SQI Diagnostics Inc.

Interim Consolidated Financial Statements

For the Period From October 1, 2008 to December 31, 2008

NOTICE TO READER
The accompanying unaudited interim consolidated financial statements have been prepared by the company's management and the company's independent auditors have not performed a review of these consolidated financial statements

SQI Diagnostics Inc.

Interim Consolidated Balance Sheets

	Note	December 31 2008	September 30 2008 (audited)
ASSETS			
Current			
Cash and cash equivalents		**$ 4,738,762**	$ 3,091,486
Amounts receivable		**22,559**	24,481
Investment tax credits recoverable		**1,075,407**	1,075,407
Inventory	5	**111,255**	111,255
Prepaids and deposits		**94,963**	59,691
		$ 6,042,946	4,362,320
Due from related party	6	**104,579**	104,579
Property and equipment	7	**2,355,437**	2,400,906
Patents		**417,697**	402,779
		8,920,659	7,270,584
LIABILITIES			
Current			
Accounts payable and accrued liabilities		**$ 377,669**	382,420
Loans payable	8	**735,117**	735,482
		1,112,785	1,117,902
STOCKHOLDERS' EQUITY			
Capital Stock	10	**20,222,265**	17,322,585
Warrants	11	**401,295**	274,086
Employee share purchase loan		**(10,000)**	(10,000)
Contributed Surplus	12	**8,163,463**	8,067,709
Deficit		**(20,969,150)**	(19,501,698)
		7,807,873	6,152,682
		8,920,659	7,270,584

SUBSEQUENT EVENT (Note 19)

Approved by the Board "Peter Winkley" (Signed) Director "Eric Schneider" (Signed) Director

See accompanying notes.

SQI Diagnostics Inc.

Notes to Consolidated Financial Statements
December 31, 2008 and 2007

Interim Consolidated Statements of Operations and Deficit

	Note		Three Month Period Ended December 31, 2008		Three Month Period Ended December 31, 2007
Revenue					
Consulting Fees	9	**$**	**10,100**	$	44,493
Expenses					
Salaries and wages			**105,464**		89,063
General and administrative	9		**119,518**		66,402
Professional and consulting fees			**206,867**		64,292
Stock-based compensation	14		**98,826**		35,462
Research and development costs			**815,152**		698,660
Amortization - Patents			**22,548**		19,374
Amortization - Property & Equipment			**102,728**		95,123
			1,471,103		1,068,376
Operating loss before interest			**(1,461,003)**		(1,023,883)
Interest Income			**9,597**		11,691
Interest Expense			**(16,045)**		(1,730)
Net loss			**(1,467,452)**		(1,013,922)
Deficit at beginning of period			**(19,501,698)**		(15,716,119)
Deficit at end of period			**(20,969,150)**		(16,730,041)
Weighted average number of shares			**22,448,275**		19,737,507
Basic and diluted loss per share			**(0.07)**		(0.05)

SQI Diagnostics Inc.

Notes to Consolidated Financial Statements
December 31, 2008 and 2007

Consolidated Statements of Cash Flows

	Three Month Period Ended December 31, 2008	Three Month Period Ended December 31, 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	$ **(1,467,452)**	$ (1,013,922)
Add items not affecting cash		
Amortization - patents	**22,548**	19,374
-property and equipement	**102,728**	95,123
Stock-based compensation	**98,826**	35,462
	(1,243,349)	(863,963)
Changes in non-cash working capital items		
Amounts Receivable	**1,922**	3,450
Inventory	**-**	(34,937)
Prepaids and deposits	**(35,437)**	24,818
Accounts payable and accrued liabilities	**(4,587)**	267,275
	(1,281,450)	(603,357)
Cash flows used in investing activities		
Purchase of property and equipment	**(57,259)**	(304,853)
Additions to patents	**(37,466)**	(13,493)
Short-term investments	**-**	1,000,000
	(94,726)	681,654
Cash flows from financing activities		
Repayment of loans payable	**(365)**	(8,334)
Proceeds from private placement and exercise of warrants and options, net of share issuance costs	**3,023,817**	5,250
	3,023,452	(3,084)
Increase in cash during the period	**1,647,276**	75,303
Cash at beginning of period	**3,091,486**	249,601
Cash at end of period	**4,738,762**	324,904
Supplemental Disclosure		
Cash paid for interest	$ **16,045**	$ -

1. NATURE OF OPERATIONS AND AMALGAMATION

SQI Diagnostics Inc., (the "Company"), has its head office and development centre in Toronto, Ontario. The Company is a medical systems company that develops proprietary technology in multiplexing, miniaturization and automation. The Company provides laboratories the ability to simultaneously analyze multiple biomarkers, deliver accurate and quantitative patient results in less time, significantly reduce labour, and increase profits when compared with current diagnostic instrumentation.

The Company has received licenses to market its QuantiSpot™ RA test kit used to detect and quantify a panel of biomarkers to aid in the diagnosis of rheumatoid arthritis and its SQiDworks™ automated analytical platform in Canada. The Company is pursing marketing clearance for its platform and QuantiSpot RA test kit in other jurisdictions and expects that if successful these marketing clearances would be granted in the first half of 2009. The Company filed an application for marketing clearance in United States, with the Food & Drug Administration ("FDA") for the QuantiSpot RA panel and SQiDworks platform on October 15th, 2008. The Company continues to develop and pursue the commercialization of a number of other QuantiSpot™ test panels targeting detection and quantification of panels of biomarkers in the autoimmune sector. QuantiSpot™ tests are designed to run only on the Company's SQiDworks™ platform. In order to get the platform and QuantiSpot™ consumable tests approved for sale in the United States, the FDA typically requires the completion of clinical validation studies to compare the performance of a new test to predicate tests currently approved for sale in the USA. Upon successful completion of the validation studies, the data derived is then presented to the FDA in the form of a 510(k) Pre market Notification. It is typical for the external validation studies to take several months to complete and upon receipt of a completed 510(k) submission, the FDA may take up to four months to render an approval decision on the application.

The Company has not earned revenues from its QuantiSpot™ test kits or SQiDWorks™ platform and is therefore considered to still be in the development stage. The continuation of the Company's research and development activities is dependent upon the Company's ability to successfully finance its cash requirements through the generation of revenue from its partners and potential customers, or to complete further equity financing. Management believes that the Company's current level of cash will be sufficient to execute the Company's current planned expenditures for the remainder of 2009 and believes it will be able to manage its cash flows through the middle of 2010.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada, within the framework of the significant accounting policies summarized below:

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. Inter-company balances and transactions are eliminated upon consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Cash and Cash Equivalents

Cash and cash equivalents include bank deposits and highly liquid money market investments such as bankers acceptance notes, treasury bills and guaranteed investment certificates

Inventory

Inventory is valued at the lower of cost and net realizable value, with cost determined on a first-in, first-out basis.

Property and Equipment

Property and equipment are recorded at cost and are amortized on the straight-line basis over their estimated useful lives as follows:

Computer hardware	- 3 years
Computer software	- 3 years
Laboratory fixtures and equipment	- 10 years
Office equipment	- 10 years
Leasehold improvements	- 10 years

Patents

The costs relating to initial patent fees are deferred and amortized over 10 years on a straight-line basis. Patents are recorded net of accumulated amortization of $417,697 (September 31, 2008 - $402,799).

Research and Development Costs

Research costs are charged to earnings in the period in which they are incurred. Development costs are expensed as incurred or deferred if they meet the criteria for deferral under Canadian generally accepted accounting principles and are expected to provide future benefits with reasonable certainty.

At December 31, 2008, the Company was carrying out validation studies to determine viability of the diagnostic system. Deferral criteria have not been met, and accordingly, all development costs have been expensed.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of Long-Lived Assets

Long-lived assets comprise property and equipment and intangible assets with finite lives (patents). The Company recognizes an impairment loss for a long-lived asset when events or changes in circumstances cause its carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. An impairment loss is measured as the excess of the carrying value of the asset over its fair value.

Revenue Recognition

The Company provides consulting services from time to time. Consulting fee revenue is recognized when services are completed, amounts are invoiced to customers and collectability is reasonably assured.

Stock-Based Compensation and Other Stock-Based Payments

The Company applies a fair value based method of accounting for all stock-based payments. Accordingly, stock-based payments are measured at the fair value of the consideration received or the fair value of the equity instruments issued or liabilities incurred, whichever is more reliably measurable. Stock-based compensation is charged to operations over the vesting period and the offset is credited to contributed surplus. Consideration received upon the exercise of stock options is credited to share capital and the related contributed surplus is transferred to share capital.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at rates of exchange in effect at each transaction date. Revenue and expenses are translated at the rate of exchange at each transaction date. Gains or losses on translation are included in operations.

Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investment Tax Credits

Investment tax credits are accrued when qualifying expenditures are incurred and there is reasonable assurance that the credits will be realized. Investment tax credits earned with respect to current expenditures for qualified research and development activities are included in the statements of operations as a reduction of research and development costs. Investment tax credits associated with capital expenditures are reflected as reductions in the carrying amounts of capital assets.

At December 31, 2008, the Company recorded an amount receivable relating to investment tax credits of $1,075,407 (December 31, 2007 - $146,220) and a corresponding reduction in research and development costs

Financial Instruments

(i) Financial Assets

Held-for-Trading

Financial assets that are held with the intention of generating profits in the near term and derivative contracts that are financial assets, except for a derivative that is a designated and effective hedging instrument, are classified as held for trading. In addition, any other financial assets can be designated by the Company upon initial recognition as held for trading. These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net income during the period.

Held-to-Maturity

Financial assets that have a fixed maturity date and which the Company has a positive intention and the ability to hold to maturity are classified as held to maturity, which are subsequently re-measured at amortized cost using the effective interest rate method.

Loans and receivables

Loans and receivables are non-derivative financial assets resulting from the delivery of cash or other assets in return for a promise to repay on a specified date, or on demand, usually with interest. Loans and receivables are subsequently re-measured at amortized cost using the effective interest rate method.

Available-for-Sale

Available for sale assets are non derivative financial assets that are either designated in this category or not classified in any of the other categories. Financial assets classified as available for sale are subsequently re-measured at fair value with the changes in fair value recorded in other comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(ii) Financial Liabilities

Held-for-Trading

Financial liabilities that are held with the intention of generating profits in the near term and derivative contracts that are financial liabilities, except for a derivative that is a designated and effective hedging instrument, are classified as held for trading. In addition, any other financial liabilities can be designated by the Company upon initial recognition as held for trading. These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net income during the period.

Other liabilities

Non-derivative financial liabilities that have not been designated as held for trading are classified as other liabilities, which are subsequently re-measured at amortized cost using the effective interest rate method.

The Company has classified its financial instruments as follows:

Financial Instrument	Classification
Cash and cash equivalents	Held-for-trading
Amounts receivable	Loans and receivable
Due from related party	Loans and receivable
Accounts payable and accruals	Other financial liabilities
Loans payable	Other financial liabilities

Comprehensive Income

The Company has not presented a statement of comprehensive income as it has no other comprehensive income.

Loss Per Share

Basic loss per share is computed using the weighted average number of common shares outstanding during the year. Diluted loss per share is computed using the weighted average number of common and potential common shares outstanding during the year. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options and warrants using the treasury stock method.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the year. Actual results could differ from those estimates.

Significant areas requiring the use of management estimates relate to the determination of the useful lives of property and equipment and patents for amortization purposes, valuation of ITC's receivable, valuation of stock options and warrants and valuation allowance on future tax assets.

3. ADOPTION OF NEW ACCOUNTING POLICIES

Effective October 1, 2007, the Company adopted the recommendations of the CICA Handbook Section 1535, Capital Disclosures. Handbook Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by the new Handbook section in Note 17 to these consolidated financial statements.

Effective October 1, 2007, the Company adopted the new recommendations of the CICA Handbook Section 1506, Accounting Changes. Under these new recommendations, voluntary changes in accounting policy are permitted only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impractical, requires prior period errors to be corrected retrospectively and requires enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. These recommendations also require the disclosure of new primary sources of generally accepted accounting principles that have been issued but not yet effective. The impact that the adoption of this section will have on the Company's financial statements will depend on the nature of future accounting changes and the required additional disclosure on Recent Accounting Pronouncements is disclosed in Note 4.

Effective October 1, 2007, the Company adopted the recommendations of CICA Handbook Section 3862, Financial Instruments – Disclosure. Section 3862 provides standards for disclosures about financial instruments, including disclosures about fair value and the credit, liquidity and market risks associated with the financial instruments. Disclosure requirements pertaining to Section 3862 are contained in Note 18.

Effective October 1, 2007, the Company adopted the recommendations of CICA Handbook Section 3863, Financial Instruments – Presentation. Section 3863 provides standards for presentation of financial instruments and non-financial derivatives. Adoption of this standard had no impact on the presentation of the Company's financial instruments.

3. ADOPTION OF NEW ACCOUNTING POLICIES

Effective October 1, 2008 the Company adopted the recommendations of CICA Handbook Section 3064, Goodwill and Intangible Assets ("CICA 3064"). Section 3064, which replaces Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual financial statements for periods commencing October 1, 2008. Adoption of this standard had no impact on its consolidated financial statements.

Effective October 1, 2008 the Company adopted the recommendations of CICA Handbook Section 3031 on Inventories, which has replaced Section 3030 with the same title. Section 3031 prescribes the measurement of inventories at the lower of cost and net realizable value, with guidance on the determination of cost including allocation of overheads and other costs to inventory. Reversals of previous write-downs to net realizable value are permitted when there is a subsequent increase in the value of inventories. The new standard is effective for the Company's interim and annual financial statements for periods commencing October 1, 2008. Adoption of this standard had no impact on its consolidated financial statements.

4. RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET APPLIED

The CICA plans to converge Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011, when IFRS will be fully adopted. The impact of the transition to IFRS on the Company's consolidated financial statements is not yet determinable

5. INVENTORY

Inventory consists of component parts that are to be used in the future production SQiDWorks™ and QuantiSpot™ products.

6. DUE FROM RELATED PARTY

The amount is due from an officer and director of the Company, bears interest at 4.25% per annum and is due on December 31, 2010.

7. PROPERTY AND EQUIPMENT

As at December 31, 2008:

	Cost	Accumulated Amortization	Net
Computer hardware	$ 129,828	$ 95,248	$ 34,580
Computer software	124,874	88,813	36,061
Laboratory fixtures and equipment	3,212,866	1,066,965	2,112,901
Office equipment	147,216	100,438	46,778
Leasehold improvements	238,438	113,322	125,116
	3,853,222	1,497,785	2,355,437

As at September 30, 2008:

	Cost	Accumulated Amortization	Net
Computer hardware	$ 128,313	$ 88,579	$ 39,734
Computer software	124,874	82,881	41,993
Laboratory fixtures and equipment	3,168,697	1,019,548	2,149,149
Office equipment	147,216	96,688	50,528
Leasehold improvements	226,863	107,361	119,502
	3,795,963	1,395,057	2,400,906

8. LOANS PAYABLE

	December 31 2008	September 30 2008 (audited)
Term loan, bearing interest at prime plus 4% per annum, maturing with accrued interest on January 31, 2009, or upon receipt of 2006 and 2007 SR&ED ITC refunds, whichever is sooner	$ 730,000	$ 730,000
Note payable to supplier, non-interest bearing, payable in monthly installments of $5,600	5,117	$ 5,482
	$ 735,117	$ 735,482

9. RELATED PARTY TRANSACTIONS

Transactions with related parties are incurred in the normal course of business and are measured at the exchange amount. Related party transactions have been listed below, unless they have been disclosed elsewhere in the financial statements.

Included in general and administrative expense for the quarter ended December 31, 2008 is $10,603 (quarter ended December 31, 2007 - $10,348), related to recovery of occupancy costs, from a corporation in which an officer of the Company was also an officer. Consulting fee revenue of $10,100 for the quarter ended December 31, 2008 (quarter ended December 31, 2007 - $15,405) was earned from this corporation. At quarter end, $1,727 (December 31, 2007 - $NIL) due from this corporation is included in amounts receivable.

10. CAPITAL STOCK

Authorized
unlimited common shares

Issued - common shares

Balance, September 30, 2007		19,697,699	14,113,145
Warrants exercised		52,501	5,250
Issued in connection with a private placement (i)		2,439,500	3,659,350
Options exercised		27,778	39,390
Share issuance costs (i)	-	494,550	
Balance, September 30, 2008		22,217,478	17,322,585
Issued in connection with a private placement (ii)		2,400,000	2,872,791
Options exercised		133,336	26,889
Balance, December 31, 2008		24,750,814	20,222,265

(i) Pursuant to a private placement, the Company issued 3,567,551 units at a price of $1.60 per unit as follows:

(a) On June 29, 2007, 3,192,551 units were issued for a net amount of $4,660,435;

(b) On July 3, 2007, 375,000 units were issued for a net amount of $552,000.

Each issued unit is comprised of one common share and one-half common share warrant. Each whole warrant is exercisable at a price of $2.40 per common share, expiring on June 29, 2009 and July 3, 2009, respectively.

(i) Pursuant to a private placement, the Company issued 2,439,500 shares at a price of $1.50 per share for gross proceeds of $3,659,350. Share issue costs related to the private placement amounted to $309,652. In addition, 194,200 broker warrants, exercisable at $1.50 per common shares and expiring on June 3, 2010 were issued, valued at $184,898. Total share issuance costs were $494,550.

10. CAPITAL STOCK cont'd

(ii) Pursuant to a private placement on December 23, 2008, the Company issued 2,400,000 shares at a price of $1.25 per share and resulting in net proceeds of $3,000,000. The Company paid a finder's fee in relation to the private placement satisfied through the issuance of 236,800 warrants with an exercise price of $1.90 and expiring on December 23, 2011. Total share issuance costs were $10,182.

11. WARRANT CAPITAL

The following summarizes the change in warrant capital:

	December 31 2008	December 31 2007
Balance, beginning of period	**$ 274,086**	$ 89,188
Broker warrants (Note 10(iii))	**127,209**	-
Balance, end of period	**$ 401,295**	$ 89,188

12. CONTRIBUTED SURPLUS

The following summarizes the change in contributed surplus:

	December 31, 2008	**December 31, 2007**
Balance, beginning of period	8,067,709	7,790,715
Stock-based compensation (Note 14)	98,826	35,462
Options exercised	(3,072)	-
Balance, end of period	8,163,463	7,826,177

13. STOCK OPTIONS

The Company maintains a Stock Option Plan (the "Plan") for the benefit of directors, officers, employees and consultants. The aggregate number of common shares reserved for issuance under the Plan, together with any other employee stock option plans, options for services and employee share purchase plans, will not exceed 3,200,000. Options granted pursuant to the Plan will have terms not to exceed five years, and are granted at an option price which will not be less than the fair market price at the time the options are granted. All options granted to individual optionees, other than consultants, generally vest in six equal installments over a period of 18 months. Options issued to consultants

13. STOCK OPTIONS cont'd

providing investor relations services generally vest in stages over 12 months.

The following summarizes the stock option activities under the Plan:

	3 Month Period Ended December 31, 2008			3 Month Period Ended December 31, 2007		
	Options	**Average**		Options	Average	
Beginning balance	**2,624,193**	**$**	**0.90**	980,850	$	1.15
Granted	**0**	**$**	**-**	50,000	$	1.50
Exercised	**133,336**	**$**	**0.13**	0		
Cancelled/expired	**27,778**	**$**	**1.20**	(50,001)		
Forfeited	**0**	**$**	**-**	0.00		
Ending balance	**2,463,079**	**$**	**1.24**	1,080,851		$1.27
Exercisable	**1,367,272**	**$**	**0.93**	481,734	$	0.89

(i) On exercise of stock options, $3,072 was transferred from contributed surplus to share capital.

The Company had the following stock options outstanding under the Plan at December 31, 2008:

Number of Options	**Exercise Price**	**Expiry Date**
8,334	$ 1.680	July 1, 2009
833,350	$ 0.600	April 15, 2010
141,670	$ 1.200	April 15, 2010
116,669	$ 1.200	June 29, 2011
83,335	$ 1.200	August 29, 2011
197,500	$ 1.740	August 7, 2012
50,000	$ 1.500	October 23, 2012
757,500	$ 1.600	February 15, 2013
302,500	$ 1.750	August 26, 2013
2,463,079		

The Company also had 133,333 options outstanding at December 31, 2008 that were not granted under the plan. All of these options were exercisable at December 31, 2008 and have an exercise price of $0.90 and expire on October 14, 2009.

14. STOCK-BASED COMPENSATION

The compensation cost of the options granted during the period ended December 31, 2008 was $NIL (period ended December 31, 2007 was $NIL). The total compensation expense for the period ended December 31, 2008 was $98,862 (period ended December 31, 2007 - $35,462). The total amount credited to contributed surplus for the period ended December 31, 2008 was $98,962 (period ended December 31, 2007 - $35,462).

14. STOCK-BASED COMPENSATION cont'd

The fair value of each option granted has been estimated at the date of grant or the date when it became measurable using the Black-Scholes option pricing model with the following weighted average assumptions at the measurement date:

	December 31 2008	December 31 2007
Dividend yield	0%	0%
Expected volatility	80%	80%
Risk-free interest rate	4.0%	4.6%
Expected life (years)	5.00	5.00
Weighted average grant date fair value	$Nil	$1.50

The Company has assumed no forfeiture rate as adjustments for actual forfeitures are made in the period they occur.

15. WARRANTS

The Company had the following warrants outstanding at December 31, 2008:

Number of Warrants	Purchase Price		Expiry Date
83,335	$	0.44	26-Apr-09
20,834	$	1.20	26-Apr-09
344,004	$	1.20	26-Apr-09
285,404	$	1.60	29-Jun-09
1,783,776	$	2.40	29-Jun-09
1,076,867	$	0.60	26-Apr-10
194,200	$	1.50	03-Jun-10
236,800	$	1.90	23-Dec-11
4,025,220			

16. CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern so that it can complete its lead assay commercialization efforts and receive the required regulatory approvals to sell and market its products and provide returns for shareholders and benefits for other stakeholders.

The capital structure of the Company consists of shareholders' equity. The Company is not subject to externally imposed capital requirements.

17. FINANCIAL RISK MANAGEMENT

a) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and cash equivalents are exposed to credit risk. The credit risk on cash and cash equivalents is small because the counterparties are highly rated Canadian banks.

b) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash and cash equivalents are exposed to cash flow interest rate risk as the Corporation invests cash and cash equivalents at floating rates of interest in highly liquid instruments. Fluctuations in interest rates would not significantly impact interest income.

c) Currency Risk

Currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to currency risk is negligible because the Company's operations are in one country, being Canada. The dollar amount and number of transactions conducted in currencies other than the Canadian dollar are not material.

d) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation's accounts payable and accrued liabilities are all current. The Corporation ensures that it has sufficient capital to meet short term financial obligations after taking into account its cash on hand.

19. SUBSEQUENT EVENT

Subsequent to the period end, the Company completed the second tranche of a non brokered private placement. The first tranche described further in Note 10, closed December 23, 2008. The second tranche, closed January 21, 2009, resulted in gross proceeds of $1,664,375 through the issuance of 1,331,500 shares at $1.25 per common share. The shares issued through the private placement are subject to a four month hold period. The Company paid a finder's fee in relation to the private placement satisfied through the issuance of 106,520 warrants with an exercise price of $1.25 and expiring on December 23, 2011.