



SQI Diagnostics Inc.

Consolidated Financial Statements

(Expressed in Canadian dollars)

For the Three Months Ended December 31, 2016 and 2015

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.
Consolidated Balance Sheets
(Amounts are in thousands of Canadian dollars)

	As at December 31, 2016	As at September 30, 2016
Assets		
Current		
Cash	\$ 2,043	\$ 2,921
Accounts receivable	410	700
Prepays and other assets	292	278
Inventory (Note 3)	442	345
	3,187	4,244
Property and equipment (Note 4)	1,046	1,143
Patents and trademarks (Note 5)	748	747
	\$ 4,981	\$ 6,134
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 1,043	\$ 769
Deferred revenue	-	55
	1,043	824
Long Term		
Secured debentures (Note 6)	2,349	2,302
	3,392	3,126
Shareholders' Equity		
Capital stock (Note 7)	54,380	54,380
Warrant capital (Note 8)	10,505	11,915
Contributed surplus	11,658	10,170
Deficit	(74,954)	(73,457)
	1,589	3,008
	\$ 4,981	\$ 6,134

Going concern (Note 2)
Contingencies (Note 14)

Approved by the Board

“Clive Beddoe”
Director (Signed)

“Andrew Morris”
Director (Signed)

See accompanying notes

SQI Diagnostics Inc.**Consolidated Statements of Loss and Comprehensive Loss**

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

	Three Months Ended	
	December 31, 2016	December 31, 2015
Revenue		
Services revenue	\$ 210	\$ 197
Product sales	205	-
	415	197
Expenses		
Cost of products sold	165	-
Corporate and general (Note 11)	356	418
Sales and marketing (Note 12)	311	155
Research and development (Note 13)	956	865
Interest and accretion expense (Note 6)	124	117
	1,912	1,555
Net loss and comprehensive loss	\$ (1,497)	\$ (1,358)
Loss per share		
Basic and diluted	\$ (0.02)	\$ (0.02)
Weighted average number of common shares outstanding (thousands of shares)		
Weighted average number of shares	80,905	63,115

SQI Diagnostics Inc.
Consolidated Statements of Changes in Equity
(Amounts are in thousands of Canadian dollars)

	Issued Capital Stock		Warrant Capital	Contributed Surplus	Deficit	Total Equity
	Number of Shares (thousands of shares)	Amount				
Balance as at September 30, 2015	61,716	\$ 49,490	\$ 9,295	\$ 11,442	\$ (68,418)	\$ 1,809
Issued in connection with private placements (Note 7b)	7,631	3,052				3,052
Allocated to warrants – private placement (Note 7b)		(1,183)	1,183			-
Share issuance costs – private placement (Note 7b)		(32)				(32)
Stock-based compensation (Note 10)				48		48
Net loss and comprehensive loss					(1,358)	(1,358)
Balance as at December 31, 2015	69,347	\$ 51,327	\$ 10,478	\$ 11,490	\$ (69,776)	\$ 3,519
Balance as at September 30, 2016	80,905	\$ 54,380	\$ 11,915	\$ 10,170	\$ (73,457)	\$ 3,008
Warrants expired (Note 8)			(1,410)	1,410		-
Stock-based compensation (Note 10)				78		78
Net loss and comprehensive loss					(1,497)	(1,497)
Balance as at December 31, 2016	80,905	\$ 54,380	\$ 10,505	\$ 11,658	\$ (74,954)	\$ 1,589

See accompanying notes

SQI Diagnostics Inc.**Consolidated Statements of Cash Flows**

(Amounts are in thousands of Canadian dollars)

	Three Months Ended	
	December 31, 2016	December 31, 2015
Cash flows used in operating activities		
Net loss	\$ (1,497)	\$ (1,358)
Add items not affecting cash		
Amortization - patents and trademarks	41	36
- property and equipment	102	93
Stock-based compensation	78	48
Accretion on debenture	47	37
	(1,229)	(1,144)
Changes in non-cash working capital items		
Accounts receivable, prepaids, and other assets	276	22
Inventory	(88)	(3)
Accounts payable and accrued liabilities	274	(4)
Deferred revenue	(55)	8
	(822)	(1,121)
Cash flows used in investing activities		
Purchase of property and equipment	(14)	(47)
Additions to patents and trademarks	(42)	(61)
	(56)	(108)
Cash flows from financing activities		
Proceeds from issuance of shares and exercise of warrants and options, net of share issuance costs	-	3,020
	-	3,020
Net change in cash during the period	(878)	1,791
Cash at beginning of period	2,921	1,852
Cash at end of period	\$ 2,043	\$ 3,643
Non-cash investing activities		
Equipment reclassified from fixed assets to inventory to be used in customer platforms	\$ 9	\$ -

SQI Diagnostics Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

December 31, 2016 and 2015

(Amounts are in Canadian dollars; tabular amounts in thousands)

1. NATURE OF OPERATIONS

SQI Diagnostics Inc., (the "Company"), is incorporated under the *Canada Business Corporations Act*, is listed on the TSX Venture Exchange under the symbol SQD and trades on the OTCQX under the symbol SQIDF. The Company's head office and development centre is located at 36 Meteor Drive Toronto, Ontario. The Company is a life sciences company that develops and commercializes proprietary technologies and products for advanced multiplexing diagnostics. The Company's goal is to become a leader in the development and commercialization of multiplexed blood tests to enable simultaneous measurement of important molecules like proteins, antibodies and inflammatory biomarkers.

2. BASIS OF PRESENTATION

Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). Our accounting policies have been applied consistently within our condensed interim consolidated financial statements using the same accounting policies and methods as were used for the Company's Consolidated Financial Statements and the notes thereto for the years ended September 30, 2016 and 2015. The financial statements should be read in conjunction with the Company's Audited Consolidated Financial Statements for the years ended September 30, 2016 and 2015.

Basis of Presentation and Going Concern

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

These condensed interim consolidated financial statements have been prepared on a going concern basis that presumes the realization of assets and the discharge of liabilities in the normal course of business.

Since inception, the Company has focused on product research, development and more recently on commercialization activities. To date, the Company has yet to earn continuing revenues from its Diagnostics Tools and Services business or its in vitro diagnostic tests. The Company has a history of net losses and negative cash flows from operations, which are expected to continue in the near term.

The Company's ability to continue as a going concern and execute on its research, development and commercialization activities is dependent upon the Company's ability to successfully generate product or service revenues, or to finance its cash requirements through further equity and/or debt financings.

Based on the foregoing, the Company will continue to pursue commercial sales, strategic partnering activities and funding opportunities, however, no assurances can be given that it will be successful in generating revenues, or raising additional investment capital to generate sufficient cash flows to continue as a going concern. As a result, these material uncertainties cast significant doubt regarding the Company's ability to continue as a going concern.

These condensed interim consolidated financial statements do not reflect the adjustments that might be necessary to the carrying amount of reported assets, liabilities, revenue, and expenses and the statement of financial position classification used if the Company was unable to continue operations in accordance with this assumption. Such adjustments could be material.

SQI Diagnostics Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

December 31, 2016 and 2015

(Amounts are in Canadian dollars; tabular amounts in thousands)

2. BASIS OF PRESENTATION (continued)

Basis of Presentation and Going Concern (continued)

The condensed interim consolidated financial statements are expressed in Canadian dollars which is the functional currency of the Company and its wholly owned subsidiary. All amounts are reported in thousands of dollars except for per share data.

These consolidated financial statements were authorized for issuance by the Board of Directors on February 20, 2017.

Basis of Consolidation

The condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, SQI Diagnostics Systems Inc.

Inter-company balances and transactions are eliminated upon consolidation.

3. INVENTORY

Inventory consists of finished goods and component parts that are to be used in the future production of SQI's diagnostics platforms and Ig_plex consumable assays.

SQI Diagnostics Inc.**Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)****December 31, 2016 and 2015**

(Amounts are in Canadian dollars; tabular amounts in thousands)

4. PROPERTY AND EQUIPMENT

Cost	Computer Hardware	Computer Software	Laboratory Fixtures and Equipment	Office Equipment	Leasehold Improvements	Total
September 30, 2015	\$ 306	\$ 194	\$ 4,745	\$ 176	\$ 265	\$ 5,686
Additions	39	18	38	-	-	95
Transfers to inventory	-	-	(12)	-	-	(12)
September 30, 2016	\$ 345	\$ 212	\$ 4,771	\$ 176	\$ 265	\$ 5,769
Additions	2	1	11	-	-	14
Transfers to inventory	-	-	(13)	-	-	(13)
December 31, 2016	\$ 347	\$ 213	\$ 4,769	\$ 176	\$ 265	\$ 5,770

Accumulated Amortization	Computer Hardware	Computer Software	Laboratory Fixtures and Equipment	Office Equipment	Leasehold Improvements	Total
September 30, 2015	\$ 280	\$ 183	\$ 3,391	\$ 160	\$ 232	\$ 4,246
Amortization expense	22	9	340	6	13	390
Transfers to inventory	-	-	(10)	-	-	(10)
September 30, 2016	\$ 302	\$ 192	\$ 3,721	\$ 166	\$ 245	\$ 4,626
Amortization expense	6	3	88	1	4	102
Transfers to inventory	-	-	(4)	-	-	(4)
December 31, 2016	\$ 308	\$ 195	\$ 3,805	\$ 167	\$ 249	\$ 4,724

Net Book Value

September 30, 2016	\$ 43	\$ 20	\$ 1,050	\$ 10	\$ 20	\$ 1,143
December 31, 2016	\$ 39	\$ 18	\$ 964	\$ 9	\$ 16	\$ 1,046

SQI Diagnostics Inc.**Notes to Condensed Interim Consolidated Financial Statements****(Unaudited)****December 31, 2016 and 2015**(Amounts are in Canadian dollars; tabular amounts in thousands)

5. PATENTS AND TRADEMARKS

Cost	
September 30, 2015	\$ 1,864
Additions	182
September 30, 2016	\$ 2,046
Additions	42
December 31, 2016	\$ 2,088
Accumulated Amortization	
September 30, 2015	\$ 1,153
Amortization expense	146
September 30, 2016	\$ 1,299
Amortization expense	41
December 31, 2016	\$ 1,340
Net Book Value	
September 30, 2016	\$ 747
December 31, 2016	\$ 748

SQI Diagnostics Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

December 31, 2016 and 2015

(Amounts are in Canadian dollars; tabular amounts in thousands)

6. SECURED DEBENTURES

On January 30, 2015 and February 20, 2015 the Company issued secured debentures (the "Debentures") with a principal amount of \$1,950,000 and \$1,286,000, respectively. The debentures bear interest at a rate of 10% and are redeemable 60 months from the date of issuance. Approximately 60% of the Debentures were subscribed to by individuals who subsequently became board members and are thus considered related parties. The Debentures are secured by a general security agreement over all the present and future assets of the Company including intangibles. The Company also issued an aggregate of 3,236,000 common share purchase warrants. Each warrant is exercisable at a price of \$0.60 and entitles the holder thereof to acquire one common share for 60 months from the date of issuance.

The Debentures may be redeemed in whole or in part, at face value and without premium or penalty, at the option of the Company if at any time following the first anniversary of the date of issuance of the debentures, and prior to the maturity date of such debentures, the volume weighted average closing price of the Company's shares on the TSXV (or any other stock exchange on which such shares are then traded) is equal to or greater than \$1.00 per share for twenty (20) consecutive trading days.

The Debentures were separated into their liability and equity components using the effective interest rate method. The fair value of the liability component at the time of issue was calculated as the discounted cash flows for the debentures assuming an 18.6% effective interest rate, which was the estimated rate for the debentures without the warrants. The fair value of the warrants was determined at the time of issue as the difference between the face value of the debentures and the fair value of the liability component.

In connection with financing, the Company paid a finder's fee of \$194,000 and issued 323,600 compensation warrants. Each compensation warrant is exercisable at a price of \$0.60 and entitles the holder thereof to acquire one common share for 60 months from the date of issuance. The fair value of the compensation warrants was estimated at \$120,000 using the Black-Scholes pricing model with the following assumptions: share price \$0.50; dividend yield 0%; risk free interest 0.53%; volatility 107%; and an expected life of 5 years. Expected volatility is based on historical volatility. Compensation warrants and related financings were not measured at the fair value of the services received as the fair value of such services was not reliably measurable. The total issuance costs including compensation warrants were \$345,000.

The carrying value of the Debentures are accreted to their face value of \$3,236,000 using the effective interest rate of 23.4%

	December 31, 2016	September 30, 2016
Secured debentures	\$ 3,236	\$ 3,236
Equity component of secured debenture	(858)	(858)
Issuance costs	(345)	(345)
	2,033	2,033
Accretion in carrying amount of notes	316	269
Balance end of period	\$ 2,349	\$ 2,302

SQI Diagnostics Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

December 31, 2016 and 2015

(Amounts are in Canadian dollars; tabular amounts in thousands)

7. CAPITAL STOCK

- (a) The Company has authorized an unlimited number of common shares.
- (b) On December 15, 2015 and December 21, 2015 the Company completed a non-brokered private placement of an aggregate of 7,630,945 units of the Company at \$0.40 per unit for gross proceeds of \$3,052,000. Each unit comprises one common share of the Company and one common share purchase warrant. Each warrant is exercisable at a price of \$0.52 and entitles the holder thereof to acquire one common share for a period of three years from the date of issuance. The proceeds from the issuance of units are allocated between capital stock and warrant capital based on their relative fair values, with \$1,183,000 being allocated to warrant capital. The fair value of the warrants was estimated using the Black-Scholes pricing model with the following assumptions: share price \$0.30; dividend yield 0%; risk free interest 0.54%; volatility 125%; and an expected life of 3 years. Expected volatility is based on historical volatility. The total share issuance costs were \$32,000.

8. WARRANT CAPITAL

The Company had the following warrants outstanding at December 31, 2016:

Number of Warrants	Exercise Price	Maturity
5,126	\$1.10	May 1, 2018
16,695	\$0.64	January 26, 2017 – April 10, 2019
3,560	\$0.59	January 30, 2020 and February 20, 2020
7,631	\$0.52	December 15 and 21, 2018
33,012		

On October 10, 2013, the Company extended the expiry of 2,276,000 warrants by 36 months to October 25, 2016. The warrants were issued in October 2011 in connection with a private placement. All other terms of the warrants remained unchanged. On October 25, 2016, these warrants, having reached the maximum term allowable under TSX Venture rules, expired unexercised. Accordingly, \$1,410,000 was transferred from warrant capital to contributed surplus in the current quarter.

Subsequent to quarter end, on January 13, 2017 the Company extended the expiry of 2,965,000 warrants that were issued in connection with a private placement in January 2014. The warrants were amended on January 14, 2016 to extend the term of such Warrants until January 26, 2017. The warrants were further amended, subsequent to the quarter end, to extend the term of such Warrants until January 26, 2019. All other provisions of the warrants remain the same.

SQI Diagnostics Inc.**Notes to Condensed Interim Consolidated Financial Statements****(Unaudited)****December 31, 2016 and 2015**

(Amounts are in Canadian dollars; tabular amounts in thousands)

9. STOCK OPTIONS

The Company maintains a Stock Option Plan (the "Plan") for the benefit of employees, officers and directors. 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 Months Ended			
	December 31, 2016		December 31, 2015	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning Balance	3,731	\$ 0.52	2,422	\$ 0.70
Granted	30	\$ 0.18	-	-
Cancelled/Expired	(25)	\$ 1.65	(342)	\$ 1.15
Forfeited	-	-	(145)	\$ 0.46
Ending Balance	3,736	\$ 0.51	1,935	\$ 0.79
Exercisable	2,023	\$ 0.68	1,381	\$ 0.91

The Company had the following stock options outstanding under the Plan at December 31, 2016:

Number of Options	Range of Exercise Prices	Weighted average time to maturity
3,071	\$0.18 - 0.69	3.63 years
365	\$0.70 - 1.65	1.09 years
300	\$1.66 - 1.90	0.07 years
3,736		

SQI Diagnostics Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

December 31, 2016 and 2015

(Amounts are in Canadian dollars; tabular amounts in thousands)

10. STOCK-BASED COMPENSATION

The fair value of the options granted during the three months ended December 31, 2016 was \$4,000 (three months ended December 31, 2015 - \$NIL), which will be recognized over vesting periods of 18 to 36 months. The total compensation expense credited to contributed surplus for the three months ended December 31, 2016 was \$78,000 (2015 - \$48,000).

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, 2016	December 31, 2015
Dividend Yield	0%	-
Expected Volatility (historical data basis)	120%	-
Risk-free Interest Rate	1.01%	-
Share price	\$ 0.18	-
Expected Life (years)	5.00	-
Weighted average grant date fair value	\$ 0.14	-

The Company estimates forfeiture rates based on historic experience with any change in estimate thereof reflected in the year they occur. The Company assumes a forfeiture rate of 10% to 30% based on the vesting period of the option.

11. CORPORATE AND GENERAL EXPENSE

	Three Months Ended	
	December 31, 2016	December 31, 2015
Salaries and wages	\$ 109	\$ 157
General and administrative	121	126
Professional and consulting	71	112
Stock-based compensation	55	23
Total corporate and general expense by nature	\$ 356	\$ 418

12. SALES AND MARKETING EXPENSE

	Three Months Ended	
	December 31, 2016	December 31, 2015
Contractor fees	\$ 246	\$ 99
Travel and marketing	63	54
Stock-based compensation	2	2
Total sales and marketing expense by nature	\$ 311	\$ 155

SQI Diagnostics Inc.**Notes to Condensed Interim Consolidated Financial Statements****(Unaudited)****December 31, 2016 and 2015**(Amounts are in Canadian dollars; tabular amounts in thousands)

13. RESEARCH AND DEVELOPMENT COSTS

	Three Months Ended	
	December 31, 2016	December 31, 2015
Salaries and wages	\$ 659	\$ 605
Laboratory costs and supplies	133	108
Amortization – patents and trademarks (Note 7)	41	36
Amortization – property and equipment (Note 6)	102	93
Stock-based compensation	21	23
Total research and development expense by nature	\$ 956	\$ 865

14. 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 provisions have been recorded in the accounts where required.

15. 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 and secured debentures. The Company is not subject to externally imposed capital requirements.

16. 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 accounts receivable are exposed to credit risk. The credit risk on cash is mitigated because the counterparties are Schedule 1 Canadian banks. The credit risk on accounts receivable is due to the concentration of accounts as a result of the few large customers that comprise the Company's international customer base. In fiscal 2016, four customers accounted for 100% (2015 – four customers account for 96%) of the revenue. The Company is also exposed to counterparty risk on accounts receivable. The maximum credit risk exposure is limited to the reported amounts of these financial assets. Credit risk on accounts receivable is managed by ongoing review of the amount and aging of accounts receivable balances.

Allowance for doubtful accounts and past due receivables are reviewed by Management at each balance sheet date. The Company updates its estimate of the allowance for doubtful accounts based on the evaluation of the recoverability of receivable balances from each customer taking into account historic collection trends of past due accounts. Receivables are written off once determined not to be collectible. There is no allowance for doubtful accounts recorded in 2016 or 2015.

(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 is exposed to interest rate risk on its fixed and variable interest rate financial instruments. Fixed-rate instruments subject the Company to a fair value risk while the variable-rate instruments subject it to a risk of changes in cash flow. The Company's cash is exposed to cash flow interest rate risk as the Company invests cash at floating rates of interest in highly liquid instruments. Fluctuations in interest rates would not significantly impact interest income due to the short term nature of the Company's investments. The Company's Debentures are subject to a fixed interest rate.

(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 not exposed to significant currency risk.

(d) Fair Value Risk

The carrying amount of accounts receivables, and accounts payable and accrued liabilities and secured debentures approximate their fair values.

SQI Diagnostics Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

December 31, 2016 and 2015

(Amounts are in Canadian dollars; tabular amounts in thousands)

16. FINANCIAL RISK MANAGEMENT (Continued)

(e) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. At December 31, 2016, the Company had a working capital surplus of \$2,144,000 (September 30, 2016 - working capital surplus of \$3,420,000). The Company's liabilities consist of accounts payables and accrued liabilities which are due within one year of the balance sheet date and secured debentures which require annual interest payments of \$324,000 on the anniversary date and the principal amount of \$3,236,000 is due five years from the date of issuance. The Company has sufficient liquidity to meet its current obligations as they come due. 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.