

## 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 International Financial Reporting Standards (IFRS). 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 Corporation'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, 2014 and 2013, 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 22, 2015

**(Signed)**

**Yves Fradet**

President and Chief Medical Officer  
(Chief Executive Officer)

**(Signed)**

**Frédéric Boivin**

Senior Director, Finances and Administration  
(Interim 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 statements of financial position as at October 31, 2014 and 2013, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years ended October 31, 2014 and 2013, 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 International Financial Reporting Standards, 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**

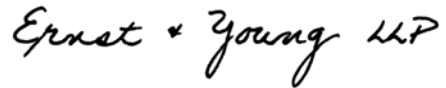
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain 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 assessment 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, 2014 and 2013, and its financial performance and its cash flows for the years ended October 31, 2014 and 2013 in accordance with International Financial Reporting Standards.

The image shows a handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

Québec, Canada  
January 22, 2015

<sup>1</sup> CPA auditor, CA, public accountancy permit n° A109180

# Consolidated Statements of Financial Position

As at October 31,	2014 \$	2013 \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	1,271,391	1,473,619
Temporary investments (note 5)	955,935	2,716,677
Trade and other receivables (note 6)	157,063	187,528
Investment tax credits receivable	72,621	64,817
Prepaid expenses	27,952	46,526
<b>Total current assets</b>	<b>2,484,962</b>	<b>4,489,167</b>
<b>Property and equipment net (note 7)</b>	<b>292,654</b>	<b>350,183</b>
<b>Intangible assets net (note 8)</b>	<b>2,754,766</b>	<b>3,009,917</b>
<b>Total Assets</b>	<b>5,532,382</b>	<b>7,849,267</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Trade payables and accrued liabilities (note 9)	431,965	742,615
Deferred revenues	7,220	12,034
Current portion of long-term debt (note 10)	34,894	31,733
<b>Total current liabilities</b>	<b>474,079</b>	<b>786,382</b>
<b>Long-term debt (note 10)</b>	<b>18,730</b>	<b>53,624</b>
<b>Total liabilities</b>	<b>492,809</b>	<b>840,006</b>
<b>Shareholders' equity</b>		
Share capital (note 11)		
Common shares	92,098,934	92,098,934
Preferred shares	5,857,000	5,857,000
Contributed surplus	8,560,953	8,498,490
Deficit	(101,477,314)	(99,445,163)
<b>Total shareholders' equity</b>	<b>5,039,573</b>	<b>7,009,261</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>5,532,382</b>	<b>7,849,267</b>

Commitments and guarantees (note 22)

See accompanying notes to the consolidated financial statements

**On behalf of the Board:**

**(Signed)**

**Jacques Simoneau**  
Director

**(Signed)**

**Yves Fradet**  
Director

## Consolidated Statements of Operations and Comprehensive Loss

For the years ended October 31

	2014 \$	2013 \$
<b>Revenues</b>		
License and royalties revenues	553,140	671,228
Total revenues	553,140	671,228
<b>Expenses (note 12)</b>		
Research and development, net of investment tax credits (note 15)	1,083,124	2,147,247
General and administrative	1,346,011	1,909,459
Selling and business development	208,693	245,994
Financial revenues (note 14)	(36,129)	(69,041)
Financial expenses (note 14)	(16,408)	4,511
Total Expenses	2,585,291	4,238,170
<b>Net loss and comprehensive loss for the year</b>	<b>(2,032,151)</b>	<b>(3,566,942)</b>
<b>Basic and diluted net loss per share</b>	<b>(0.05)</b>	<b>(0.08)</b>
<b>Weighted average number of common shares outstanding</b>	<b>43,040,471</b>	<b>43,040,471</b>

See accompanying notes to the consolidated financial statements

## Consolidated Statements of Changes in Shareholders' Equity

	Common Share Capital \$	Preferred Share Capital \$	Contributed Surplus \$	Deficit \$	Total Shareholders' Equity \$
<b>Balance as at October 31, 2012</b>	92,098,934	5,857,000	8,370,374	(95,878,221)	10,448,087
Net loss and comprehensive loss for the year	—	—	—	(3,566,942)	(3,566,942)
Stock option compensation expense	—	—	128,116	—	128,116
<b>Balance as at October 31, 2013</b>	92,098,934	5,857,000	8,498,490	(99,445,163)	7,009,261
Net loss and comprehensive loss for the year	—	—	—	(2,032,151)	(2,032,151)
Stock option compensation expense	—	—	62,463	—	62,463
<b>Balance as at October 31, 2014</b>	<b>92,098,934</b>	<b>5,857,000</b>	<b>8,560,953</b>	<b>(101,477,314)</b>	<b>5,039,573</b>

*See accompanying notes to the consolidated financial statements*

# Consolidated Statements of Cash Flows

For the years ended October 31

	2014 \$	2013 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	(2,032,151)	(3,566,942)
Adjustments for:		
Stock-based compensation	62,463	128,116
Impairment of Intangible assets	—	440,693
Depreciation of Property and Equipment	57,529	69,908
Amortization of intangible assets	278,899	798,921
	(1,633,260)	(2,129,304)
Net change in non-cash working capital items (note 18)	(274,229)	559,186
<b>Cash flows related to operating activities</b>	<b>(1,907,489)</b>	<b>(1,570,118)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of temporary investments	(955,935)	(1,868,229)
Disposal of temporary investments	2,716,677	4,050,500
Acquisition of property and equipment	—	(656)
Acquisition of intangible assets	(23,748)	(34,843)
<b>Cash flows related to investing activities</b>	<b>1,736,994</b>	<b>2,146,772</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Reimbursement of long-term debt	(31,733)	(28,858)
<b>Cash flows related to financing activities</b>	<b>(31,733)</b>	<b>(28,858)</b>
<b>Net change in Cash for the year</b>	<b>(202,228)</b>	<b>547,796</b>
Cash, beginning of year	1,473,619	925,823
<b>Cash, end of year</b>	<b>1,271,391</b>	<b>1,473,619</b>

See accompanying notes to the consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2014

## 1. INCORPORATION AND NATURE OF BUSINESS

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

The Corporation intends to continue its research and development and focus business development efforts on the out-licensing of both the PCP prostate cancer test and the Previstage<sup>®</sup> GCC colon cancer test. The Corporation’s operations are subject to all the inherent risks related to setting up and running an emerging biotechnology Corporation, such as successfully completing its research and development activities, marketing its products and obtaining the required financing.

DiagnoCure’s common shares are listed on the Toronto Stock Exchange under the ticker symbol “CUR” and on the OTCQX under the ticker symbol “DGCRF”. The head office is located at 4535, Wilfrid-Hamel Blvd, Suite 250, Québec, Québec, G1P 2J7 (Canada).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

These consolidated financial statements of the Corporation for the year ended October 31, 2014 have been prepared in accordance with the International Financial Reporting Standards (“IFRS”). The consolidated financial statements have been prepared on a historical cost basis, in accordance with IAS 1, Presentation of Financial Statements in accordance with IFRS standards and IFRIC interpretations issued and effective as at the time of preparing these consolidated financial statements. The Corporation has adopted a presentation by function for its Consolidated Statements of Operations.

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Corporation, and have been authorized by the Board of Directors on January 22, 2015.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Basis of Consolidation

#### *Subsidiaries*

The consolidated financial statements comprise the financial statements of the Corporation and its subsidiaries as at October 31, 2014. Control is achieved when the Corporation is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Corporation controls an investee if and only if the Corporation has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

The Corporation's subsidiaries are as follows:

Subsidiaries	Location	% of Ownership
Catalyst Oncology LP	USA	99.9%
9184-6766 Québec Inc	Canada	100%
9161-6722 Québec inc	Canada	100%

All significant intercompanies transactions and balances have been eliminated upon consolidation.

### Fair value measurement

Fair values of financial instruments measured at amortized cost are disclosed in Note 19.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Corporation.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Fair value measurement (Cont'd)

The Corporation uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Corporation determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Corporation has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

### Financial Instruments

#### *Classification*

All financial assets and liabilities are classified based on their inherent characteristics and management's intended use when they are initially recognized. All financial assets are classified as fair value through profit or loss, held-to-maturity or loans and receivables, while financial liabilities are classified as other financial liabilities. The Corporation's financial instruments have been classified as follows:

Financial Instruments	Classification	Measurement
Cash	Fair value through profit or loss	Fair value
Temporary investments	Held-to-maturity	Amortized cost
Trade receivable	Loans and receivables	Amortized cost
Trade payable and accrued liabilities	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost

Financial assets are classified as fair value through profit or loss if acquired principally for the purpose of selling in the short term, such as financial assets held-for-trading, or if so designated by management.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

### **Financial Instruments (Cont'd)**

#### *Recognition and measurement*

Financial assets carried at fair value through profit or loss are initially recognized and subsequently carried, at fair value, with changes recognized in financial income in the Consolidated Statements of Operations and Comprehensive Loss. Transaction costs are expensed.

Financial assets classified as held-to-maturity and loans and receivables are initially recorded at fair value and are subsequently measured at amortized cost using the effective interest rate method less impairment.

At the end of each reporting period, the Corporation assesses whether there is objective evidence that a financial asset is impaired, as a result of one or more events that occurred after the initial recognition of the financial asset, which have an impact on the estimated future cash flows of the asset. The losses arising from an impairment are recognized in financial expenses in the Consolidated Statements of Operations and Comprehensive Loss.

Financial liabilities are classified as other financial liabilities. All financial liabilities are recognized initially at fair value and are subsequently measured at amortized cost. This includes directly attributable transaction costs. The Corporation's financial liabilities include trade payables and accrued liabilities and long term debt. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

#### **Cash**

Cash consists of cash in bank accounts.

#### **Temporary investments**

Temporary investments consist of bonds and have an original maturity of greater than 90 days.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditures that are directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the asset will flow to the Corporation and the cost of the asset can be measured reliably. All other repairs and maintenance are charged to the consolidated statements of operations and comprehensive loss during the financial period in which they are incurred.

The Corporation allocates the amount initially recognized in respect of an item of property and equipment to its significant components and depreciates each separately. The asset's residual values, useful lives and methods of depreciation are reviewed at each reporting period and adjusted prospectively, if appropriate.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount of the asset.

Significant components of property and equipment are depreciated over their respective useful lives on a straight-line basis as follows:

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

### Intangible Assets

Intangible assets consist of exclusive licenses 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 licenses for products that are approved for sale. Intangible assets are stated at cost less amortization and impairment. Amortization is calculated on a straight-line basis over their estimated useful lives as follows:

PCA3	10 years
GCC	18 years
Shc	13 years

The amortization methods and estimated useful lives are reviewed on a regular basis and changes are accounted for prospectively.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

### **Impairment of Property and Equipment and Intangible Assets**

At the end of each reporting period, tangible and intangible assets are reviewed to determine if the assets may be impaired. If indicators of impairment exist, the asset's recoverable value is calculated to establish the value of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable value is the higher of an asset's fair value less cost to sell and its value in use. Value in use is the present value of estimated future cash flows discounted at a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset for which estimated future cash flows were not adjusted. In assessing fair value less cost to sell, the Corporation considers recent market transactions, if any are available. If there are not such transactions available, an appropriate valuation model is used. If the asset's estimated recoverable value is lower than its carrying value, the asset's carrying value is brought down to its recoverable value. An impairment loss is recognized in the Consolidated Statements of Operations and Comprehensive Loss.

An assessment is made at each reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the impairments, since the last impairment loss was recognized. The reversal is limited so that the carrying value of the asset does not exceed its recoverable value, nor exceed the carrying value that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the Consolidated Statements of Operations and Comprehensive Loss.

### **Government assistance**

Government assistance, including refundable and non-refundable investment tax credits for qualifying research and development activities are reflected as a reduction of the cost of the related property and equipment or as a reduction of the applicable research and development expenses when there is reasonable assurance that the assistance will be received and all conditions have been complied with. Cash flows related to grants received are classified as operating activities unless they are related to capital expenditures in which case they are classified as investing activities.

### **Research and Development**

Research expenses are charged to the Consolidated Statements of Operations and Comprehensive Loss as incurred. Development expenses are charged to the Consolidated Statements of Operations and Comprehensive Loss as incurred unless a development project meets the criteria under IFRS in respect of deferral and amortization. To date, the Corporation has not deferred any such development expenses.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Revenue recognition

Revenue arising from royalties is recognized when reasonable assurance exists regarding measurement and collectibility. Royalties are calculated as a percentage of net sales realized by the Corporation's licensees on their products. The licensee's net sales consist of revenues from product sales based on the Corporation's licensed intellectual property less estimates for chargebacks, rebates, sales incentives and allowances, distribution service fees, returns and losses. The Corporation 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 Corporation recognizes revenue from licensing and royalties agreements, which may include multiple elements. Revenue arrangements with multiple elements are reviewed in order to determine whether the multiple elements can be divided into separate units of accounting. If separable, the consideration received is allocated among the separate units of accounting, and the applicable revenue recognition criteria are applied to each of the separate units. Otherwise, the applicable revenue recognition criteria are applied to combined elements as a single unit of accounting.

Revenues from research collaboration agreements recognized as separate units are recognized as the contracted services are performed or when milestones are achieved, in accordance with the terms of the specific agreements and when collection is reasonably assured. Combined elements, including up-front payments for the use of technology where further services are to be provided or fees received on the signing of a license and research and development agreement, are recognized over the period of performance of the related activities. As such, up-front licensing revenue is deferred and recognized over the term during which the Corporation maintains substantive contractual obligations and amounts received in advance of recognition of revenue and reported as deferred revenues. In the event that the period of substantive obligation changes, the appropriate adjustment will be made to the amortization of deferred revenues.

### Stock-based compensation

The Corporation offers an equity-settled share-based compensation plan under which the Corporation receives services from employees, directors and sub-contractors as consideration for equity instruments of the Corporation. The Corporation accounts for employee stock-based compensation using the fair value-based method.

The fair value of each option granted to employees and directors, is estimated on the date of grants using the Black-Scholes option pricing model and is generally expensed over the vesting period of three years of the granted option. Awards with graded vesting are considered multiple awards for fair value measurement and stock-based compensation calculation. In determining the expenses, at the time of grant, the Corporation deducts the number of options that are expected to be forfeited at the time of grant and revises the estimate, if necessary, in subsequent years if actual forfeitures differ from those estimated. These expenses are recognized in the Consolidated Statements of Operations and Comprehensive Loss and credited to contributed surplus. When options are exercised, the proceeds received by the Corporation, together with the fair value amount recorded in contributed surplus, are credited to share capital.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

### **Stock-based compensation (Cont'd)**

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. Additional expenses recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

The Corporation issues stock options to service providers from time to time. The fair value of these options is determined based on the fair value of services or goods received if determinable; otherwise, the options are valued using an option evaluation technique at the date the services are received rather than the date of grant. If services are received over a certain period of time, the options are valued at the reporting date and the expense portion for services received prior to the reporting date is recorded. When the services are completely received an adjustment is made to the total expenses to become the amount of the fair value of services received at the measurement date.

### **Income Taxes**

The Corporation has not recorded the tax benefits of any of its net losses or tax attributes due to uncertainty as to the timing of revenue recognition.

The Corporation follows the liability method of accounting for deferred income taxes. Under this method, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted or substantively enacted tax rates and laws that are expected to be in effect when the deferred tax assets or liabilities are expected to be realized or settled.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investment in subsidiaries, associates and interest in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

### **Income Taxes (Cont'd)**

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused research and development expenditures and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused research and development expenditures and unused tax losses can be utilized, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

### **Foreign Currency Translation**

The consolidated financial statements are denominated in Canadian dollars, which is the functional currency of the Corporation. The functional currency is the currency of the primary economic environment in which an entity operates.

Foreign currency transactions are recorded by the Corporation using the exchange rates prevailing at the date of transaction. At the statement of financial position date, monetary assets and liabilities denominated in foreign currencies are translated at the period-end rate of exchange. Non-monetary assets liabilities are translated at the historical exchange rates. Exchange gains and losses arising from the translation of foreign currency items are recognized as financial expenses in the Consolidated Statements of Operations and Comprehensive Loss.

### **Income (loss) per share**

Basic income (loss) per share is calculated using the weighted average number of outstanding common shares during the year. Diluted income (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 year.

### **Share issuance costs**

Shares issuance costs incurred by the Corporation are recorded as a reduction of share capital.



## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

### **Adoption of new standards**

#### **Offsetting financial assets and financial liabilities**

IAS 32 “Financial instruments: Presentation” was amended to clarify the requirements for offsetting financial assets and financial liabilities. It specifies that the right of set-off has to be legally enforceable even in the event of bankruptcy. IFRS 7 “Financial Instruments: Disclosures” was also amended to improve disclosures on offsetting of financial assets and financial liabilities. These amendments did not impact the Corporation’s 2014 consolidated financial statements.

## **3. RECENT ACCOUNTING PRONOUNCEMENTS**

### **Classification and measurement of financial assets and financial liabilities**

In November 2009, the International Accounting Standards Board (IASB) issued IFRS 9 “Financial Instruments”. This new standard replaces the various rules of IAS 39 “Financial Instruments: Recognition and Measurement” with a single approach to determine whether a financial asset is measured at amortized cost or fair value. This approach is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets.

In October 2010, the IASB issued revisions to IFRS 9, adding the requirements for classification and measurement of financial liabilities contained in IAS 39.

In November 2013, the IASB incorporated a new hedge accounting model into IFRS 9 to enable financial statements users to better understand an entity’s risk exposure and its risk management activities.

In July 2014, the IASB issued the mandatory effective date of IFRS 9 to fiscal years beginning on or after January 1, 2018. Earlier application is permitted. The Corporation is assessing the impact of this new standard on its consolidated financial statements.

### **Revenue from contracts with customers**

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers” which is a replacement of IAS 18 “Revenue”, IAS 11 “Construction Contracts” and related interpretations. Under IFRS 15 standard, revenue is recognized at the point in time when control of the goods or services transfers to the customer rather than when the significant risks and rewards are transferred. The new standard also requires additional disclosures through notes to financial statements. IFRS 15 shall be applied to fiscal years beginning on or after January 1, 2017. Earlier application is permitted. The Corporation is assessing the impact of this new standard on its consolidated financial statements.

#### 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In preparing these consolidated financial statements, Management is required to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, 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 reasonable limits of materiality and within the framework of the IFRS accounting policies described in note 2. The Corporation periodically evaluates its estimates and assumptions based on its past experience and other pertaining factors.

In the process of applying the Corporation's accounting policies, management has made the following estimates, which have the most significant effect on the amounts recognized in the consolidated financial statements:

- Stock-based compensation plan
- Revenue recognition
- Impairment of long-lived assets
- Useful life of assets subject to depreciation and amortization
- Investment tax credits

##### **Estimates and assumptions**

###### *Stock-based compensation plan*

Estimating the fair value of stock-based compensation transactions requires the use of a valuation model, which in turns depends on the terms and conditions of the grant. The use of a valuation model requires the use of appropriate inputs including, but not limited to, the expected life of the stock option, the risk free interest rate and the expected volatility of the Corporation's common stock over the period. The assumptions and model used for estimating fair value for stock-based compensation transactions are disclosed in note 11.

#### 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Cont'd)

##### Estimates and assumptions (Cont'd)

###### *Revenue recognition*

The Corporation estimates the term over which it maintains substantive contractual obligations with respect to certain of its agreements, and recognizes certain of its non-refundable up-front over this estimated term. Such estimates are subject to uncertainties and could be subsequently revised. Any changes in estimates would be applied prospectively, and would thereafter affect the amounts recognized in the licensing revenues.

###### *Impairment of long-lived assets*

Impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less cost to sell and its value in use. The Corporation estimates the recoverable value of its non-financial assets based on the amount it would expect to receive should it decide to monetize certain of its assets, primarily based on terms of related distribution and licensing agreements. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different assets, including a sensitivity analysis, are further explained in note 8.

###### *Useful life of assets subject to depreciation and amortization*

The Corporation reviews at the end of each reporting period the useful life of assets subject to depreciation and amortization.

###### *Investment tax credits*

The Corporation incurs research and development expenditures which are eligible for investment tax credits. Amounts recorded are based on Management's estimates of amounts expected to be recovered and are subject to audit by the taxation authorities.

#### 5. TEMPORARY INVESTMENTS

	October 31, 2014		October 31, 2013	
	Amortized	Weighted	Amortized	Weighted
	cost	average	Cost	average
	\$	effective	\$	effective
		interest rate		interest rate
		%		%
Bonds	955,935	1.62	2,716,677	1.63
	955,935	1.62	2,716,677	1.63

The bonds are maturing from November 2014 to December 2014.

## 6. TRADE AND OTHER RECEIVABLES

	October 31, 2014	October 31, 2013
	\$	\$
Receivables from research and license agreements	146,743	149,465
Sales taxes	10,320	38,063
	157,063	187,528

Trade receivables are non-interest bearing and are generally aged from 30 to 90 days. As at October 31, 2014 and 2013 no trade receivables were past due and as a result no amount was provisioned for.

## 7. PROPERTY AND EQUIPMENT

	Leasehold Improvements	Office furniture and equipment	Laboratory Equipment	Computer hardware	Total
	\$	\$	\$	\$	\$
<b>Cost as at October 31, 2012</b>	<b>439,169</b>	<b>225,891</b>	<b>1,928,766</b>	<b>268,744</b>	<b>2,862,570</b>
Additions	—	—	—	656	656
Write-offs	—	—	—	(1,050)	(1,050)
<b>Cost as at October 31, 2013</b>	<b>439,169</b>	<b>225,891</b>	<b>1,928,766</b>	<b>268,350</b>	<b>2,862,176</b>
Additions	—	—	—	—	—
Write-offs	—	—	—	—	—
<b>Cost as at October 31, 2014</b>	<b>439,169</b>	<b>225,891</b>	<b>1,928,766</b>	<b>268,350</b>	<b>2,862,176</b>
<b>Accumulated depreciation as at October 31, 2012</b>	<b>71,791</b>	<b>217,629</b>	<b>1,913,583</b>	<b>240,132</b>	<b>2,443,135</b>
Depreciation charge	43,217	2,758	10,722	13,211	69,908
Write-offs	—	—	—	(1,050)	(1,050)
<b>Accumulated depreciation as at October 31, 2013</b>	<b>115,008</b>	<b>220,387</b>	<b>1,924,305</b>	<b>252,293</b>	<b>2,511,993</b>
Depreciation charge	43,217	2,116	1,422	10,774	57,529
Write-offs	—	—	—	—	—
<b>Accumulated depreciation as at October 31, 2014</b>	<b>158,225</b>	<b>222,503</b>	<b>1,925,727</b>	<b>263,067</b>	<b>2,569,522</b>
Net book value as at October 31, 2013	324,161	5,504	4,461	16,057	350,183
<b>Net book value as at October 31, 2014</b>	<b>280,944</b>	<b>3,388</b>	<b>3,039</b>	<b>5,283</b>	<b>292,654</b>

Depreciation expense of \$56,107 and \$1,422 (2013 - \$59,186 and \$10,722) were included in general and administrative expenses and research and development expenses respectively in the Consolidated Statements of Operations and Comprehensive Loss.

## 8. INTANGIBLE ASSETS

	Licenses and Patents PCA3/GCC \$	Licenses and Patents Shc \$	Licenses and Patents Total \$
<b>Cost as at October 31, 2012</b>	<b>7,729,819</b>	<b>1,917,796</b>	<b>9,647,615</b>
Additions	34,843	—	34,843
Impairment	—	(440,693)	(440,693)
<b>Cost as at October 31, 2013</b>	<b>7,764,662</b>	<b>1,477,103</b>	<b>9,241,765</b>
Additions	23,748	—	23,748
Impairment	—	—	—
<b>Cost as at October 31, 2014</b>	<b>7,788,410</b>	<b>1,477,103</b>	<b>9,265,513</b>
<b>Accumulated amortization and impairment as at October 31, 2012</b>	<b>3,992,548</b>	<b>1,440,379</b>	<b>5,432,927</b>
Amortization charge	762,197	36,724	798,921
<b>Accumulated amortization and impairment as at October 31, 2013</b>	<b>4,754,745</b>	<b>1,477,103</b>	<b>6,231,848</b>
Amortization charge	278,899	—	278,899
<b>Accumulated amortization and impairment as at October 31, 2014</b>	<b>5,033,644</b>	<b>1,477,103</b>	<b>6,510,747</b>
Net book value as at October 31, 2013	3,009,917	—	3,009,917
<b>Net book value as at October 31, 2014</b>	<b>2,754,766</b>	<b>—</b>	<b>2,754,766</b>

The amortization expense of \$278,899 (2013- \$798,921) and the impairment charge of \$— (2013 – \$440,693) are included in research and development expenses in the Consolidated Statements of Operations and Comprehensive Loss. The remaining amortization period for GCC and PCA3 is 11 and 13 years respectively.

The Corporation has reviewed the useful lives of the GCC licenses and patents and determined, starting November 1, 2013, to increase the useful life of the patent by 8 years. This change in estimate, in accordance with IAS 8, applies to these consolidated financial statements. This change in estimate has decreased the amortization charges on the GCC licenses for the year 2014 to \$233,096 compared to \$753,868 for 2013.

Under IAS 36 “Impairment of assets”, the Corporation tests for impairment of its long-lived assets when events or circumstances indicates that the carrying value may exceed the fair value less cost to sell or the value in use of the assets or group of assets.

### GCC intangible asset

During the year ended October 31, 2014, an assessment of impairment indicators was performed on the GCC intangible asset. Due to delay in commercialization activities, the assessment of impairment was calculated by comparing the value in use to the net book value. In determining the value in use, the asset was grouped at the lowest level for which cash inflows were identifiable separately from other cash inflows of the Corporation. The cash generating unit that was identified is a Diagnostic test for the management of Colon Cancer using the GCC technology. The value in use was determined by discounting cash flows, over the remaining useful life of the asset, at a pre-tax discount rate of 21.85% (post-tax rate of 20%), that reflects current market assessments of the time value of money and the risk specific to the asset for which future cash flows are estimated, and using a tax rate of 26.9%. The projected cash flows are based on market penetration assumptions. As a result of this analysis, management did not identify impairment for the GCC intangible asset.

## **8. INTANGIBLE ASSETS (Cont'd)**

### **GCC intangible asset (Cont'd)**

#### **Key assumptions used in value in use calculations**

The calculation of value in use for the GCC intangible asset is most sensitive to the following key assumptions:

##### *Discount rates*

The discount rates represent the current market assessment of the risks specific to the assets. The discount rate calculation is based on the specific circumstances of the biotechnology and derived from its weighted average cost of capital (WACC).

##### *Market share assumptions*

Management assesses how the asset's position, relative to its competitors, and the speed of technological change might vary over the evaluation period. Management expects the Corporation's share of the market to grow at an average of 2% beyond the first five-year period.

#### **Sensitivity to changes in assumptions**

The implications of the key assumptions for the recoverable amount are discussed below:

##### *Discount rate*

Management has considered the possibility of using a higher discount rate. This may occur if the assessment of the risk specific to the biotechnology industry varies. Management has assumed that a variation of 2% on the discount rate wouldn't have resulted in an impairment charge.

##### *Market share assumptions*

Management has considered the possibility of a lower market share. This may occur if the speed of technological change, the possibility of new entrants and the degree of acceptance by the market varies. Management has assumed that a decrease of 10% on the market share assumptions wouldn't have resulted in an impairment charge.

### **Shc intangible asset**

During the year ended October 31, 2013, an assessment of impairment indicators was performed on the Shc intangible asset which caused the Corporation to review the recoverable amount for this intangible asset due to delays in commercialization. The impairment was calculated by comparing the value in use to the net book value. In determining the value in use, the asset was grouped at the lowest level for which cash inflows were identifiable separately from other cash inflows of the Corporation. The cash generating unit that was identified is a Diagnostic test for the detection of Breast and Colon Cancer. The value in use was determined by discounting cash flows, over the remaining useful life of the asset, at a pre-tax discount rate of 26.8% (post-tax rate of 20%), that reflects current market assessments of the time value of money and the risk specific to the asset for which future cash flows are estimated, and using a tax rate of 40%. The projected cash flows beyond the five-year period were extrapolated using a 2.11% growth rate. As a result of this analysis, management has recognized an impairment charge of \$440,693 representing the remaining net book value as at October 31, 2013.

## 8. INTANGIBLE ASSETS (Cont'd)

### Shc intangible asset (Cont'd)

#### Key assumptions used in value in use calculations

The calculation of value in use for the Shc intangible asset is most sensitive to the following key assumptions:

##### *Discount rates*

The discount rates represent the current market assessment of the risks specific to the assets. The discount rate calculation is based on the specific circumstances of the biotechnology and derived from its weighted average cost of capital (WACC).

##### *Market share assumptions*

Management assesses how the asset's position, relative to its competitors, and the speed of technological change might vary over the evaluation period. Management expects the Corporation's share of the market to grow at an average of 2.11% beyond the first five-year period.

#### Sensitivity to changes in assumptions

With regard to the assessment of value in use for the Shc intangible asset, no sensitivity analysis is disclosed since a full impairment charge has been recorded to reduce the carrying amount of this intangible asset to a nil value.

## 9. TRADE PAYABLES AND ACCRUED LIABILITIES

	October 31, 2014	October 31, 2013
	\$	\$
Trade payables	189,348	455,474
Salary and other benefits	146,192	205,716
Accrued liabilities	96,425	81,425
	431,965	742,615

## 10. LONG-TERM DEBT

	October 31, 2014	October 31, 2013
	\$	\$
Loan contracted with the landlord of the Corporation'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.	53,624	85,357
Less current portion	34,894	31,733
	<b>18,730</b>	<b>53,624</b>
The minimum principal payments over the next two years are as follows:		
<b>2015</b>	34,894	
<b>2016</b>	18,730	
	<b>53,624</b>	

## 11. SHARE CAPITAL

### 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 Serie 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

	October 31, 2014	October 31, 2013
	\$	\$
<b>Issued and fully paid</b>		
<b>43,040,471</b> common shares (43,040,471 as at October 31, 2013)	<b>92,098,934</b>	<b>92,098,934</b>

	October 31, 2014		October 31, 2013	
	Number of shares	Amount \$	Number of shares	Amount \$
<b>Balance, beginning of year</b>	<b>43,040,471</b>	<b>92,098,934</b>	<b>43,040,471</b>	<b>92,098,934</b>
Issuance of common shares on exercise of stock options	—	—	—	—
Portion previously recognized to contributed surplus as part of stock-based compensation	—	—	—	—
<b>Balance, end of year</b>	<b>43,040,471</b>	<b>92,098,934</b>	<b>43,040,471</b>	<b>92,098,934</b>



## 11. SHARE CAPITAL (Cont'd)

### Preferred shares

	October 31, 2014	October 31, 2013
	\$	\$
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") per each common share held, if any person or group makes a take-over bid or acquires 20% or more of the Corporation's outstanding voting shares, other than by 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 Corporation, in 2020, subject to the Rights Plan being reconfirmed by the Corporation's shareholders at the annual meeting of the Corporation in 2017.

### A) Issuance of shares

#### *Common shares issuance*

During fiscal year 2014 and 2013, the Corporation did not issue common shares.

### B) Stock options

The Corporation adopted a stock option plan for its directors, senior executives, employees and sub-contractors under which a total of 7% of the Corporation's outstanding common shares were reserved for issuance. 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.

The Corporation's outstanding stock options as at October 31, 2014 and 2013 and the changes that occurred during the years then ended are as follows:

	2014		2013	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Options outstanding, beginning of year	2,496,306	0.97	1,807,007	1.67
Granted	203,000	0.20	1,224,500	0.32
	2,699,306		3,031,507	
Cancelled or forfeited	(612,306)	1.00	(535,201)	1.84
Options outstanding, end of year	2,087,000	0.89	2,496,306	0.97
Options exercisable, end of year	1,113,661	1.43	1,228,467	1.60

## 11. SHARE CAPITAL (Cont'd)

### B) Stock options (Cont'd)

The following table summarizes information relating to the stock options outstanding as at October 31, 2014:

Range of exercise prices \$	Options outstanding			Options exercisable	
	Number of options	Weighted average remaining contractual life (years)		Number of options	Weighted average exercise price \$
			Weighted average exercise price \$		
4.21 to 4.23	117,500	0.36	4.22	117,500	4.22
3.83 to 3.96	60,000	2.21	3.84	60,000	3.84
1.80	86,000	3.00	1.80	86,000	1.80
0.99 to 1.23	431,000	5.53	1.18	431,000	1.18
0.62 to 0.82	171,000	5.86	0.74	171,000	0.74
0.20 to 0.44	1,221,500	8.77	0.28	248,161	0.32
	2,087,000	6.96	0.89	1,113,661	1.43

During the year ended October 31, 2014, the Corporation granted 203,000 (1,224,500 in 2013) to employees and directors.

The fair value of each option granted to employees and directors during the year ended October 31, 2014 was determined using the Black-Scholes option pricing model and the following weighted average assumptions:

	January 31		April 30		July 31		October 31	
	2014	2013	2014	2013	2014	2013	2014	2013
Risk-free interest rate	1.98%	1.67%	—	—	—	1.96%	—	1.26%
Expected life	6 years	6 years	—	—	—	6 years	—	2 years
Expected volatility factor	68%	63%	—	—	—	63%	—	51%
Expected dividend yield	—	—	—	—	—	—	—	—

The estimated fair value of the options is amortized to expense over the option's vesting period. The weighted average fair value of stock options granted during 2014 under the Black-Scholes option pricing model and the above assumptions amounted to \$0.11 (\$0.14 in 2013). The expected life of the options is based on historical data and current expectation and is not necessarily indicative of exercise patterns that may occur. Volatility is determined based on historical share price history, over a period similar to the expected life of the options, which may also not be necessarily indicative of the actual outcome. In 2014, the compensation expense for stock options was \$62,463 (\$128,116 in 2013).

## 12. EXPENSES BY NATURE

	October 31, 2014	October 31, 2013
	\$	\$
Research and development costs and intellectual property	334,243	405,804
Research and development tax credits	(75,694)	(102,794)
Employee benefit expenses ( <i>note 13</i> )	1,117,828	1,452,342
Legal, Professional fees and Public Corporation expenses	514,471	722,382
Royalties	108,582	134,246
Lease and Office expenses	239,507	253,082
Depreciation of property and equipment	57,529	69,908
Amortization of intangible assets	278,899	798,921
Impairment of intangible asset ( <i>note 8</i> )	—	440,693
Stock-based compensation	62,463	128,116
Interest income	(36,129)	(69,041)
Interest on long-term debt	6,775	9,650
Foreign exchange gain	(27,363)	(10,114)
Bank charges	4,180	4,975
	<b>2,585,291</b>	<b>4,238,170</b>

## 13. EMPLOYEE BENEFIT EXPENSES

### Employee benefit expenses for the years ended:

	October 31, 2014	October 31, 2013
	\$	\$
<b>Salaries &amp; Other benefits</b>		
• Research and development	446,222	479,659
• General and administrative	484,335	769,589
• Selling and business development	187,271	203,094
	<b>1,117,828</b>	<b>1,452,342</b>

	October 31, 2014	October 31, 2013
	\$	\$
<b>Stock-based compensation</b>		
• Research and development	3,760	13,837
• General and administrative	57,204	108,547
• Selling and business development	1,499	5,732
	<b>62,463</b>	<b>128,116</b>

### Compensation of key management for the years ended:

	October 31, 2014	October 31, 2013
	\$	\$
Salaries and other benefits	319,040	443,631
Stock-based compensation	21,288	64,706
	<b>340,328</b>	<b>508,337</b>

Key Management includes the President and Chief Medical officer (Chief Executive Officer), the CFO (Chief Financial Officer) (the CFO left the Corporation on October 11, 2013) and the Interim CFO (the Interim CFO is only considered for the year ended October 31, 2014).

## 14. FINANCIAL REVENUES AND EXPENSES

### Financial revenues for the years ended

	October 31, 2014 \$	October 31, 2013 \$
Interest Income	36,129	69,041
Total financial revenues	36,129	69,041

### Financial expenses for the years ended

	October 31, 2014 \$	October 31, 2013 \$
Interest on long term debt	6,775	9,650
Foreign exchange gain	(27,363)	(10,114)
Bank charges	4,180	4,975
Total financial expenses	(16,408)	4,511

## 15. INVESTMENT TAX CREDITS RECEIVABLE AND GOVERNMENT ASSISTANCE

The Corporation incurred research and development expenses, which are eligible for investment tax credits. These credits are recorded as a reduction to research and development expenses and are based on management 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.

### The amounts can be summarized as follows for the years ended:

	October 31, 2014 \$	October 31, 2013 \$
Research and development expenses	1,158,818	2,250,041
Investment tax credits	(75,694)	(102,794)
Research and development, net	1,083,124	2,147,247

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 Corporation and the amounts granted by the tax authorities will be recorded during the year in which they are determined.

## 15. INVESTMENT TAX CREDITS RECEIVABLE AND GOVERNMENT ASSISTANCE (Cont'd)

In addition, the Corporation 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	190,000	2022
October 31, 2003	183,000	2023
October 31, 2004	325,000	2024
October 31, 2005	541,000	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	103,000	2030
October 31, 2011	46,000	2031
October 31, 2012	122,000	2032
October 31, 2013	22,000	2033
October 31, 2014	37,000	2034
	<b>3,905,000</b>	

## 16. 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:

	2014 \$	2013 \$
Income tax provision at combined Canadian federal and provincial statutory rate	<b>(547,000)</b>	(960,000)
Increase (decrease) in taxes recoverable resulting from:		
Non taxable income	<b>(10,000)</b>	(47,000)
Non deductible expenses	<b>17,000</b>	169,000
Other	<b>29,000</b>	3,000
Adjustments in respect of unrecognized deferred income tax assets of previous years	—	1,468,000
Unrecognized deferred tax assets or temporary deductible differences and unused tax losses	<b>511,000</b>	(633,000)
	<b>—</b>	<b>—</b>

Unrecognized deferred tax assets on temporary deductible differences, unused tax losses and research and development expenses are as follows:

	October 31, 2014 \$	October 31, 2013 \$
<b>Future income tax assets</b>		
Net operating losses carried forward	<b>15,599,000</b>	15,158,000
Net capital losses carried forward	<b>199,000</b>	199,000
Research and development expenditures	<b>4,804,000</b>	4,739,000
Tax value of capital assets in excess of carrying values	<b>795,000</b>	790,000
	<b>21,397,000</b>	20,886,000

## 16. INCOME TAXES (Cont'd)

As at October 31, 2014, the year of expiry of operating losses for which no deferred tax assets were recognized in the statement of financial position is as follows:

Year of loss	Canada		Year of expiry
	Federal \$	Québec \$	
October 31, 2006	4,768,000	4,407,000	2026
October 31, 2007	9,941,000	9,674,000	2027
October 31, 2008	12,574,000	12,161,000	2028
October 31, 2009	11,235,000	10,816,000	2029
October 31, 2010	8,085,000	7,707,000	2030
October 31, 2011	3,109,000	3,030,000	2031
October 31, 2012	3,765,000	3,472,000	2032
October 31, 2013	3,845,000	3,728,000	2033
October 31, 2014	1,725,000	1,659,000	2034
	59,047,000	56,654,000	

Furthermore, as at October 31, 2014, the Corporation had available capital losses amounting to approximately \$1,480,000 at federal and Québec level for which no deferred tax assets were recognized. These losses can be carried forward indefinitely against capital gains.

As at October 31, 2014, the Corporation had scientific research and experimental development expenses with no set expiry date, amounting to approximately \$13,477,000 at the federal level and \$23,384,000 at the Québec level for which no deferred tax assets were recognized.

Since the Corporation has a history of losses, deferred tax assets have not been recognized on the operating losses and scientific research and experimental development expenses carried forward. If the Corporation were to recognize all deferred tax assets, profit would be increased by \$21,397,000.

## 17. LOSS PER SHARE

The convertible preferred shares and the stock options were not included in the diluted loss per share calculation because the Corporation is in a loss position and the inclusion of these instruments would be anti-dilutive.

No adjustments were required to the net loss for purposes of calculating basic and diluted loss per share and to the weighted average number of shares outstanding for the purpose of calculating diluted loss per share because it would be anti-dilutive.

## 18. SUPPLEMENTAL CASH FLOW INFORMATION

The net change in non-cash working capital balances related to operations is as follows:

	October 31, 2014 \$	October 31, 2013 \$
<b>Decrease (Increase) in:</b>		
Trade receivables	30,465	188,962
Investment tax credits receivable	(7,804)	312,963
Prepaid expenses	18,574	(3,321)
<b>Increase (Decrease) in:</b>		
Trade payables and accrued liabilities	(310,650)	65,395
Deferred revenues	(4,814)	(4,813)
<b>Net change in non-cash working capital</b>	<b>(274,229)</b>	<b>559,186</b>

## 19. 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, 2014					
	Held-to-maturity \$	Fair value through profit or loss \$	Loans and receivables \$	Other financial liabilities \$	Carrying value total \$	Fair value total \$
<b>Financial assets</b>						
Cash	—	1,271,391	—	—	1,271,391	1,271,391
Temporary investments	955,935	—	—	—	955,935	955,888
Trade receivables <sup>(1)</sup>	—	—	146,743	—	146,743	146,743
	955,935	1,271,391	146,743	—	2,374,069	2,374,022
<b>Financial liabilities</b>						
Trade payables and accrued liabilities <sup>(2)</sup>	—	—	—	431,965	431,965	431,965
Long-term debt	—	—	—	53,624	53,624	50,436
	—	—	—	485,589	485,589	482,401

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.

## 19. FINANCIAL INSTRUMENTS (Cont'd)

October 31, 2013						
	Held-to-maturity \$	Fair value through profit or loss \$	Loans and receivables \$	Other financial liabilities \$	Carrying value total \$	Fair value total \$
<b>Financial assets</b>						
Cash	—	1,473,619	—	—	1,473,619	1,473,619
Temporary investments	2,716,677	—	—	—	2,716,677	2,713,936
Trade receivables <sup>(1)</sup>	—	—	149,465	—	149,465	149,465
	2,716,677	1,473,619	149,465	—	4,339,761	4,337,020
<b>Financial liabilities</b>						
Trade payables and accrued liabilities <sup>(2)</sup>	—	—	—	742,615	742,615	742,615
Long-term debt	—	—	—	85,357	85,357	81,630
	—	—	—	827,972	827,972	824,245

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.

### Fair value

The Corporation 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 statements of financial position as follows:

#### Held-to-maturity

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

#### Other financial liabilities

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



## 19. FINANCIAL INSTRUMENTS (Cont'd)

### Quantitative disclosures fair value measurement hierarchy for assets as at October 31, 2014

		Fair value measurement using			
	Date of valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		\$	\$	\$	\$
<b>Assets for which fair values are disclosed</b>					
Temporary investments	October 31, 2014	955,888	—	955,888	—
		955,888	—	955,888	—
<b>Liabilities for which fair values are disclosed</b>					
Long-term debt	October 31, 2014	50,436	—	50,436	—
		50,436	—	50,436	—

There have been no transfers between level 1 and level 2 during the year.

### Quantitative disclosures fair value measurement hierarchy for assets as at October 31, 2013

		Fair value measurement using			
	Date of valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		\$	\$	\$	\$
Assets for which fair values are disclosed					
Temporary investments	October 31, 2013	2,713,936	—	2,713,936	—
		2,713,936	—	2,713,936	—
Liabilities for which fair values are disclosed					
Long-term debt	October 31, 2013	81,630	—	81,630	—
		81,630	—	81,630	—

There have been no transfers between level 1 and level 2 during the year.

### Risk management policies

The Corporation, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks. The Corporation's financial assets and liabilities are cash, temporary investments, trade receivables, trade payables and accrued liabilities and long term debt.

#### Credit risk

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

Financial assets that potentially subject the Corporation to credit risk consist of cash, short-term investments and trade receivables. As at October 31, 2014 and October 31, 2013, the Corporation had cash and short-term investments with a reputable financial institution. Management assesses the Corporation's credit risk to be low.

The Corporation has an investment policy that monitors the safety and presentation of investments made which requires them to be highly rated and which limits the amount invested in any one issuer.

The Corporation also manages credit risk by maintaining bank accounts with reputable banks and financial institutions and investing only in investments from banks, government and municipalities that are capable of immediate liquidation subject to some minor market price variations upon sale.

## 19. FINANCIAL INSTRUMENTS (Cont'd)

### Risk management policies (Cont'd)

#### Credit risk (Cont'd)

As at October 31, 2014 and October 31, 2013, one customer represented 100% of trade receivables from research and license agreements.

#### Liquidity risk

Liquidity risk is the risk that the Corporation is not able to meet its financial obligations as they fall due or can do so only at excessive cost. The Corporation's growth is financed on an annual basis through a combination of cash on hand and the issuance of equity. One of management's primary goals is to maintain an optimal level of liquidity through the active management of assets and liabilities as well as cash flows.

The following tables provide the maturities of financial liabilities:

October 31, 2014					
	Due in 1 year or less \$	Due in 1 to 3 years \$	Due in 4 to 5 years \$	Due in over 5 years \$	Total \$
Trade payables and accrued liabilities	431,965	—	—	—	431,965
Long term debt	34,894	18,730	—	—	53,624
<b>Total</b>	<b>466,859</b>	<b>18,730</b>	<b>—</b>	<b>—</b>	<b>485,589</b>

October 31, 2013					
	Due in 1 year or less \$	Due in 1 to 3 years \$	Due in 4 to 5 years \$	Due in over 5 years \$	Total \$
Trade payables and accrued liabilities	742,615	—	—	—	742,615
Long term debt	31,733	53,624	—	—	85,357
<b>Total</b>	<b>774,348</b>	<b>53,624</b>	<b>—</b>	<b>—</b>	<b>827,972</b>

Management assesses the Corporation's liquidity risk to be low.

#### Foreign currency risk

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

The Corporation maintains Cash, trade receivables, trade payables and accrued liabilities in US dollars and is therefore exposed to foreign exchange risk on these balances.

## 19. FINANCIAL INSTRUMENTS (Cont'd)

### Risk management policies (Cont'd)

#### Foreign currency risk (Cont'd)

The significant balances in foreign currencies are as follow:

	October 31, 2014	October 31, 2013
	US dollars	US dollars
	\$	\$
Cash	256,997	417,362
Trade receivables	118,756	143,317
Trade payables and accrued liabilities	(103,096)	(265,848)
<b>Net exposure</b>	<b>272,657</b>	<b>294,831</b>

Based on the aforementioned net exposure as at October 31, 2014 and October 31, 2013 and assuming that all other variables 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:

	2014		2013	
	Canadian dollars		Canadian dollars	
	Appreciates	Depreciates	Appreciates	Depreciates
	5%	5%	5%	5%
	\$	\$	\$	\$
<b>Against US dollar</b>				
Net loss	(13,633)	13,633	(14,741)	14,741

#### Interest rate risk

Financial assets and financial liabilities that bear interest at fixed rates are subject to interest rate risk. The Corporation's Cash and temporary investments are the only financial assets bearing fixed interest rates. The Corporation does not believe that the results of its operations or its cash flows would be affected to any significant degree by a sudden change in market interest rates relative to fixed interest rates on Cash and temporary investments.

## 20. SEGMENTED INFORMATION

The Corporation operates in a single business segment being the biotechnologies. Almost all its assets are located in Canada.

For the years ended October 31, 2014, one American client represented 96% (100% in 2013) of the revenues from external sales.

For the years ended October 31, 2014 and 2013, the total external sales, were mainly derived from revenue under a research and license agreement and were mainly attributable to the United States. The Corporation determines the revenues by country based on where the product or service is delivered. For 2014, 96% of the revenues under a research and license agreement were derived from the United States compared to 100% in 2013.

## **21. MANAGEMENT OF CAPITAL**

The Corporation'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 Corporation includes shareholders' equity which amounts to \$5,039,573 as at October 31, 2014 (\$7,009,261 as at October 31, 2013).

The Corporation'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 to maintain its ongoing operations. To secure additional capital necessary to pursue these plans, the Corporation 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 Corporation is satisfied that it has adequate cash resources to carry out its research and development activities and its ongoing operations.

## **22. COMMITMENTS AND GUARANTEES**

As at October 31, 2014, the Corporation has obligations under leases maturing in 2016. The minimum payments in relation with these leases for the next two fiscal years are as follows: 2015 - \$81,830 and 2016 - \$40,915.

During the year ended October 31, 2007, the Corporation entered into a license agreement with Targeted Diagnostics & Therapeutics, Inc. (TDT) regarding certain intellectual property rights. This agreement is for an initial term of 10 years. The Corporation agreed to pay royalties on all products sold derived from the underlying technologies and milestone payments after achievement of 1) favorable clinical study on a GCC colorectal blood test, 2) FDA approval of a GCC colorectal blood test and 3) FDA approval of a GCC lymph node test. To date, no progress towards completion of the above milestones has been made and no amount has been accrued in these consolidated financial statements. The total of the milestone payments that may have to be paid by the Corporation in future years is US\$2,000,000.

In May 2000, The Corporation obtained an exclusive worldwide license from the University of Nijmegen, The Netherlands and in April 2007 from the Johns Hopkins University, on all diagnostic and therapeutic applications of the PCA3 molecular biomarker in relation with prostate cancer. The Corporation agreed to pay royalties on all products sold derived from the underlying technologies.

The Corporation owns or has exclusive licensed rights on the Shc proteins. The Corporation agreed to pay royalties on all products sold derived from rights licensed from the Roger Williams Medical Center.

## **22. COMMITMENTS AND GUARANTEES (Cont'd)**

The Corporation 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 Corporation 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 Corporation from making a reasonable estimate of the maximum potential amount it could be required to pay. To date, the Corporation 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.