SQI Diagnostics Inc.

Condensed Interim Consolidated Financial Statements

(Unaudited)

For the Three Months Ended December 31, 2011 and 2010

Notice to Reader

The accompanying unaudited financial statements have been prepared by management and the Company's independent auditors have not performed a review of these financial statements.

SQI Diagnostics Inc.
Condensed Interim Consolidated Balance Sheets
(Unaudited)
(Amounts are in thousands of Canadian dollars)

	Note	**As at December 31, 2011**	As at September 30, 2011 (Note 20)	As at October 1, 2010 (Note 20)
Assets				
Current				
Cash and cash equivalents		**$ 2,062**	$ 851	$ 9,408
Prepaids, deposits and amounts receivable		**313**	277	168
Inventory	5	**136**	138	260
Due from related party	6	**-**	-	66
		2,511	1,266	9,902
Due from related party	6	**-**	-	32
Property and equipment	7	**2,781**	2,853	2,731
Patents and trademarks	8	**629**	615	469
		$ 5,921	$ 4,734	$ 13,134
Liabilities				
Current				
Accounts payable and accrued liabilities		**$ 1,060**	$ 2,588	$ 972
Shareholders' Equity				
Capital stock	13	**38,866**	35,387	35,026
Warrants	14	**2,334**	1,614	1,799
Employee share purchase loan	13	**-**	-	(10)
Contributed surplus		**9,654**	9,488	8,946
Deficit		**(45,993)**	(44,343)	(33,599)
		4,861	2,146	12,162
		$ 5,921	$ 4,734	$ 13,134

Contingencies (Note 17)

Approved by the Board **"Peter Winkley"** Director **(Signed)** **"Claude Ricks"** Director **(Signed)**

See accompanying notes

SQI Diagnostics Inc.
Condensed Interim Consolidated Statements of Operations
(Unaudited)
(Amounts are in thousands of Canadian dollars except per share amounts)

	Note		**Three Month Period Ended December 31, 2011**		Three Month Period Ended December 31, 2010 (Note 20)
Revenue					
Product sales		**$**	**4**	$	9
Consulting fees	9		**-**		9
			4		18
Expenses					
Corporate and general	10		**407**		520
Sales and marketing	11		**89**		118
Research and development costs	12		**1,160**		1,714
			1,656		2,352
Operating loss before interest			**(1,652)**		(2,334)
Interest Income			**2**		24
			2		24
Net loss			**(1,650)**		(2,310)
Loss per share					
Basic and diluted		**$**	**(0.05)**	$	(0.07)
Weighted average number of common shares outstanding					
Weighted average number of shares			**35,637**		33,759

See accompanying notes

SQI Diagnostics Inc.

Condensed Interim Consolidated Statement of Changes in Equity

(Unaudited)

(Amounts are in thousands of Canadian dollars except for number of shares, which are in thousands))

	Note	Issued Share Capital		Warrants	Employee Share Purchase Loan	Contributed Surplus	Deficit	Total Equity
		Number of Shares	Amount					
Balance as at October 1, 2010		33,758	$ 35,026	$ 1,799	$ (10)	$ 8,946	$ (33,599)	$ 12,162
Options exercised	15	8	22			(9)		13
Warrants expired	14			(125)		125		-
Stock based compensation	16					170		170
Net loss							(2,310)	(2,310)
Balance as at December 31, 2010		33,766	$ 35,048	$ 1,674	$ (10)	$ 9,232	$ (35,909)	$ 10,035
Options exercised		73	152			(46)		106
Warrants exercised	14	107	193	(60)				133
Share issuance costs			(6)					(6)
Loan repayment	13				10			10
Stock-based compensation						302		302
Net loss							(8,434)	(8,434)
Balance as at September 30, 2011		33,946	$ 35,387	$ 1,614	$ -	$ 9,488	$ (44,343)	$ 2,146
Issued in connection with a private placement	13	**2,276**	**4,552**					**4,552**
Allocated to warrants	13		**(794)**	**794**				**-**
Share issuance costs	13		**(362)**	**53**				**(309)**
Options exercised	15	**58**	**83**			**(13)**		**70**
Warrants expired	14			**(127)**		**127**		**-**
Stock-based compensation	16					**52**		**52**
Net loss							**(1,650)**	**(1,650)**
Balance as at December 31, 2011		**36,280**	**$ 38,866**	**$ 2,334**	**$ -**	**$ 9,654**	**$ (45,993)**	**$ 4,861**

See accompanying notes

SQI Diagnostics Inc.
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)
(Amounts are in thousands of Canadian dollars)

	Three Month Period Ended December 31, 2011	Three Month Period Ended December 31, 2010
Cash flow from operating activities		
Loss for the period	**$ (1,650)**	$ (2,310)
Add items not affecting cash		
Amortization - patents & trademarks	**35**	28
- property and equipment	**129**	113
Stock-based compensation	**52**	170
Loss on sale of property and equipment		43
Interest accrual		(1)
	(1,434)	(1,957)
Changes in non-cash working capital items		
Prepaids, deposits and amounts receivable	**(36)**	(52)
Inventory	**2**	(255)
Accounts payable and accrued liabilities	**(1,528)**	(404)
	(2,997)	(2,668)
Cash flows used in investing activities		
Purchase of property and equipment	**(57)**	(249)
Additions to patents and trademarks	**(49)**	(35)
Sale of property and equipment	**-**	2
	(106)	(282)
Cash flows from financing activities		
Proceeds from private placement and exercise of warrants and options, net of share issuance costs	**4,313**	13
	4,313	13
Net change in cash and cash equivalents during the period	**1,211**	(2,937)
Cash and cash equivalents at beginning of period	**851**	9,408
Cash and cash equivalents at end of period	**$ 2,062**	$ 6,471

See accompanying notes

1. NATURE OF OPERATIONS

SQI Diagnostics Inc., (the "Company"), is incorporated in Canada and is listed on the TSX Venture Exchange under the symbol SDQ. It has its head office and development centre at 36 Meteor Drive Toronto, Ontario. The Company is a life sciences company that develops and commercializes proprietary technologies and products for advanced microarray diagnostics. The Company's goal is to become a leader in the development and commercialization of microarray and multiplexed diagnostics by offering customers a comprehensive "turnkey" solution that increases the efficiency and ease of diagnostic testing and test development.

During fiscal 2009 the Company obtained Health Canada licenses and self authorization to sell in the EU and during fiscal 2010 received United States Food & Drug Administration ("FDA") clearance of its SQiDworks and IgX PLEX Rheumatoid Arthritis (RA) system. During fiscal 2010 the Company obtained a Health Canada license for its IgX PLEX Celiac™ microarray test kits that run on the Company's automated SQiDworks™ platform. During the year ended September 30, 2011 the company obtained FDA clearance for its IgX PLEX Celiac™ qualitative assay and obtained a Health Canada license and self authorization to sell in the EU its second generation fully quantitative IgX PLEX Celiac™ panel. The Company has earned limited revenues from its IgX PLEX RA™ and IgX PLEX Celiac™ test kits run on installed SQiDworks™ platforms to date, and as such is considered to be a development stage company. The Company has a pipeline of additional autoimmune diagnostic products in various stages of development and commercialization. The Company expects to generate revenues from its IgX PLEX RA™ and IgX PLEX Celiac™ products as it grows its installed base of customers as well as from products to be launched as they complete commercialization. The Diagnostic Tools and Services initiative is intended to enable customers to expand the use of our SQiDworks and SQiDLITE platforms by converting their single-plex diagnostic content to multiplexed microarrays.

The continuation of the Company's research, development and commercialization activities is dependent upon the Company's ability to successfully generate product or services revenues, or to finance its cash requirements through further equity and, or debt financings.

2. BASIS OF PRESENTATION

Statement of Compliance

These interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (IAS 34) as issued by the International Accounting Standards Board (IASB) and using the accounting policies the Company expects to adopt in its consolidated financial statements as at and for the year ending September 30, 2012. The standards and interpretations within IFRS are subject to change and accordingly, the accounting policies for the annual period that are relevant to these consolidated financial statements will be finalized only when the first annual IFRS financial statements are prepared for the year ending September 30, 2012.

These interim financial statements are the Company's first financial statements prepared using International Financial Reporting Standards (IFRS). IFRS 1, *"First time adoption of International Reporting Standards"* has been applied.

2. BASIS OF PRESENTATION (continued)

These statements should be read in conjunction with the Company's consolidated financial statements for the year ended September 30, 2011 prepared in accordance with Canadian generally accepted accounting principles and in consideration of the IFRS transition disclosures included in Note 20 to these financial statements. The significant accounting policies are discussed below.

Basis of Presentation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value, as explained in the accounting policies below.

The consolidated financial statements are presented in Canadian dollars which is the functional currency. These consolidated financial statements were authorized for issuance by the Board of Directors on February 28, 2012.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary.

Earnings and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of operations from the effective date of acquisition and up to the effective date of disposal as appropriate. The Company owns 100% of its subsidiary.

When necessary, adjustments are made to the financial statements of the subsidiary to bring their accounting policies into line with those used by the Company.

Inter-company balances and transactions are eliminated upon consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

Cash and cash equivalents include bank deposits and highly liquid money market investments such as banker's acceptance notes, treasury bills, cashable money market funds, and cashable 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 less accumulated amortization and accumulated impairment losses, if any. Property and equipment are initially recorded at cost based on the fair value of the consideration paid or payable. Subsequent to the acquisition date, an impairment assessment is made in accordance with the Company's impairment review policy described herein. Accordingly, the carrying value of property and equipment at a reporting date subsequent to the date of their acquisition may include a provision for accumulated impairment losses. Where an item of property and equipment is comprised of major components with different useful lives, the components are accounted for as separate items of property and equipment. Amortization is provided on the straight-line basis over the items estimated useful lives as follows:

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

Intangible Assets

Patents and trademarks are comprised of costs, including professional fees incurred in connection with the creation and filing of patents and registration of trademarks related to the Company's core technology and trademarks. The costs relating to initial patent and trademark fees are deferred and amortized over 10 years on a straight-line basis. Patents and trademarks are recorded net of impairment losses, if any. Research costs are charged to operations in the period in which they are incurred. Development costs are expensed as incurred or deferred if they meet the criteria for deferral under International Financial Reporting Standards and are expected to provide future benefits with reasonable certainty.

At December 31, 2011, the Company was developing IgX PLEX diagnostics assays for celiac and vasculitis. While not in active development, other assays in the development pipeline include lupus (SLE), Crohn's (IBD), antiphospholipid syndrome, the second generation, fully quantitative IgX PLEX RA assay and a diagnostic assay to detect and measure infliximab (also referred to as anti-TNF) in the blood of autoimmune patients. Deferral criteria have not been met, and accordingly, all development costs have been expensed in the period.

Impairment of Long-lived Assets

Long-lived assets comprise property and equipment and intangible assets with finite lives (patents and trademarks). The Company reviews the carrying value of its long-lived assets with finite lives annually to determine whether there is any indication that those assets have suffered impairment. If any such indication exists the asset is tested for impairment. The recoverable amount of the asset is estimated in order to determine the extent of impairment. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risk specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying value, the carrying value of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying value of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying value does not exceed the carrying value that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Revenue Recognition

Product sales are recognized upon the shipment of products to customers, if a signed contract exists, the sales price is fixed and determinable, collection of the resulting receivables is reasonably assured and any uncertainties with regard to customer acceptance are insignificant. Sales are recorded net of discounts and sales returns.

Interest income is recognised on a time proportion basis over the remaining term of the respective asset.

The Company also 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 offers a share option plan for its directors, officers, and employees. The fair value of share-based payments awards granted is recognized as an expense with a corresponding increase in contributed surplus. The Company grants stock options with multiple vesting periods, with each vesting period being treated as a separate tranche and considered a separate grant for the calculation of fair value. Fair value is calculated using the Black-Scholes option pricing model and the resulting fair value is amortized over the vesting period of the respective tranches. In addition, share-based compensation expense recognized reflects estimates of award forfeitures with any change in estimate thereof reflected in the period of the change. Consideration received upon the exercise of stock options is credited to share capital at which time the related contributed surplus is transferred to share capital.

Foreign Currency Translation

The financial statements of the Company and its subsidiary are maintained in the currency of the primary economic environment in which the entity operates (its functional currency). For purposes of the consolidated financial statements, the results and financial position are expressed in Canadian dollars which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

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 asset and liability method of accounting for income taxes. Under this method, deferred 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. Deferred 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. Deferred tax assets are recorded in the financial statements, to the extent that it is probable that future taxable profits will be available against which they can be utilized, for unused tax losses, investment tax credits and deductible temporary differences.

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.

Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

The Company's financial instruments are measured initially at fair value and thereafter based on their classification. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics, and the Company's designation of such instruments. At initial recognition financial instruments are classified in the following categories depending on the nature and purpose for which the instruments were acquired:

(i) Financial Assets and Liabilities at Fair Value through Profit or Loss

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term.

Financial instruments in this category are initially and subsequently stated at fair value. Transaction costs are expensed in the statement operations. Gains and losses arising from changes in fair value are presented in the statement of operations in the period in which they arise.

The Company's cash and cash equivalents are classified in this category.

(ii) Available-for-Sale Investments

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of other categories.

Available-for-sale investments are initially measured at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive loss. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are transferred from other comprehensive loss to the statement of operations.

The Company does not have any instruments classified in this category.

(iii) Held to Maturity

Financial instruments held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intent and ability to hold to maturity.

These assets are measured at amortized cost using the effective interest method of amortization. Transaction costs are expensed when incurred.

The Company does not have any instruments classified in this category.

(iv) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans receivable.

Loans and receivables are initially measured at the amount expected to be received and subsequently carried at amortized cost, using the effective rate interest rate method except for short-term receivables where the recognition of interest would be immaterial. Any gains or losses on the realization of loans and receivables are included in net loss.

The Company's loans and receivables comprise amounts receivable and amounts due from related party.

(v) Other Financial Liabilities

Other financial liabilities are initially measured at the amount required to be paid, less, when material, a discount to reduce the payable to fair value. Subsequently, other financial liabilities are measured at amortized cost using the effective interest method. Any gains or losses in the realization of other liabilities are included in operations. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time. Increases in the liability due to the passage of time are recognized as finance expense. Actual costs incurred upon settlement of the obligations are charged against the liability with any differences charged to income.

Accounts payable and accrued liabilities are classified as other financial liabilities.

Fair Value Measurement

The Company categorizes its financial assets and liabilities measure at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other standard valuation techniques derived from observable market inputs.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

Impairment of Financial Assets

All financial assets except those at fair value through profit and loss are subject to review for impairment at each reporting date. Financial assets are impaired when there is objective evidence that a financial asset or group of assets is impaired. The loss is determined as the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the financial asset's original effective interest rate. The carrying value of the asset is reduced by this amount indirectly through the use of an allowance account. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Comprehensive Income

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

Net Income (Loss) Per Share

Basic net income or loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted average number of common and potential common shares outstanding during the period. The dilutive effect of outstanding stock options and warrants on earnings per share is calculated by determining the proceeds for the exercise of such securities which are then assumed to be used to purchase common shares of the Corporation.

Provisions

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower that the unavoidable costs of meeting its obligations under the contract.

Critical Accounting Estimates and Judgments

The preparation of financial statements in conformity with International Financial Reporting Standards 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 period. 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 and trademarks for amortization purposes, valuation of ITC's receivable, valuation of stock options and warrants and valuation allowance on deferred tax assets.

4. RECENT ACCOUNTING PRONOUNCEMENTS

IFRS 9 Financial Instruments

In October 2010, the IASB issued IFRS 9, Financial Instruments (IFRS 9). IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is assessing the impact of this new standard on its consolidated financial statements.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

In May, 2011, the IASB issued IFRS 10, Consolidated Financial Statements (IFRS 10) and IAS 27 Separate Financial Statements (IAS 27). IFRS 10 and the amended IAS 27 together replace IAS 27 Consolidated and Separate Financial Statements. IFRS 10 established the principles for the presentation and preparation of consolidate financial statements when an entity controls one or more other entities. IAS 27 prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. These standards are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is assessing the impact of these new standards.

IFRS 13 Fair Value Measurement

In May, 2011, the IASB issued IFRS 13 Fair Value Measurement (IFRS 13). IFRS 13, which is to be applied prospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IFRS 13 defines fair value, provides a framework for measuring fair value and includes disclosure requirements for fair value measurements. IFRS 13 will be applied in most cases when another IFRS requires (or permits) fair value measurement. The Company is assessing the impact of this new standard on its consolidated financial statements.

5. INVENTORY

Inventory consists of component parts that are to be used in the future production of SQiDworks™ Platform and IgXPLEX consumable assays.

6. DUE FROM RELATED PARTY

	December 31, 2011 ($000s)	September 30, 2011 ($000s)	October 1, 2010 ($000s)
Amount due from an officer and director (i) and (ii)	**$ -**	**$ -**	$ 98
Less: Current portion	-	**-**	(66)
	$ -	**$ -**	$ 32

(i) Amount due was secured, principal amount of $98,000 repayable in three equal payments on September 1, 2010, 2011 and 2012. Terms of the promissory note were amended on April 16, 2010 as follows: interest bearing at Canada Revenue Agency prescribed rate for taxable benefits to employees and shareholders on interest-free and low-interest loans, which was 1% per annum at September 30, 2011. Prior to amendment, the loan was bearing interest at 4.25% per annum during the year ended December 31, 2009 and non-interest bearing from October 1, 2009 to April 15, 2010.

(ii) The loan was paid in full during the year ended September 30, 2011.

(Amounts are in Canadian dollars)

7. PROPERTY AND EQUIPMENT

Cost	Computer Hardware	Computer Software	Laboratory Fixtures and Equipment	Office Equipment	Leasehold Improvements	Total
October 1, 2010	$ 193	$ 153	$ 4,172	$ 176	$ 263	$ 4,957
Additions	73	26	381		2	482
Transfers from inventory			392			392
Disposals			(95)			(95)
Impairment loss			(524)			(524)
September 30, 2011	266	179	4,326	176	265	5,212
Additions	-	-	57	-	-	57
Disposals	-	-		-	-	
December 31, 2011	$ 266	$ 179	$ 4,383	$ 176	$ 265	$ 5,269

Accumulated Amortization	Computer Hardware	Computer Software	Laboratory Fixtures and Equipment	Office Equipment	Leasehold Improvements	Total
October 1, 2010	$ 141	$ 130	$ 1,670	$ 128	$ 157	$ 2,226
Depreciation	45	17	366	9	19	456
Disposal			(50)			(50)
Impairment loss			(273)			(273)
September 30, 2011	186	147	1,713	137	176	2,359
Depreciation	12	5	108	1	3	129
December 31, 2011	$ 198	$ 152	$ 1,821	$ 138	$ 179	$ 2,488

Net Book Value						
December 31, 2011	$ 68	$ 27	$ 2,562	$ 38	$ 86	$ 2,781

(Amounts are in Canadian dollars)

7. PROPERTY AND EQUIPMENT (continued)

During the year ended September 30, 2011 the Company determined that certain laboratory equipment intended for use in the SQiDworks™ platform would not be incorporated into future platforms or used to develop future assays. Accordingly, laboratory equipment with a net book value of $251,000 was written off.

During the year ended September 30, 2011 the Company also determined that the useful life of certain laboratory equipment with a book value of $282,000 should be reduced from 10 years to 3 years as this equipment would not be used for future platforms or in future assay development, but would be maintained by the Company for future use. The impact of this change does not have a material impact on the financial statements.

8. PATENTS AND TRADEMARKS

Cost		
October 1, 2010	$	1,096
Additions		268
September 30, 2011		1,364
Additions		49
December 31, 2011	$	1,413

Accumulated Amortization		
October 1, 2010	$	627
Depreciation		122
Balance, September 30, 2011		749
Depreciation		35
December 31, 2011	$	784
Net Book Value		
December 31, 2011	$	629

9. RELATED PARTY TRANSACTIONS

Transactions with related parties occur in the normal course of business and are measured at the exchange amount, believed to represent fair value. 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 three month period ended December 31, 2011 is $NIL (three month period ended December 31, 2010 - $12,000), related to recovery of occupancy costs from a corporation in which an officer of the Company is also an officer. Consulting fee revenue of $NIL for the three months ended December 31, 2011 (three months ended December 31, 2010 - $9,000) was earned from this corporation. At quarter-end, $Nil (September 30, 2011 – $NIL; October 1, 2010 $1,000) due from this corporation is included in amounts receivable.

10. CORPORATE AND GENERAL EXPENSE

	Three Month Period Ended December 31, 2011 (000s)	Three Month Period Ended December 31, 2010 (000s)
Salaries and wages	**$ 177**	$ 159
General and administrative (note 9)	**128**	170
Professional and consulting	**87**	107
Stock based compensation	**15**	84
Total Corporate and General expense by nature	**$ 407**	$ 520

11. SALES AND MARKETING EXPENSE

	Three Month Period Ended December 31, 2011 (000s)	Three Month Period Ended December 31, 2010 (000s)
Contractor fees	**$ 84**	$ 94
Travel and marketing	**5**	12
Stock based compensation	**-**	12
Total Sales and Marketing expense by nature	**$ 89**	$ 118

12. RESEARCH AND DEVELOPMENT EXPENSE

	Three Month Period Ended December 31, 2011 (000s)	Three Month Period Ended December 31, 2010 (000s)
Salaries and wages	**$ 709**	$ 894
Laboratory costs and supplies	**250**	407
Professional fees	**-**	198
Amortization – patents and trademarks	**35**	28
Amortization – property and equipment	**129**	113
Stock based compensation	**37**	74
Total Research and development expense by nature	**$ 1,160**	$ 1,714

13. CAPITAL STOCK

(a) The Company has authorized an unlimited number of common shares.

(b) On October 26, 2011 the Company completed a non-brokered private placement of 2,276,000 units of the Company at $2.00 per unit for gross proceeds of $4,552,000.

Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at a price of $2.50 for a period of two years from the date of issuance, provided that if on any day that is 12 months following the date of issuance the 20-day volume weighted average trading price of the Company's shares on the TSX Venture Exchange equals or exceeds $3.25, then upon the Company sending subscribers written notice of such date and issuing a news release announcing such date, the common share purchase warrants will only be exercisable for a period of 30 days following the date on which such written notice is sent to the subscribers. The value of capital stock includes value attributable to the warrants in the amount of $794,000, which has been included in warrant capital.

In connection with the private placement, the Company paid a finder's fee equal of $258,000 and issued 86,040 compensation warrants exercisable for 24 months from the closing of the private placement. Each warrant is exercisable into one common share and one warrant at a price of $2.00. Each underlying warrant is exercisable into one common share at a price of $2.50 for a two year period. The total share issuance costs were $362,000.

(c) During the period ended September 30, 2007, the Company made a non-interest bearing loan to an officer, which was used to acquire 100,000 common shares. The loan has been accounted for as a share purchase loan and, accordingly, the $10,000 loan balance has been deducted from share capital. The loan was paid in full during the year ended September 30, 2011.

14. WARRANT CAPITAL

The Company had the following warrants outstanding at December 31, 2011:

Number of Warrants (000s)	Purchase Price	Expiry Date
1,140	$ 5.00	August 12, 2012
57	$ 2.50	August 12, 2012
1,199	$ 4.00	December 4, 2012
2,276	$ 2.50	October 26, 2013
86	$ 2.50	October 26, 2013
4,758		

On December 23, 2011, 236,800 warrants with an expiry of December 23, 2011 expired unexercised, and $127,000 was transferred to contributed surplus upon expiry.

On January 22, 2011, 106,520 warrants with an expiry of January 22, 2011 were exercised for proceeds of $133,000. Upon exercise $60,000 was transferred to share capital.

On December 4, 2010, 143,886 warrants with an expiry of December 4, 2010 expired unexercised, and $125,000 was transferred to contributed surplus upon expiry.

15. STOCK OPTIONS

The Company maintains a Stock Option Plan (the "Plan") for the benefit of directors, officers, employees and consultants. The maximum 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 10% of the issued and outstanding shares at the time of the option grant. 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 three equal installments over a period of 18 to 36 months.

The following summarizes the stock option activities under the Plan:

	Three Month Period Ended December 31, 2011		Three Month Period Ended December 31, 2010	
	Number of Options (000s)	**Weighted Average Exercise Price**	Number of Options (000s)	Weighted Average Exercise Price
Beginning balance	**1,541**	**$ 1.92**	1,814	$ 1.77
Granted	**50**	**$ 1.65**	100	$ 2.90
Exercised (i)	**(58)**	**$ 1.20**	(8)	$ 1.74
Cancelled/Expired	**(58)**	**$ 1.73**	(12)	$ 2.15
Forfeited	**(95)**	**$ 1.78**	(12)	$ 1.75
Ending balance	**1,380**	**$ 1.96**	1,882	$ 1.82
Exercisable	**572**	**$ 1.59**	1,042	$ 1.58

(i) On exercise of stock options, $13,000 (three months ended December 31, 2010 - $9,000) was transferred from contributed surplus to share capital.

15. STOCK OPTIONS (continued)

The Company had the following stock options outstanding under the Plan at December 31, 2011:

Number of Options (000s)	Exercise Price	Expiry Date
143	$ 1.74	August 7, 2012
50	$ 1.50	October 23, 2012
465	$ 1.60	February 26, 2013
115	$ 1.75	August 26, 2013
65	$ 1.30	May 22, 2014
25	$ 3.26	November 3, 2014
82	$ 2.25	February 22, 2015
50	$ 2.10	May 27, 2015
175	$ 2.50	August 16, 2015
100	$ 2.90	October 4, 2015
60	$ 2.85	January 31, 2016
50	$ 1.65	December 19, 2016
1,380		

16. STOCK-BASED COMPENSATION

The fair value of the options granted during the three month period ended December 31, 2011 was $51,000 (three month period ended December 31, 2010 - $188,000), which will be recognized over the vesting period of 36 months. The total compensation expense for three month period ended December 31, 2011 was $52,000 (three month period ended December 31, 2010 - $170,000). The total amount credited to contributed surplus for the three month period ended December 31, 2011 was $52,000 (three month period ended December 31, 2010 - $170,000).

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:

	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010
Dividend yield	**0%**	0%
Expected volatility	**76%**	80%
Risk-free interest rate	**1.15%**	2.00%
Expected life (years)	**5.00**	5.00
Weighted average grant date fair value	**$1.01**	$1.88

The Company estimates forfeiture rate based on historic experience with any change in estimate thereof reflected in the year they occur.

17. CONTINGENCIES

In the ordinary course of business, the Company may be contingently liable for litigation and claims with customers, suppliers, former employees or competitors. Management believes that adequate provisions have been recorded in accounts where required.

18. 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.

19. 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 Company 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 the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk due to its purchases in US dollars. A 1% change in the foreign exchange rate would result in a change of approximately $2,000 in the reported profit and loss.

d) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. At September 30, 2011 the Company had a working capital deficit of $1,322,000 and at December 31, 2011 had a working capital surplus of $1,451,000. The continuation of the Company's research, development and commercialization activities is dependent upon the Company's ability to generate product or service revenues or to finance its operations through further equity and, or debt financings.

20. EXPLANATION OF TRANSITION TO IFRS

The Company has adopted International Financial Reporting Standards (IFRS) effective October 1, 2011. The Company's financial statements for the year ended September 30, 2012 will be the first annual statements that comply with IFRS. Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with Canadian generally accepted accounting principles (Canadian GAAP).

The accounting policies set out in Note 3 have been applied in preparing the financial statements for the three months ended December 31, 2011, the comparative information presented in these financial statements for the period ended December 31, 2010, the year ended September 30, 2011 and in the preparation of the opening IFRS statement of financial position as at October 1, 2010. The Company will ultimately prepare its opening balance sheet and financial statements for fiscal 2012 and 2011 by applying existing IFRS with an effective date of September 30, 2012 and prior. Accordingly, the opening balance sheet and financial statements for fiscal 2012 and 2011 may differ from these statements.

The Company has applied IFRS 1; First time Adoption of International Financial Reporting Standards (IFRS1) in preparing these first IFRS consolidated statements. In preparing the opening IFRS statement of financial position, the Company had adjusted amounts previously reported in financial statements prepared in accordance with Canadian GAAP. This note explains the principal adjustments made by the Company in restating its Canadian GAAP balance sheet as at October 1, 2010 and its previously published Canadian GAAP financial statements for the year ended September 30, 2011 and the three month period ended December 31, 2010.

IFRS optional exemptions

Business Combinations

The Company has elected to apply IFRS 3 relating to business combinations prospectively from October 1, 2010, and accordingly has not restated any balances pertaining to any prior transactions.

Share-based payments

The Company has elected not to apply the requirements of IFRS 2 to awards that vested as of October 1, 2010.

IFRS mandatory exceptions

Use of estimates

The estimates made by the Company under Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any differences in accounting policies.

Reconciliation of Financial Position and Shareholders' Equity

(Amounts are in thousands of dollars, except per share amounts)

		as at October 1, 2010			as at September 30, 2011		
	Note	Canadian GAAP	Reclassification for IFRS Presentation	IFRS	Canadian GAAP	Reclassification for IFRS Presentation	IFRS
ASSETS							
Current							
Cash and cash equivalents		$ 9,408		$ 9,408	$ 851		$ 851
Prepaids deposits and amounts receivable		168		168	277		277
Inventory		260		260	138		138
Due from related party		66		66	-		-
		9,902		9,902	1,266		1,266
Due from related party		32		32	-		-
Property and equipment		2,731		2,731	2,853		2,853
Patents		469		469	615		615
		$ 13,134		$ 13,134	$ 4,734		$ 4,734
LIABILITIES							
Current							
Accounts payable and accrued liabilities		$ 972		$ 972	$ 2,588		$ 2,588
SHAREHOLDERS' EQUITY							
Capital Stock		35,026		35,026	35,387		35,387
Warrants		1,799		1,799	1,614		1,614
Employee share purchase loan		(10)		(10)	-		-
Contributed Surplus	a	8,832	114	8,946	9,377	111	9,488
Deficit	a	(33,485)	(114)	(33,599)	(44,232)	(111)	(44,343)
		12,162		12,162	2,146		2,146
		$ 13,134		$ 13,134	$ 4,734		$ 4,734

Reconciliation of Net Loss
(Amounts are in thousands of dollars)

	Note	3 months ended December 31, 2010 Canadian GAAP	Reclassification for IFRS Presentation	IFRS	Year ended September 30, 2011 Canadian GAAP	Reclassification for IFRS Presentation	IFRS
Revenue							
Product sales		$ 9		$ 9	$ 27		$ 27
Consulting fees		9		9	9		9
		18		18	36		36
Expenses							
Salaries and wages		159		159	816		816
General and administrative		170		170	737		737
Professional and consulting fees		107		107	2,083		2,083
Sales and marketing		106		106	448		448
Stock-based compensation	a	115	55	170	475	(3)	472
Research and development costs		1,499		1,499	5,456		5,456
Amortization - patents and trademarks		28		28	122		122
Amortization - property and equipment		113		113	456		456
		2,297		**2,352**	**10,593**		**10,590**
Operating loss before interest		(2,279)		(2,334)	(10,557)		(10,554)
Interest Income		24		24	61		61
Write down of equipment		-		-	(251)		(251)
		24		24	(190)		(190)
Net loss		**(2,255)**		**(2,310)**	**(10,747)**		**(10,744)**
Loss per Share							
Basic and diluted loss per share		**$ (0.07)**		**$ (0.07)**	**$ (0.32)**		**$ (0.32)**
Weighted average number of common shares outstanding							
Weighted average number of shares		33,759		33,759	33,874		33,874

Reconciliation of Shareholders' Equity
(Amounts are in thousands of dollars)

	Note	as at October 1, 2010	as at December 31, 2010	as at September 30, 2011
Shareholders' Equity previously reported under Canadain GAAP		$ 12,162	$ 10,035	$ 2,146
Adjustment to Contributed Surplus	a	114	169	111
Adjustment to Defecit	a	(114)	(169)	(111)
Shareholdsers' Equity reported under IFRS		$ 12,162	$ 10,035	$ 2,146

Notes to reconciliation

(a) Share-based payments

As disclosed in notes 15 and 16, the Company's share-based awards vest in three equal installments over a period of 18 to 36 months. Under IFRS each installment of the award is accounted for as a separate share-based payment arrangement. In addition, under IFRS, forfeitures are estimated at the time of grant, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. Under previous Canadian GAAP, the Company accounted for stock-based awards as a single award. In addition, forfeitures were not considered at the time of grant but accounted for as they occurred, as permitted under Canadian GAAP.

The impact of these changes on the statement of financial position at October 1, 2010 is an increase to contributed surplus and deficit of $114,000.

The impact on the statement of operations for the three months ended December 31, 2010 and the year ended September 31, 2011 is to increase (decrease) stock based compensation by $55,000 and $(3,000), respectively.

The restatement from Canadian GAAP to IFRS had no significant effect on the reported cash flows generated by the Company. The reconciling items between Canadian GAAP and IFRS presentation have no net effect on the cash flows generated.

21. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.