	92,036,202

	July 31, 2011	
	Number of shares	Amount \$
Capital Stock		
Balance, beginning of period	42,976,140	92,036,202
Issuance of common shares	20,665	10,613
Portion previously recognized to surplus as part of stock-based compensation	—	10,699
Balance, end of period	42,996,805	92,057,514

6. CAPITAL STOCK (cont'd)

Preferred Shares

	July 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
	July 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 either in the first quarter of 2010) to employees or directors.

During the three-month period ended April 30, 2011, the Company did not grant options (550,000 in 2010) to employees or 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, 2011, the Company did not grant options (50,000 in 2010) to employees or directors. The weighted average fair value of stock options granted during the third quarter of 2010 was \$0.76 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	
	2011	2010	2011	2010	2011	2010
Risk-free interest rate	—	—	—	3.27%	—	2.94%
Expected life	—	—	—	8 years	—	8 years
Expected volatility factor	—	—	—	74%	—	74%
Expected dividend yield	—	—	—	—	—	—

Contributed Surplus

	2011
	\$
Balance as of October 31, 2010	8,052,381
Stock-based compensation expense	289,321
Stock options exercised	(10,699)
Balance as of July 31, 2011	8,331,003

7. FINANCIAL INSTRUMENTS

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

July 31, 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	5,438,388	—	—	—	5,438,388	5,438,388
Temporary investments	—	2,834,043	—	—	2,834,043	2,833,811
Accounts receivable ⁽¹⁾	—	—	171,535	—	171,535	171,535
Long-term investments	—	22,059	—	—	22,059	22,059
	5,438,388	2,856,102	171,535	—	8,466,025	8,465,793
Financial liabilities						
Accounts payable ⁽²⁾	—	—	—	588,034	588,034	588,034

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	1,079,084	—	—	—	1,079,084	1,079,084
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
	1,079,084	5,768,415	143,649	—	6,991,148	6,987,374
Financial liabilities						
Accounts payable ⁽²⁾	—	—	—	517,887	517,887	517,887

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

⁽²⁾ Excluding other accruals

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.

7. FINANCIAL INSTRUMENTS (cont'd)

The significant balances in foreign currencies are as follow:

	July 31, 2011 US dollars \$	October 31, 2010 US dollars \$
Cash and cash equivalents	176,307	374,209
Accounts receivable	176,424	134,905
Accounts payable	(118,772)	(214,470)
Net exposure	233,959	294,644

Based on the aforementioned net exposure as at July 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	(11,698)	11,698	(14,732)	14,732

8. SEGMENTED INFORMATION

The Company used to report segmented information for the business segment Biotechnologies reflecting the Company's Canadian activities and its research and development initiative to develop diagnostic tests, and the laboratory services, reflecting the Company's U.S. activities and its Previstage™ GCC staging test initiative performed by the subsidiary Diagnocure US GP. Since the segment laboratory services is presented as discontinued operations, the Company decided to withdraw the note to the financial statements on the segmented information.

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

For the first nine-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.

9. MANAGEMENT OF CAPITAL

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

In the management of capital, the Company includes shareholders' equity which amounts to \$15,007,085 (\$14,877,497 as of October 31, 2010) 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

9. MANAGEMENT OF CAPITAL (cont'd)

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.