



**Empowering
Oncology Decisions**

DiagnoCure

2011 Annual Report

Message to Shareholders

Dear shareholders:

We are pleased to introduce DiagnoCure's financial results for the fiscal year ended October 31, 2011. Over the past twelve months, the Company has consolidated its financial base and significantly reduced its cash burn through the sale of DiagnoCure's U.S. laboratory operations to Signal Genetics in June of this year. This has allowed the Company to redirect its focus on its core competency, that is, research & development, while providing sufficient funds to pursue promising R&D programs in the diagnostic of cancer. In parallel, the PCA3 assay for prostate cancer has continued to be the subject of additional studies demonstrating its clinical relevance in the management of prostate cancer. The PSA dilemma, which has been at the forefront of prostate cancer discussions this past fall, supports the need for a new and more accurate test to guide physicians' decisions in the management of prostate cancer.

Prostate Cancer and PROGENSA® PCA3

According to the American Cancer Society (ACS) and the Canadian Cancer Society (CCS), prostate cancer is the second most common type of cancer found in North American men (behind skin cancer), and the second-leading cause of cancer death in men (after lung cancer). One in six North American men will develop prostate cancer during his lifetime, and one in 36 will die from it. The ACS and CCS estimate that about 242,000 North Americans were newly diagnosed with prostate cancer in 2011, and that approximately 36,000 men died from the disease.

PCA3 is a biomarker highly over-expressed in more than 90% of prostate cancers, and which can be quantified in urine specimens following a digital rectal examination. Studies have shown that because PCA3 is highly specific for prostate cancer, it predicts the results of repeat biopsies more accurately than traditional prostate-specific antigen (PSA) testing. Data from approximately 80 peer-reviewed publications suggest that PCA3 testing, when used with other patient information, may help address some of the well-known challenges urologists face when identifying prostate cancer, such as identifying clinically relevant cancers that need to be treated, while minimizing unnecessary biopsies. Moreover, a recent European study suggested that PCA3 testing also could predict the outcome of initial biopsies in men suspected of having prostate cancer.

The PSA Dilemma

In October of this year, a U.S. Preventive Services Task Force (USPSTF) concluded that PSA testing did not save lives and led to too many unnecessary additional tests and treatments that can cause serious side effects such as incontinence, sexual dysfunction and other complications. This position created a wave of questioning about prostate cancer screening.

DiagnoCure believes that rather than negating the benefits of screening for prostate cancer, the medical community should concentrate on getting access to more accurate and relevant tests to identify the right men at risk of dying of prostate cancer. To our knowledge, the PCA3 assay is the only test available today that helps solving this dilemma. PCA3 testing could reduce by up to 40% the number of men biopsied and avoid some of them being diagnosed with a low grade prostate cancer. Most men with a low-grade cancer who are not treated will not die from prostate cancer. In fact, in Canada, urologists recommend surveillance for these patients. On the other hand, identifying and treating early and effectively men with a high grade cancer can save the life of almost half of them. From a physician's

perspective, that is the real clinical question, and certain studies have shown that PCA3 testing could be useful to selectively identify the patients with the most malignant cancers.

Gen-Probe Incorporated, DiagnoCure's commercial partner for the PCA3 test, is selling its PROGENSA® PCA3 assay under full European approval (CE mark) since 2006. The test was approved by Health Canada in August 2011, and is currently available through a number of laboratories in Canada. Americans also have access to PCA3 testing through several laboratories that developed a PCA3-based test using analyte-specific reagents manufactured by Gen-Probe; the test has yet to be fully approved by the U.S. FDA.

After submitting a Premarket Approval Application (PMA) for its PROGENSA® PCA3 assay to the FDA in September 2010, Gen-Probe was subsequently notified by the FDA that the assay would be submitted for review by the Immunology Panel of FDA's Medical Devices Advisory Committee. However, on November 7, 2011, Gen-Probe reported that it had received notice from the FDA that the FDA had concluded a panel review was no longer necessary in connection with the PMA for the PROGENSA® PCA3 assay, based on recent discussions between the FDA and the company with respect to product labelling and related issues. Gen-Probe mentioned that it expects to work interactively with the FDA to address outstanding issues related to the PROGENSA® PCA3 assay PMA. In December, during an investor presentation, Gen-Probe stated that it views this situation as a positive one and that the company is preparing for a launch of its PROGENSA® PCA3 assay in the first half of 2012.

On June 15, 2011, DiagnoCure reported the issuance of a new U.S. patent on the PCA3 biomarker, 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 (August 2027) the term of the license DiagnoCure granted to Gen-Probe.

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.

Colorectal Cancer and Previstage™ GCC

The Previstage™ GCC is a molecular test for the staging of colorectal cancer patients. It was first developed by DiagnoCure in 2008. The stage of a cancer describes the severity of the disease and helps a physician determine whether to recommend additional treatment after a surgery. A physician considers several factors when determining the stage of a patient's cancer, such as the tumor size and location in the colon and whether there is cancer metastasis in the lymph nodes surrounding the original tumor site.

The current standard method for identifying metastasis in the lymph nodes involves microscopic examination of a thin slice of tissue from the lymph nodes harvested during the patient's surgery. This slice amounts to less than 1% of a lymph node's volume, and the microscopic examination has a detection sensitivity of 1 cancer cell in every 200 normal cells. Unfortunately, with this method, up to 20% of patients thought to have disease confined to the colon (stage I or II) later return with recurrent disease, presumably through cancer cells that were missed during microscopic examination.

Previstage™ GCC is currently the only colorectal cancer staging test on the market that provides prognostic information based on the tumor burden measured at the molecular level in the lymph nodes. Tumor burden in the lymph nodes is more and more recognized by treating physicians as a key prognostic factor to determine the risk of recurrence of cancer patients, and hence, to determine which patients might benefit most from adjuvant chemotherapy and which could be safely managed without chemotherapy.

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, also 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%).

In order to establish a risk of recurrence (prognosis) for the stage II patients, the study focused on the positive lymph node (LN) ratio, defined as the number of nodes in which cancer cells were identified with the Previstage™ GCC test, divided by the total number of nodes examined. This LN ratio approach was able to significantly predict higher recurrence risk for 84 patients (35%). In fact, the estimated recurrence rates at five years after surgery were 27% for patients with a LN ratio equal to or higher than 1/10 (high-risk group), and 10% for patients with a LN ratio under 1/10 (low-risk group).

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.

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 later 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 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 in particular the second phase of the VITAR study. All payments will be made in cash.

This transaction reduced DiagnoCure's cash burn by an estimated \$2M to \$2.5M per year. Added to the royalty revenues from Gen-Probe on the PCA3 test, DiagnoCure 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 in the United States.

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 or partner with others 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)

Dr. 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 deals with the Company's operating results and financial position as at October 31, 2011, and therefore should be read in conjunction with the consolidated financial statements and accompanying notes at that same date and included in this annual report. These management comments were prepared to explain the Company's operations, performance and financial position as at October 31, 2011. They compare this fiscal year's operating results and cash position with those of the fiscal year ended October 31, 2010. The information contained herein is up to date as of January 13, 2012.

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

In May 2000, DiagnoCure obtained an exclusive worldwide license from the University of Nijmegen, The Netherlands, to commercialize the PCA3 molecular biomarker in relation with prostate cancer. In 2003, DiagnoCure developed its second diagnostic test, uPM3™, based on measuring the expression of the PCA3 molecular biomarker. uPM3™ was first sold in 2003 in the United States in an Analyte Specific Reagents (ASR) format. That same year, DiagnoCure granted an exclusive worldwide license to Gen-Probe, Incorporated (Gen-Probe) of San Diego, California, for the development and commercialization of diagnostic products using PCA3 in return for US\$9 million to be paid over three years. This revenue has been recognized and amortized over a 42-month period ended in April 2007. The final payment has been received in November 2006. In mid-2006, Gen-Probe made available to targeted reference laboratories in the U.S. market the ASR format of its first generation PCA3 assay on its APTIMA® technology platform. Since then, 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 biomarker 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 Highlights

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, also 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%).

In order to establish a risk of recurrence (prognosis) for the stage II patients, the study focused on the positive lymph node (LN) ratio, defined as the number of nodes in which cancer cells were identified with the Previstage™ GCC test, divided by the total number of nodes examined. This LN ratio approach was able to significantly predict higher recurrence risk for 84 patients (35%). In fact, the estimated recurrence rates at five years after surgery were 27% for patients with a LN ratio equal to or higher than 1/10 (high-risk group), and 10% for patients with a LN ratio under 1/10 (low-risk group).

On June 15, 2011, 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, 2011, the Company announced a collaboration agreement with Signal Genetics valued at a minimum of US\$13.3M over the next 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 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 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.

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

On November 7, 2011, Gen-Probe reported that it had received notice from the FDA that the FDA had concluded a panel review was no longer necessary in connection with the PMA for the PROGENSA® PCA3 assay, based on recent discussions between the FDA and the company with respect to product labeling and related issues. Gen-Probe mentioned that it expected to work interactively with the FDA to address outstanding issues related to the PROGENSA® PCA3 assay PMA. In December, during an investor presentation, Gen-Probe stated that it views this situation as a positive one and that the company is preparing for a launch of its PROGENSA® PCA3 assay in the first half of 2012.

Overall Performance

Over the past twelve months, DiagnoCure has consolidated its financial base and significantly reduced its cash burn through the sale of the Company U.S. laboratory operations to Signal Genetics. This has allowed the Company to redirect its focus on its core competency, that is, research & development, while providing sufficient funds to pursue promising R&D programs in the diagnostic of cancer. On June 29, DiagnoCure signed a collaborative agreement with Signal Genetics valued at a minimum of US\$13.3M over the next five years. Management believes that this collaboration with Signal Genetics will maximize the commercialization potential of the Previstage™ GCC Colorectal Cancer Staging Test. With regards to the PCA3 biomarker, after submitting a Premarket Approval Application (PMA) for its PROGENSA® PCA3 assay to the FDA in September 2010, Gen-Probe reported on November 7, 2011, that it had received notice from the FDA that the FDA has concluded a panel review was no longer necessary in connection with the PMA for the PROGENSA® PCA3 assay.

2012 Outlook

In fiscal year 2012, 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 will be to develop or partner with others 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.

Operating Results from Continuing Operations

Total revenues for 2011 were \$1,306,012 compared with \$1,340,590 for 2010. In 2011, royalty revenues amounted to \$659,120 compared with \$645,067 for 2010. Royalty revenues from Gen-Probe increased by \$8,996, to \$605,288 for 2011, from \$596,292 for 2010. Without taking into account the effect of the exchange rate variation, royalty revenues from Gen-Probe have increased by 8%, to US\$622,217 for 2011 from US\$578,493 for 2010. Also in 2011, DiagnoCure recorded royalties of \$44,244 from Scimedix, related to ImmunoCyt™ / uCyt+™, compared with \$48,775 for 2010. Following the agreement signed with SignalGenetics, DiagnoCure recorded its first Previstage™ GCC royalties of \$9,588 in the fourth quarter of 2011. In 2011 DiagnoCure sold clinical samples to Signal Genetics to support its lung cancer

testing R&D for an amount of \$82,632. There were no sales of samples in 2010. Pursuant to the amendment agreement signed with Gen-Probe on April 29, 2009, DiagnoCure recorded an annual payment, that is, \$502,491 for 2011 compared with \$539,031 for 2010. This difference is attributable to the exchange rate variation since the Company received US\$500,000 for 2010 and for 2011.

Interest income decreased by \$94,723 for 2011, to \$61,769, from \$156,492 for 2010. The decrease is attributable to timing of cash received and the use of funds.

Operating expenses decreased by \$1,418,170, to \$5,147,062 for 2011, from \$6,565,232 for 2010. Total operating expenses decreased primarily as a result of the following:

- ▶ Research and development expenses, net of investment tax credits, decreased by \$886,163, to \$1,235,599 for 2011, from \$2,121,762 for 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 agreement signed on June 29, 2011, the study will now be sponsored by Signal Genetics and will be performed by DiagnoCure.
- ▶ Selling and business development expenses decreased by \$55,619, to \$185,732 for 2011, from \$241,351 for 2010. This decrease is attributable to a reduction of professional fees and salaries following the enterprise structure optimization of February 2010.
- ▶ General and administrative expenses increased by \$166,572, to \$2,051,475 for 2011, from \$1,884,903 for 2010. This increase is attributable to administrative professional fees related to the IFRS transition and to consulting fees.
- ▶ Restructuring charges for 2010 were \$229,163 attributable to changes to the enterprise structure implemented in February 2010 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 \$95,345, to \$363,742 for 2011, from \$459,087 for 2010. The decrease reflects the end of expense recognition associated with previously granted options.
- ▶ Gain (loss) on foreign exchange fluctuated by \$213,811, to a gain of \$62,755 for 2011, from a loss of \$151,056 for 2010. This fluctuation is attributable to the gain realized on the conversion to Canadian dollars of the liquidities held in US dollars in the U.S. company at the dissolution of the entity.

As noted above, DiagnoCure sold its U.S. CLIA service laboratory on June 29, 2011 for \$5.5M (US\$5.7M). The disposal of the U.S. CLIA service laboratory resulted in net earnings for discontinued operations of \$3,115,542 for 2011.

Based on the above, for 2011, DiagnoCure recorded a net loss from continuing operations of \$3,731,973 or \$0.08 per share, compared with \$4,972,574 or \$0.12 per share for the same period of 2010. These results reflect activities undertaken during the year 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 of February 2010, to ensure that the Company had sufficient cash resources to fund its research and development activities and to maintain its ongoing operations. At the end of this year, cash, short-term and long-term investments stood at \$8,883,528, up from \$6,904,241 as of October 31, 2010, including cash and cash equivalent from discontinued operations. This increase of \$1,979,287 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 continue to monitor its cash levels.

Selected Annual Information

(Data shown below come from the audited consolidated financial statements of the Company)

	2011 \$	2010 \$	2009 \$
Sales	82,632	—	102,211
Revenue under research and license agreement	1,161,611	1,184,098	968,607
Interest	61,769	156,492	500,465
Total revenues	1,306,012	1,340,590	1,571,283
Cost of sales	2,462	—	27,122
Gross margin	1,303,550	1,340,590	1,544,161
Operating expenses (before restructuring charges, stock-based compensation and loss (gain) on foreign exchange)	4,846,075	5,725,926	8,134,702
Net loss (before restructuring charges, stock-based compensation, and loss (gain) on foreign exchange)	(3,542,525)	(4,385,336)	(6,590,541)
Restructuring charges	—	229,163	—
Stock-based compensation	363,742	459,087	591,586
Loss (gain) on foreign exchange	(62,755)	151,056	441,673
Net loss before income taxes	(3,843,512)	(5,224,642)	(7,623,800)
Future income taxes	111,539	252,068	—
Net loss	(3,731,973)	(4,972,574)	(7,623,800)
Basic and diluted net loss per share	(0.08)	(0.12)	(0.18)
Weighted average number of common shares outstanding	42,993,274	42,968,755	42,849,592

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

Total Assets and Shareholders' Equity

Total assets amounted to \$17,157,577 as of October 31, 2011, compared with \$16,809,427 as of October 31, 2010. The book value per Common Share was \$0.34 as of October 31, 2011, compared with \$0.35 per Common Share as of October 31, 2010.

(Data shown below come from the audited consolidated financial statements of the Company)

	2011	2010	2009
	\$	\$	\$
Assets from continued operations	17,157,577	16,249,998	25,672,818
Assets related to discontinued operations	—	559,429	677,438
Total assets	17,157,577	16,809,427	26,350,256
Shareholders' equity	14,645,754	14,877,497	23,224,245
Number of common shares outstanding	43,013,471	42,976,140	42,957,475

Cash Position and Financing Sources

Cash flows required from operating activities for 2011 amounted to \$1,099,915 compared with \$3,596,100 in 2010. This decrease of \$2,496,185 is mostly due to the reduction of the operating expenses in 2011. Investment activities generated cash flows of \$7,695,221 for the 2011 compared with \$3,943,847 for the same period of 2010. This increase is mostly attributable to the gain realized on the disposal of DiagnoCure's U.S. CLIA laboratory. For 2011, acquisition of tangible and intangible assets amounted to \$343,415 compared with \$39,800 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 installments of \$3,209 in capital and interest. Financing activities, primarily from the issuance of common shares relative to the exercise of options by employees and the reimbursement of the long term debt generated cash flow of \$8,730 for 2011 compared with \$11,582 for 2010.

DiagnoCure will continue to invest its cash reserve in liquid, high-grade investments, guaranteed by the government.

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

(Data shown below come from the audited consolidated financial statements of the Company)

	2011	2010	2009
	\$	\$	\$
Cash flows related to operating activities	(1,099,915)	(3,596,100)	(6,285,441)
Cash flows related to investing activities	7,695,221	3,943,847	9,427,954
Cash flows related to financing activities	8,730	11,582	5,857,866

Issued and Outstanding Share Capital

As of January 13, 2012, the Company had 43,013,471 common shares issued and outstanding, 4,900,000 Series A Convertible Preferred Shares and 2,110,007 stock options granting the right to acquire an equal amount of common shares.

Results of the Fourth Quarter 2011

Total revenues for the fourth quarter of 2011 were \$358,996 compared with \$307,475 for the same period of 2010. In the fourth quarter of 2011, royalty revenues amounted to \$141,951 compared with \$154,203 for the corresponding period of 2010. Royalty revenues from Gen-Probe decreased by \$766 to \$125,344 for the fourth quarter of 2011, from \$126,110 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 2%, to US\$126,240 for the fourth quarter of 2011, from US\$123,783 for the same period of 2010. Also in the fourth quarter of 2011, DiagnoCure recorded royalties of \$7,019 from Scimedx, related to ImmunoCyt™ / uCyt+™, compared with \$28,093 for the same period of 2010. Following the agreement signed with Signal Genetics, Diagnocure recorded its first Previstage™ GCC royalties of \$9,588 in the fourth quarter of 2011. In the fourth quarter of 2011, DiagnoCure sold clinical samples to Signal Genetics to support their lung cancer testing R&D for an amount of \$82,632. There were no sales of samples 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 fourth quarter of 2011, compared with \$131,088 for the same period of 2010.

Interest income decreased by \$15,338, to \$10,611 for the fourth quarter of 2011, from \$25,949 for the same period of 2010. The decrease is attributable to timing of cash received and the use of funds.

Operating expenses decreased by \$19,559, to \$1,100,170 for the fourth quarter of 2011, from \$1,119,729 for the same quarter of 2010. This decrease is mostly attributable to a gain on foreign exchange. Based on the above, for the fourth quarter of 2011, DiagnoCure recorded a net loss of \$715,749 or \$0.01 per share, compared with \$560,186 or \$0.01 per share, for the same period of 2010.

Summary of Quarterly Results (Unaudited)

	Quarters ended 2011			
	January 31	April 30	July 31	October 31
Total revenues	315,397	327,331	304,288	358,996
Cost of sales	—	—	—	2,462
Operating expenses	1,365,173	1,437,088	1,244,631	1,100,170
Net loss before income tax	(1,049,776)	(1,109,757)	(940,343)	(743,636)
Income taxes	27,884	27,884	27,884	27,887
Net loss from continued operations	(1,021,892)	(1,081,873)	(912,459)	(715,749)
Basic and diluted net loss per share	(0.02)	(0.03)	(0.02)	(0.01)

	Quarters ended 2010			
	January 31	April 30	July 31	October 31
Total revenues	358,738	327,247	347,130	307,475
Operating expenses	2,444,595	1,834,732	1,165,676	1,119,729
Net loss before income tax	(2,085,857)	(1,507,485)	(818,546)	(812,254)
Income taxes	—	—	—	252,068
Net loss from continued operations	(2,085,857)	(1,507,485)	(818,546)	(560,186)
Basic and diluted net loss per share	(0.05)	(0.03)	(0.02)	(0.01)

Operating Results from Discontinued Operations

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

Total revenues for 2011 were \$152,195 compared with \$90,609 for 2010. During the year, DiagnoCure received reimbursement for its Previstage™ GCC Colorectal Cancer Staging Test for an amount of \$152,195 compared with \$90,609 for the same period of 2010.

Cost of sales increased by \$32,313, to \$83,319 for 2011, from \$51,006 for 2010. The cost of sales represents the cost related to the Previstage™ GCC tests reimbursed.

Operating expenses decreased by \$2,662,700, to \$1,221,746 for 2011, from \$3,884,446 for 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 \$933,407, to \$874,470 for 2011, from \$1,807,877 for 2010.
- ▶ Selling and business development expenses decreased by \$958,501, to \$401,740 for 2011, from \$1,360,241 for 2010.

Also in 2011 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 2011, DiagnoCure recorded net earnings from discontinued operations of \$3,115,542 or \$0.07 per share, compared with a loss of \$3,844,843 or \$0.09 per share for 2010.

Selected Annual Information

(Data shown below come from the audited consolidated financial statements of the Company)

	2011	2010	2009
	\$	\$	\$
Total revenues	152,195	90,609	44,384
Cost of sales	83,319	51,006	27,163
Gross margin	68,876	39,603	17,221
Operating expenses	1,221,746	3,884,446	5,258,476
Net loss before income taxes	(1,152,870)	(3,844,843)	(5,241,255)
Net gain on disposal of discontinued assets	4,327,824	—	—
Income taxes	59,412	—	—
Net income (loss) from discontinued operations	3,115,542	(3,844,843)	(5,241,255)

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

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 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. 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 2011, 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 US\$4M 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 October 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 consolidated financial statements have been prepared using careful judgment within the framework of the accounting policies described in Note 2 of the accompanying notes to the consolidated financial statements. The Company periodically evaluates its estimates and assumptions based on its past experience and other pertaining factors. The following paragraphs give details on the use of estimates and hypotheses used.

Investment Tax Credits

The Company incurred research and development expenses, which are eligible for investment tax credits. These credits, treated as a reduction to research and development expenses, amounted to \$226,259 in fiscal 2011 compared with \$321,261 for 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-lived Assets

Property, plant and equipment and intangible assets are 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	\$368,233	\$81,830	\$163,660	\$122,743

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 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	Completed, except a few non-significant IFRS standards, which will be completed in the coming weeks.

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	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. Quarterly and annual model financial statements are in the process of being completed.

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.

The Company currently anticipates making these IFRS elections under items (i) and (ii). Final decision is available to the Company until it files its first annual financial statements under IFRS.

- **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 be taken into account and representing the expected number of equity instruments that will ultimately vest due to vesting conditions other than market conditions.

	November 1, 2010 PCGR	Adjustments	November 1, 2010 IFRS
Shareholder's equity	\$	\$	\$
Common shares	92,036,202	(3,163)	92,033,039
Preferred shares	5,857,000	—	5,857,000
Contributed surplus	8,052,381	(125,327)	7,927,054
Deficit	(91,068,086)	128,490	(90,939,596)
	14,877,497	—	14,877,497

The adjustment of \$128,490 represents differences in stock based compensation from PCGR evaluation to IFRS. Under IFRS, for equity-settled grants with graded vesting conditions, it is required 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.

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.

- **IAS 36 – Impairment of assets**

Under Canadian GAAP, 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.

Under IFRS, IAS 36 requires to review long-lived assets and certain identifiable intangibles and intellectual properties for impairment when events or circumstances indicate that the carrying value may exceed the sum of the fair value less cost to sell or the value in use of the assets or group of assets. In determining the value in use, the assets must be grouped at the lowest level for which cash inflows may be identified separately from other cash inflows of the Company. The value in use is determined by discounting cash flows.

As a result of the change in methodology, the Company is in the process of determining if the carrying amount of its intangible assets may not be recoverable.

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 October 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 audited 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 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

January 13, 2012

(Signed)

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

(Signed)

Chantal Miklosi
Chief Financial Officer

Management's Responsibility for Financial Reporting

The consolidated financial statements of DiagnoCure, Inc. and all the information in this annual report are the responsibility of Management and have been approved by the Board of Directors.

It is Management's responsibility to make sound and informed decisions to ensure the application of the appropriate accounting methods and principles. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial information presented in this annual report is consistent with that in the consolidated financial statements.

DiagnoCure, Inc. maintains systems of internal accounting and administrative controls which, in Management's opinion, provide reasonable assurance that the financial information is accurate, relevant and reliable and that the Company's business is conducted efficiently and in an orderly manner.

The Board of Directors ensures that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility through its Audit and Risk Management Committee. The Audit and Risk Management Committee members are independent directors; they meet with Management and the independent auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues to satisfy themselves that each party is properly discharging its responsibilities, and to review the consolidated financial statements and the independent auditors' report.

The consolidated financial statements for the years ended October 31, 2011 and 2010, have been audited by Ernst & Young LLP, the independent auditors appointed by the shareholders, in accordance with Canadian generally accepted auditing standards. Moreover, the auditors have access to the Audit and Risk Management Committee at all times.

Québec City, Canada

January 13, 2012

(Signed)

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

(Signed)

Chantal Miklosi
Chief Financial Officer

Independent Auditors' Report

To the Shareholders of
DiagnoCure Inc.

We have audited the accompanying consolidated financial statements of **DiagnoCure Inc.**, which comprise the consolidated balance sheets as at October 31, 2011 and 2010, and the consolidated statements of deficit, operations and comprehensive loss and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessments of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of DiagnoCure Inc. as at October 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Chartered Accountants

Québec City, Canada
January 16, 2012

¹CA auditor permit no 10845

Consolidated Balance Sheets

As at October 31

	2011 \$	2010 \$
		<i>(restated – note 3)</i>
ASSETS		
Current assets		
Cash and cash equivalents	6,540,169	1,079,084
Temporary investments <i>(note 4)</i>	1,642,839	5,744,853
Accounts receivable <i>(note 5)</i>	193,927	169,486
Investment tax credits receivable <i>(note 11)</i>	449,098	679,875
Prepaid expenses	87,563	113,811
Current assets related to discontinued operations <i>(note 3)</i>	—	209,919
Total of current assets	8,913,596	7,997,028
Long-term investments <i>(note 6)</i>	700,520	23,562
Property, plant and equipment <i>(note 7)</i>	507,194	238,775
Property, plant and equipment related to discontinued operations <i>(note 3)</i>	—	349,510
Intangible assets <i>(note 8)</i>	7,036,267	8,200,552
	17,157,577	16,809,427
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	1,058,115	694,379
Deferred revenues	661,927	237,752
Current portion of long-term debt <i>(note 9)</i>	26,244	—
Current liabilities related to discontinued operations <i>(note 3)</i>	—	236,938
Total of current liabilities	1,746,286	1,169,069
Future income tax liabilities <i>(note 12)</i>	651,322	762,861
Long-term debt <i>(note 9)</i>	114,215	—
Shareholders' equity		
Capital stock <i>(note 10)</i>		
Common shares	92,078,541	92,036,202
Preferred shares	5,857,000	5,857,000
Contributed surplus <i>(note 10)</i>	8,394,730	8,052,381
Deficit	(91,684,517)	(91,068,086)
	14,645,754	14,877,497
	17,157,577	16,809,427

Commitments and guarantees *(note 16)*

See accompanying notes to the consolidated financial statements

On behalf of the Board:

(Signed)

Alain G. Michel
Director

(Signed)

Yves Fradet
Director

Consolidated Statements of Deficit

For the years ended October 31

	2011	2010
	\$	\$
Deficit, beginning of year	(91,068,086)	(82,250,669)
Net loss	(616,431)	(8,817,417)
Deficit, end of year	(91,684,517)	(91,068,086)

See accompanying notes to the consolidated financial statements

Consolidated Statements of Operations and Comprehensive Loss

For the years ended October 31

	2011 \$	2010 \$
		(restated – note 3)
Revenues		
Sales	82,632	—
Cost of sales	(2,462)	—
	80,170	—
Revenues under research and license agreements	1,161,611	1,184,098
Interests	61,769	156,492
	1,303,550	1,340,590
Operating expenses		
Research and development expenses	1,461,858	2,443,023
Investment tax credits (note 11)	(226,259)	(321,261)
	1,235,599	2,121,762
General and administrative expenses	2,051,475	1,884,903
Amortization of intangible assets	1,195,832	1,193,141
Stock-based compensation (note 10)	363,742	459,087
Amortization of property, plant and equipment	188,072	286,159
Selling and business development expenses	185,732	241,351
Financial expenses	13,909	7,900
Restructuring charges (note 13)	—	229,163
Gain on disposal of property, plant and equipment	(24,544)	(9,290)
Loss (gain) on foreign exchange	(62,755)	151,056
	5,147,062	6,565,232
Loss before income taxes	(3,843,512)	(5,224,642)
Future income taxes recovery (note 12)	(111,539)	(252,068)
Net loss and comprehensive loss from continued operations	(3,731,973)	(4,972,574)
Net income (loss) and comprehensive income (loss) from discontinued operations (note 3)	3,115,542	(3,844,843)
Net loss and comprehensive loss	(616,431)	(8,817,417)
Basic net loss per share from continued operations	(0.08)	(0.12)
Basic net earnings (loss) per share from discontinued operations (note 10)	0.07	(0.09)
	(0.01)	(0.21)
	(0.08)	(0.12)
Diluted net loss per share from continued operations	0.06	(0.09)
Diluted net earnings (loss) per share from discontinued operations (note 10)	(0.02)	(0.21)
Weighted-average number of common shares outstanding	42,993,274	42,968,755

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

For the years ended October 31

	2011 \$	2010 \$
		(restated – note 3)
OPERATING ACTIVITIES		
Net loss from continuing operations	(3,731,973)	(4,972,574)
Adjustments for:		
Stock-based compensation	363,742	459,087
Gain on disposal of property, plant and equipment	(24,544)	(9,290)
Amortization	1,383,904	1,479,300
Future income taxes	(111,539)	(252,068)
	(2,120,410)	(3,295,545)
Net change in non-cash working capital items	1,020,495	(300,555)
Cash flows related to operating activities	(1,099,915)	(3,596,100)
INVESTING ACTIVITIES		
Net change of temporary investments	4,102,014	3,174,007
Net change of long-term investments	(676,958)	800,350
Acquisition of property, plant and equipment	(311,868)	(3,405)
Disposal of property, plant and equipment	32,596	9,290
Disposal of discontinued operations (note 3)	4,580,984	—
Acquisition of intangible assets	(31,547)	(36,395)
Cash flows related to investing activities	7,695,221	3,943,847
FINANCING ACTIVITIES		
Reimbursement of long-term debt	(12,216)	—
Issue of common shares	20,946	11,582
Cash flows related to financing activities	8,730	11,582
Net change in cash and cash equivalents for the year from continued operations	6,604,036	359,326
Net change in cash and cash equivalents from discontinued operations (note 3)	(1,199,693)	(4,035,620)
Cash and cash equivalents, beginning of year	1,135,826	4,812,117
Cash and cash equivalents, end of year	6,540,169	1,135,826
Cash and cash equivalents in 2010 are comprised of \$1,079,084 from continued operations and \$56,742 from discontinued operations		
Additional information		
Acquisition of property, plant and equipment financed by long-term debt	152,675	—

See accompanying notes to the consolidated financial statements

Notes to Consolidated Financial Statements

October 31, 2011

1. INCORPORATION AND NATURE OF BUSINESS

DiagnoCure Inc. (the “Company”) is a biotechnology company which specializes in the development and commercialization of products relating to the diagnosis of cancer was incorporated on December 8, 1994 under Part 1A of the *Companies Act (Québec)* and exists under the *Business Corporations Act (Québec)*.

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.

In 2010 and until June 28, 2011 (the “disposal date”), the Company had two reportable segments, Biotechnologies and Laboratory services. Since June 28, 2011, the Company only operates the Biotechnologies segment (*note 3*). The segmented income (loss) for the Laboratory services for 2010 and for 2011 up to the disposal date is disclosed in note 3 to the consolidated financial statements and the segmented earnings for Biotechnologies is disclosed in the consolidated statements of operations and comprehensive loss for 2011 and 2010. In addition, assets relating to the Biotechnologies segment represented 97% of the consolidated assets in 2010 and were located in Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statement Presentation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and include the accounts of the Company and those of its wholly owned subsidiaries, Catalyst Oncology LP, DiagnoCure U.S. GP, 9184-6766 Québec Inc. and 9161-6722 Québec Inc. All significant intercompany transactions and balances have been eliminated upon consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosures of contingent assets and liabilities particularly as they relate to the investment tax credits receivable, recovery of long-lived assets, as well as the determination of the value of stock options. The reported amounts and note disclosures are determined using Management’s best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action during the year. Actual results, however, may differ from the estimates used in these consolidated financial statements and such differences could be material.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Cash and cash equivalents

Cash and cash equivalents consist of investments that are readily convertible into a known amount of cash, that are subject to minimal risk of changes in value and which have an original maturity of three months or less from the date of purchase.

Temporary and long-term investments

Investments, consisting of short-term bonds and term deposits, are recorded at amortized cost using the effective interest rate method after their initial fair value measurement. These investments are classified as financial assets held-to-maturity.

Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are recorded at cost and amortization is calculated using the straight-line method over the following estimated useful lives:

Property, plant and equipment

	Lease term
Leasehold improvements	
Office furniture and equipment	5 years
Laboratory equipment	5 years
Computer hardware	3 years

Intangible Assets

Licenses and patents	10 years
----------------------	----------

Intangible assets consist of exclusive licences acquired from third parties with respect to the use of certain intellectual properties and professional fees incurred to date for obtaining patents and securing exclusive licences for products that are approved for sale.

Government assistance

Government assistance received in the form of grants and investment tax credits for qualifying research and development activities are applied as a reduction of the cost of the related property, plant and equipment or as a reduction of the applicable research and development expenses when there is reasonable assurance of their ultimate realization.

Revenue recognition

The Company's revenues for tests performed are recognized when the following criteria of revenue recognition are met: (1) persuasive evidence that an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the fee is fixed or determinable; and (4) collectability is reasonably assured. Criterion (2) is satisfied when the Company performs the test, generates and delivers a report to the physician. Revenues where the criteria set forth in (1), (2) and (3) above are met, and (4) above are not met, are recognized basis when cash is received.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue Recognition (Cont'd)

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

Royalties – Revenue arising from royalties is recognized when reasonable assurance exists regarding measurement and collectability. Royalties are calculated as a percentage of net sales realized by the Company's licensee of its product. The licensee's net sales consist of revenues from product sales based on the Company's licensed intellectual property less estimates for chargebacks, rebates, sales incentives and allowances, distribution service fees, returns and losses. The Company recognizes royalties on its licensee's net sales when title and risk of loss has passed to the licensee's customer which is typically upon delivery to the licensee's customer, when estimated provisions for chargebacks, rebates, sales incentives and allowances, distribution service fees, returns and losses are reasonably determinable, and when collectability is reasonably assured.

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

Interest income is recognized on an accrual basis.

Income Taxes

The Company recognizes taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on the temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities. These future tax assets and liabilities are measured using tax rates that are expected to apply when such tax assets or liabilities are either realized or settled. A write-down allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

Research and Development

Research expenses are charged to the consolidated statements of operations as incurred. Development expenses are charged to consolidated statements of operations as incurred unless a development project meets the criteria under Canadian GAAP in respect of deferral and amortization. To date, the Company has not deferred any such development expenses.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign Currency Translation

The consolidated financial statements are denominated in Canadian dollars. The temporal method is used to translate accounts in foreign currencies as well as integrated subsidiaries. Under this method, monetary assets and liabilities recorded in a foreign currency are translated into Canadian dollars at year-end exchange rates and non-monetary assets and liabilities are translated at the exchange rates prevailing when the assets were acquired or liabilities were incurred. Revenue and expenses (other than amortization, which is translated at the rate applicable to the corresponding assets) are translated at the average rate of exchange for the period. Gains and losses on translation of foreign currencies are included in the consolidated statements of operations and comprehensive loss in the current period.

Earnings (loss) per share

Basic earnings (loss) per share is calculated using the weighted average number of outstanding common shares during the year. Diluted earnings (loss) per share is calculated using the treasury stock method, giving effect to the exercise of all dilutive securities. The treasury stock method assumes that proceeds from the exercise of options are used to purchase common shares at the average market price during the period. The convertible preferred shares and the stock options were not included in the diluted earnings (loss) per share calculation from continued operations because the Company is in a loss position and the inclusion of these instruments would be anti-dilutive. The diluted earnings (loss) per share from discontinued operations was calculated using the treasury stock method, giving effect to the exercises of the convertible preferred shares and to all dilutive stock options.

Impairment of long-lived assets

Property, plant and equipment and intangible assets with definite life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset with its expected future net undiscounted cash flows from use together with its residual value (net recoverable value). If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value.

Stock-based compensation

The fair value of each option granted to employees and directors, is estimated on the date of the grants using the Black-Scholes option pricing model and is amortized on a straight-line basis as a compensation expense over the graded vesting period of three years of the granted option as if the grants were a series of awards rather than a single award. These expenses are included in the stock-based compensation expense and credited to the contributed surplus. When options are exercised, the proceeds received by the Company, together with the fair value amount recorded in contributed surplus, are credited to capital stock.

3. 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 \$5,531,849 (US\$5.7M) from which were deducted \$950,865 of related transaction expenses for a net disposal of \$4,580,984. Considering the net book value of the disposed assets (consisting of property, plant and equipment) of \$253,160, the Company realized a net gain of \$4,327,824. As a result, all revenues, expenses, assets and liabilities related to the Laboratory Services business segment were classified as discontinued operations.

As a result of this transaction, the Company has segregated the assets, liabilities, revenues, expenses and net cash flows related to the Laboratory Services segment in its consolidated financial statements for the years ended October 31, 2011 and 2010.

The 2010 comparative figures have been restated to reflect the impact of this transaction.

Net income (loss) and comprehensive income (loss) related to discontinued operations

For the years ended October 31	2011 \$	2010 \$
Revenues		
Sales	152,195	90,609
Cost of sales	(83,319)	(51,006)
	68,876	39,603
Operating expenses		
Research and development expenses	874,470	1,807,877
General and administrative expenses	33,186	78,097
Amortization of property, plant and equipment	97,895	165,999
Selling and business development expenses	401,740	1,360,241
Financial expenses	7,732	8,217
Restructuring charges (note 13)	—	486,865
Gain on foreign exchange	(193,277)	(22,850)
	1,221,746	3,884,446
Loss before income taxes	(1,152,870)	(3,844,843)
Net gain on disposal of discontinued assets	4,327,824	—
Income taxes	59,412	—
Net income (loss) and comprehensive income (loss) from discontinued operations	3,115,542	(3,844,843)

3. DISCONTINUED OPERATIONS (Cont'd)

Balance sheets as at October 31

	2011	2010
	\$	\$
Cash and cash equivalents	—	56,742
Prepaid expenses	—	153,177
Total current assets	—	209,919
Property, plant and equipment	—	349,510
Total assets	—	559,429
Accounts payable and accrued liabilities	—	236,938
Total current liabilities	—	236,938

Cash flow related to discontinued operations

For the years ended October 31

	2011	2010
	\$	\$
Operating activities	(1,198,148)	(3,994,858)
Investing activities	(1,545)	(40,762)
Net change in cash and cash equivalents from discontinued operations	(1,199,693)	(4,035,620)

4. TEMPORARY INVESTMENTS

	2011		2010	
	Amortized cost	Weighted average effective rate	Amortized cost	Weighted average effective rate
	\$	%	\$	%
Bonds	1,619,447	1.44	5,744,853	1.62
Term deposit	23,392	1.20	—	—
	1,642,839	1.43	5,744,853	1.62

5. ACCOUNTS RECEIVABLE

	2011	2010
	\$	\$
Research and license agreement	142,490	137,441
Sales taxes	48,260	25,837
Accounts receivable – Trade	3,177	6,208
	193,927	169,486

6. LONG-TERM INVESTMENTS

	2011		2010	
	Amortized cost	Weighted average effective rate	Amortized cost	Weighted average effective rate
	\$	%	\$	%
Bonds	700,520	1.75	—	—
Term deposit	—	—	23,562	1.20
	700,520	1.75	23,562	1.20

The bonds are maturing in October 2013.

7. PROPERTY, PLANT AND EQUIPMENT

	2011		2010	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Leasehold improvements	439,169	28,574	1,244,087	1,235,295
Office furniture and equipment	226,116	215,322	341,954	333,427
Laboratory equipment	1,931,555	1,864,324	2,542,814	2,351,618
Computer hardware	307,292	288,718	475,428	445,168
	2,904,132	2,396,938	4,604,283	4,365,508
Accumulated amortization	2,396,938		4,365,508	
	507,194		238,775	

8. INTANGIBLE ASSETS

	2011	2010
	\$	\$
Licenses and patents	12,076,187	12,044,640
Accumulated amortization	5,039,920	3,844,088
	7,036,267	8,200,552

9. LONG-TERM DEBT

	2011 \$	2010 \$
Loan 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 instalments of \$3,209 in capital and interest, maturing in April 2016.	140,459	—
Less current portion	26,244	—
	114,215	—

The minimum principal payments over the next five years are as follows:

2012	26,244
2013	28,858
2014	31,733
2015	34,894
2016	18,730

10. 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. The Series A preferred shares 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

	2011 \$	2010 \$
Issued and fully paid		
43,013,471 common shares (42,976,140 as at October 31, 2010)	92,078,541	92,036,202

	2011		2010	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance, beginning of year	42,976,140	92,036,202	42,957,475	92,015,103
Issuance of common shares on exercise of stock options	37,331	20,946	18,665	11,582
Portion previously recognized to contributed surplus as part of stock-based compensation	—	21,393	—	9,517
Balance, end of year	43,013,471	92,078,541	42,976,140	92,036,202

10. CAPITAL STOCK (Cont'd)

Preferred shares

	2011	2010
	\$	\$
4,900,000 Serie A Convertible Preferred Shares	5,857,000	5,857,000

Shareholders Rights Plan

On January 19, 2011, the Board of Directors adopted a Shareholders Rights Plan ("Rights Plan"). Under the Rights Plan, holders of common shares are entitled to one share purchase right ("Right") for each common share held, if any person or group makes a take-over bid or acquires 20% or more of the Company's outstanding voting shares, other than by an acquisition pursuant to a permitted bid or a competing permitted bid. Each Right entitles the registered holder, other than the acquiring person and parties related to the acquirer, to purchase a common share from treasury at a 50% discount to the market price at that time, subject to adjustment in certain events. The Rights Plan will expire at the date of the annual meeting of the Company in 2020, subject to the Rights Plan being reconfirmed by the Company's shareholders at the annual meetings of the Company in 2014 and 2017.

Common shares

A) Issuance of shares

Common shares issue

37,331 (18,665 in 2010) common shares were issued for a cash consideration of \$20,946 (\$11,582 in 2010) following the exercise of stock options.

B) Stock options

The Company adopted a stock option plan for its directors, senior executives, employees and consultants under which a total of 7% of the Company's outstanding common shares were reserved for issue. No stock options are granted for a period exceeding ten years and the exercise price of each stock option cannot be below the average market price of the five days preceding the grant. The stock options generally vest over a three-year period following the date of the grant.

10. CAPITAL STOCK (Cont'd)

Common shares (Cont'd)

B) Stock Options (Cont'd)

The Company's outstanding stock options as at October 31, 2011 and 2010 and the changes that occurred during the years then ended are as follows:

	2011		2010	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Options outstanding, beginning of year	2,252,541	1.73	2,837,935	2.28
Granted	205,000	0.82	900,000	1.21
	2,457,541		3,737,935	
Exercised	(37,331)	0.56	(18,665)	0.62
Cancelled or forfeited	(298,203)	1.60	(1,466,729)	2.49
Options outstanding, end of year	2,122,007	1.68	2,252,541	1.73
Options exercisable, end of year	1,312,319	2.06	1,046,988	2.38

The following table summarizes information relating to the stock options outstanding as at October 31, 2011:

Range of exercise prices	Options outstanding			Options exercisable	
	Number of options	Weighted average contractual life (years)	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
4.21 to 6.13	260,000	3.40	4.52	260,000	4.52
2.68 to 3.96	135,506	4.21	3.39	135,506	3.39
1.61 to 1.80	253,500	4.42	1.73	253,500	1.73
0.96 to 1.34	1,020,000	7.60	1.18	454,318	1.17
0.62 to 0.82	322,000	9.00	0.75	77,994	0.62
0.37 to 0.40	131,001	1.48	0.38	131,001	0.38
	2,122,007	6.33	1.68	1,312,319	2.06

During the three-month period ended January 31, 2011, the Company did not grant options (none in 2010) to employees and directors.

During the three-month period ended April 30, 2011, the Company did not grant options (550,000 in 2010) to employees and directors. The weighted average fair value of stock options granted during the second quarter of 2010 was \$0.87 per stock option.

During the three-month period ended July 31, 2011, the Company did not grant options (50,000 in 2010) to employees and directors. The weighted average fair value of stock options granted during the third quarter of 2010 was \$0.76 per stock option.

During the three-month period ended October 31, 2011, the Company granted 205,000 (300,000 in 2010) options to employees and directors. The weighted average fair value of stock options granted during the three-month period ended October, 31, 2011 amounted to \$0.82 (\$0.84 in 2010) per stock option.

10. CAPITAL STOCK (Cont'd)

Common shares (Cont'd)

B) Stock Options (Cont'd)

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 ended							
	January 31		April 30		July 31		October 31	
	2011	2010	2011	2010	2011	2010	2011	2010
Risk-free interest rate	—	—	—	3.27%	—	2.94%	1.98%	2.43%
Expected life	—	—	—	8 years	—	8 years	8 years	8 years
Expected volatility factor	—	—	—	74%	—	74%	70%	73%
Expected dividend yield	—	—	—	—	—	—	—	—

C) Contributed Surplus

	2011	2010
	\$	\$
Balance, beginning of year	8,052,381	7,602,811
Stock-based compensation expense	363,742	459,087
Stock options exercised	(21,393)	(9,517)
Balance, end of year	8,394,730	8,052,381

D) Earnings (loss) per share

No adjustments were required to the net loss for purposes of calculating basic and diluted earnings (loss) per share from continued operations and to the weighted average number of shares outstanding for the purpose of calculating diluted earnings (loss) per share from continued operations, because to do so would be anti-dilutive.

Basic and diluted earnings per share were computed as follows for the discontinued operations in 2011:

	\$
Net income attributable to common shareholders of DiagnoCure Inc.	3,115,542
Weighted-average basic number of common shares outstanding	42,993,274
Net effect of stock options	127,348
Net effect of convertible preferred share	4,900,000
Weighted-average diluted number of common shares outstanding	48,020,622
Earnings per share	
Basic	0.07
Diluted	0.06

The effect of the exercise of stock options was included in the calculation of diluted earnings per share in the above table, except for 1,943,540 stock options since the average market value of the underlying shares was lower than the exercise price.

11. INVESTMENT TAX CREDITS RECEIVABLE AND GOVERNMENT ASSISTANCE

The Company incurred research and development expenditures that are eligible for Quebec SR & ED investment tax credits. The credits, totalling \$226,259 (\$321,261 in 2010), were applied against research and development expenses.

The amounts recorded as research and development tax credits receivable are related to amounts claimed and are subject to a review by the tax authorities. Any differences between the amounts claimed by the Company and the amounts granted by the tax authorities will be recorded during the year in which they are determined.

In addition, the Company has investment tax credits for which it has not recognized the benefit and that may be carried forward for federal tax purposes as follows:

Year of credit	Amount \$	Year of expiry
October 31, 1998	409,000	2018
October 31, 1999	216,000	2019
October 31, 2000	150,000	2020
October 31, 2001	226,000	2021
October 31, 2002	189,000	2022
October 31, 2003	183,000	2023
October 31, 2004	325,000	2024
October 31, 2005	540,000	2025
October 31, 2006	445,000	2026
October 31, 2007	351,000	2027
October 31, 2008	338,000	2028
October 31, 2009	201,000	2029
October 31, 2010	104,000	2030
October 31, 2011	46,000	2031
	3,723,000	

12. INCOME TAXES

The income tax recovery reported differs from the amount of the tax computed by applying statutory income tax rates to the loss before income taxes. The reasons for the differences and the related tax effects are as follows:

	2011 \$	2010 \$
Income tax provision at combined Canadian federal and provincial statutory rate	192,000	2,727,000
Increase (decrease) in taxes recoverable resulting from:		
Foreign income taxed at different rates	—	151,000
Non taxable income	295,000	38,000
Non deductible expenses	(104,000)	(138,000)
Change in tax rates	(939,000)	(49,000)
Unrecognized tax benefits of operating losses and other available deductions	608,127	(2,476,932)
	52,127	252,068

Income tax provision in 2011 is comprised of \$111,539 future income taxes recovery from continued operations and \$59,412 income taxes from discontinued operations.

12. INCOME TAXES (Cont'd)

The major components of future income taxes are as follows:

	2011	2010
	\$	\$
Future income tax assets		
Net operating losses carried forward	13,581,000	14,566,000
Net capital losses carried forward	114,000	114,000
Research and development expenditures	4,456,000	4,459,000
Share issue costs	—	97,000
Tax value of capital assets in excess of carrying values	2,523,000	2,280,000
Total future income tax assets	20,774,000	21,516,000
Valuation allowance	(20,774,000)	(21,516,000)
Net future income tax assets	—	—
Future income tax liabilities		
Intangible assets	651,322	762,861

The Company has the following non-capital tax losses, which are available to reduce future taxable income and expire as follows:

Year of loss	Canada		Year of expiry
	Federal \$	Québec \$	
October 31, 2006	4,768,000	4,407,000	2026
October 31, 2007	12,276,000	12,009,000	2027
October 31, 2008	10,823,000	10,410,000	2028
October 31, 2009	12,148,000	11,728,000	2029
October 31, 2010	8,582,000	8,204,000	2030
October 31, 2011	2,820,000	2,554,000	2031
	51,417,000	49,312,000	

As at October 31, 2011, the Company has scientific research and experimental development expenses which have not been deducted for tax purposes and may be used to reduce the Company's taxable income in future years, with no set expiry date, amounted to approximately \$12,883,000 at the federal level and \$22,046,000 at the Québec level.

13. RESTRUCTURING

On February 15, 2010, DiagnoCure has announced changes to its enterprise structure to optimize its growth potential. As such, the Company was then comprised of two components: (1) administrative headquarters and R&D in Quebec City, and (2) DiagnoCure Oncology Laboratories ("DOL"), DiagnoCure's U.S. wholly-owned sales, marketing and service laboratory operations. This decision has resulted in a reduction of personnel in all areas of the Company. The restructuring charge includes severance indemnities of \$676,750 and legal and out placement fees of \$39,378 for a total amount of \$716,028 which was completely paid as of October 31, 2010.

13. RESTRUCTURING (Cont'd)

	Charges incurred in 2010 \$	Items paid during 2010 \$	Closing balance as of October 31, 2010 \$
Provision for severance indemnities	676,650	676,650	—
Legal and outplacement fees	39,378	39,378	—
	716,028	716,028	—

The charges incurred in 2010 are comprised of \$229,163 from continued operations and \$486,865 from discontinued operations.

No additional charges related to the restructuring have been incurred for the 2011 financial year.

14. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are measured 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:

October 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	6,540,169	—	—	—	6,540,169	6,540,169
Temporary investments	—	1,642,839	—	—	1,642,839	1,642,473
Accounts receivable ⁽¹⁾	—	—	145,667	—	145,667	145,667
Long-term investments	—	700,520	—	—	700,520	694,630
	6,540,169	2,343,359	145,667	—	9,029,195	9,022,939
Financial liabilities						
Accounts payable and accounts liabilities ⁽²⁾	—	—	—	954,522	954,522	954,522
Long-term debt	—	—	—	140,459	140,459	131,923
	—	—	—	1,094,981	1,094,981	1,086,445

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 and accrued liabilities ⁽²⁾	—	—	—	863,499	863,499	863,499

1) Excluding investment tax credits and sales taxes as these amounts are not contractual rights to receive cash.

2) Excluding certain reserves if the amounts are not contractual obligations to deliver cash.

14. FINANCIAL INSTRUMENTS (Cont'd)

As at October 31, 2011 and 2010, temporary and long-term investments have been classified in the Level 2 fair value hierarchy (observable inputs other than quoted market prices).

Fair value

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

Held for trading

Cash and cash equivalents – The carrying amounts are a reasonable approximation of fair value due to their short term maturities.

Held-to-maturity

Temporary and long-term investments – The fair value is based on models using observable inputs other than quoted market prices.

Loans and receivables / Other financial liabilities

Accounts receivable and accounts payable and accrued liabilities – The carrying amount is a reasonable approximation of fair value due to the short-term nature of these accounts.

The fair value of the long-term debt was calculated using the current market rate.

Risk arising from financial instruments

The Company does not use financial derivatives.

Foreign currency risk

The Company operates internationally and a portion of its revenues and expenses are incurred in US dollars. A significant change in the currency exchange rate between the Canadian dollars relative to the US dollars 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 cash equivalents, accounts receivable, accounts payable and accrued liabilities in US dollars and is therefore exposed to foreign exchange risk on these balances.

The significant balances in foreign currencies as at October 31 are as follow:

	2011 US dollars \$	2010 US dollars \$
Cash and cash equivalents	335,255	429,903
Temporary investments	23,392	—
Accounts receivable	143,422	134,905
Long-term investments	—	23,392
Accounts payable and accrued liabilities	(328,859)	(370,684)
Net exposure	173,210	217,516

14. FINANCIAL INSTRUMENTS (Cont'd)

Foreign currency risk (Cont'd)

Based on the aforementioned net exposure as at October 31, 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 a decrease (increase) in the net loss as follows:

	2011		2010	
	Canadian dollars		Canadian dollars	
	Appreciates	Depreciates	Appreciates	Depreciates
	5%	5%	5%	5%
	\$	\$	\$	\$
Against US dollar				
Net loss	(8,661)	8,661	(10,876)	10,876

Credit risk

Credit risk is the risk that an unexpected loss occurs if counterparty to a financial instrument fails to meet its contractual obligations.

All of the cash and cash equivalents are held with Canadian chartered banks. Temporary and long-term investments are held in term deposit, bonds of municipalities and government bodies and therefore do not represent a concentration of risk. These assets are convertible into a known amount of cash and subject to minimal risk of changes in value. The maximal credit risk exposure is limited to the carrying value of cash and cash equivalents, investments and accounts receivable. There are no past due accounts receivable.

As at October 31, 2011, one client represented 86 % of the accounts receivable (in 2010 one client represented 74%). The total revenue in 2011 from this client represented \$1,107,779 (\$1,135,321 in 2010).

Liquidity risk and market risk

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

The Company's investments are comprised of government guaranteed bonds subject to minimal fluctuations in value.

15. 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 \$13,794,189 (\$14,877,497 in 2010) in the definition of capital.

15. 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 and marketing 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 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 and will monitor its cash level as sales and marketing activities accelerate.

16. COMMITMENTS AND GUARANTEES

As at October 31, 2011, the Company has obligations under leases maturing in 2016. The minimum annual payments in relation with these leases for the next five years are as follows: 2012 – \$81,830; 2013 – \$81,830; 2014 – \$81,830; 2015 – \$81,830 and 2016 - \$40,913.

During the year ended October 31, 2011, 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 US\$4,000,000 worth of common shares of DiagnoCure Inc. if certain conditions of the agreement are not met.

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

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.

17. COMPARATIVE FIGURES

Certain figures from the 2010 financial statements have been reclassified to conform to the presentation adopted in 2011.

CORPORATE INFORMATION

Board of Directors

Yves Fradet, M.D., F.R.C.S.(c)
Chairman of the Board,
DiagnoCure, Inc.

Michel E. Côté²
Corporate Director

Paul Gobeil, FCA¹
Vice Chairman of the Board,
Metro, Inc.

Alain G. Michel¹
Chairman of the Board,
Cari-All Group, Inc.

Louise Proulx, Ph.D.¹
Vice President, Site Head,
Vertex Pharmaceuticals (Canada), Inc.

Mario Thomas, Ph.D.²
Senior Vice President,
Ontario Centres of Excellence, Inc.

Vincent R. Zurawski, Jr., Ph.D.²
President and CEO,
Avraham Pharmaceuticals Ltd

*1 Audit and Risk Management Committee
2 Corporate Governance, Human Resources
and Nominating Committee*

Management

Yves Fradet, M.D., F.R.C.S.(c)
President and Chief Medical Officer

Chantal Miklosi, MBA
Chief Financial Officer

General Information

DiagnoCure, Inc.

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www.diagnocure.com

Stock Exchange Listing

The Company's common shares are listed on the Toronto Stock Exchange under the symbol CUR.



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