SQI Diagnostics Inc.

Condensed Interim Consolidated Financial Statements

(Unaudited)

(Expressed in Canadian dollars)

For the Three Months Ended December 31, 2017 and 2016

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)

		As at December 31, 2017		As at September 30, 2017
Assets				
Current				
Cash	**$**	**4,367**	$	1,466
Accounts receivable		**208**		132
Prepaids and other assets		**414**		330
Inventory (Note 3)		**276**		486
Leases receivable (Note 4)		**95**		
		5,360		2,414
Property and equipment (Note 5)		**891**		841
Patents and trademarks (Note 6)		**696**		721
Leases receivable (Note 4)		**154**		-
	$	**7,101**	$	3,976
Liabilities				
Current				
Accounts payable and accrued liabilities	**$**	**778**	$	495
		778		495
Long Term				
Secured debentures (Note 7)		**2,574**		2,517
		3,352		3,012
Shareholders' Equity				
Capital stock (Note 8)		**58,882**		56,369
Warrants (Note 9)		**14,276**		12,265
Contributed surplus		**11,765**		11,716
Deficit		**(81,174)**		(79,386)
		3,749		964
	$	**7,101**	$	3,976

Going concern (Note 2)
Contingencies (Note 15)

Approved by the Board	**"Clive Beddoe"**	**"Andrew Morris"**
	Director **(Signed)**	Director **(Signed)**

See accompanying notes

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

	Three Months Ended	
	December 31, 2017	December 31, 2016
Revenue		
Services revenue	**$ 91**	$ 210
Product sales	**285**	205
	376	415
Expenses		
Cost of products sold	**258**	165
Corporate and general (Note 12)	**425**	356
Sales and marketing (Note 13)	**277**	311
Research and development (Note 14)	**1,067**	956
Interest and accretion expense (Note 7)	**137**	124
	2,164	1,912
Net loss and comprehensive loss	**$ (1,788)**	$ (1,497)
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	**107,926**	80,905

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

	Issued Capital Stock					
	Number of Shares (thousands of shares)	**Amount**	**Warrants**	**Contributed Surplus**	**Deficit**	**Total Equity**
Balance as at September 30, 2016	80,905	$ 54,380	$ 11,915	$ 10,170	$ (73,457)	$ 3,008
Warrants expired (Note 9)			(1,410)	1,410		-
Stock-based compensation (Note 11)				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
Balance as at September 30, 2017	**103,875**	**$ 56,369**	**$ 12,265**	**$ 11,716**	**$ (79,386)**	**$ 964**
Issued in connection with private placement (Note 8b)	**31,061**	**4,659**				**4,659**
Allocated to warrants – private placement (Note 8b)		**(2,048)**	**2,048**			**-**
Share issuance costs (Note 8b)		**(98)**	**(37)**			**(135)**
Stock-based compensation (Note 11)				**49**		**49**
Net loss and comprehensive loss					**(1,788)**	**(1,788)**
Balance as at December 31, 2017	**134,936**	**$ 58,882**	**$ 14,276**	**$ 11,765**	**$ (81,174)**	**$ 3,749**

See accompanying notes

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

	Three Months Ended	
	December 31, 2017	December 31, 2016
Cash flows used in operating activities		
Net loss	**$ (1,788)**	$ (1,497)
Add items not affecting cash		
Amortization - patents and trademarks	**39**	41
- property and equipment	**66**	102
Stock-based compensation	**49**	78
Accretion on debenture	**57**	47
	$ (1,577)	(1,229)
Changes in non-cash working capital items		
Accounts receivable, prepaids, and other assets	**(160)**	276
Lease receivable	**(249)**	-
Inventory	**113**	(88)
Accounts payable and accrued liabilities	**283**	274
Deferred revenue	**-**	(55)
	(1,590)	(822)
Cash flows used in investing activities		
Purchase of property and equipment	**(19)**	(14)
Additions to patents and trademarks	**(14)**	(42)
	(33)	(56)
Cash flows from financing activities		
Proceeds from issuance of shares net of share issuance costs	**4,524**	-
	4,524	-
Net change in cash during the period	**2,901**	(878)
Cash at beginning of period	**1,466**	2,921
Cash at end of period	**$ 4,367**	$ 2,043
Non-cash investing activities		
Equipment transferred from inventory and segregated for use by the company	**97**	-

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 OTCQB 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, 2017 and 2016, except for lease accounting which is described in Note 4. The financial statements should be read in conjunction with the Company's Audited Consolidated Financial Statements for the years ended September 30, 2017 and 2016.

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. 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.

2. BASIS OF PRESENTATION (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 2, 2018.

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.

4. LEASES RECEIVABLE

The Company has entered into lease agreements acting as the lessor with certain customers relating to its diagnostics platforms. The lessee has an option to purchase the platform at a price that is expected to be significantly lower than the fair value at the date the option becomes exercisable, making it reasonably certain at the inception of the lease, that the option will be exercised. In addition, at the inception of the lease the present value of the minimum lease payments amount to substantially all of the fair value of the leased asset, and risks and rewards incidental to legal ownership are transferred, although title is not transferred until the option is exercised. These leases are recognized as finance type leases and recorded as leases receivable at an amount equal to the net investment in the lease. Leases receivable are initially recognized at the amount expected to be received, less a present value discount if collection is to be expected to occur beyond one year from the inception of the lease. Subsequently, leases receivable are measured at amortized cost using the effective interest method, at a rate of eight percent, less a provision for impairment.

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

5. PROPERTY AND EQUIPMENT

Cost	**Computer Hardware**	**Computer Software**	**Laboratory Fixtures and Equipment**	**Office Equipment**	**Leasehold Improvements**	**Total**
September 30, 2016	$ 345	$ 212	$ 4,771	$ 176	$ 265	$ 5,769
Additions	14	4	79	-	-	97
Dispositions	-	-	(239)	-	-	(239)
Transfers to inventory	-	-	(13)	-	-	(13)
September 30, 2017	$ 359	$ 216	$ 4,598	$ 176	$ 265	$ 5,614
Additions	**6**	**1**	**12**	**-**	**-**	**19**
Transfers from inventory	**-**	**-**	**97**	**-**	**-**	**97**
December 31, 2017	**$ 365**	**$ 217**	**$ 4,707**	**$ 176**	**$ 265**	**$ 5,730**

Accumulated Amortization	**Computer Hardware**	**Computer Software**	**Laboratory Fixtures and Equipment**	**Office Equipment**	**Leasehold Improvements**	**Total**
September 30, 2016	$ 302	$ 192	$ 3,721	$ 166	$ 245	$ 4,626
Amortization expense	25	12	287	5	11	340
Dispositions	-	-	(189)	-	-	(189)
Transfers to inventory	-	-	(4)	-	-	(4)
September 30, 2017	$ 327	$ 204	$ 3,815	$ 171	$ 256	$ 4,773
Amortization expense	**6**	**3**	**55**	**1**	**1**	**66**
December 31, 2017	**$ 333**	**$ 207**	**$ 3,870**	**$ 172**	**$ 257**	**$ 4,839**

Net Book Value						
September 30, 2017	$ 32	$ 12	$ 783	$ 5	$ 9	$ 841
December 31, 2017	**$ 32**	**$ 10**	**$ 837**	**$ 4**	**$ 8**	**$ 891**

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

6. PATENTS AND TRADEMARKS

Cost		
September 30, 2016	$	2,046
Additions		133
September 30, 2017	$	2,179
Additions		**14**
December 31, 2017	**$**	**2,193**
Accumulated Amortization		
September 30, 2016	$	1,299
Amortization expense		159
September 30, 2017	$	1,458
Amortization expense		**39**
December 31, 2017	**$**	**1,497**
Net Book Value		
September 30, 2017	$	721
December 31, 2017	**$**	**696**

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

7. 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, 2017	September 30, 2017
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	**541**	484
Balance end of period	**$ 2,574**	$ 2,517

8. CAPITAL STOCK

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

(b) On December 20, 2017, the Company completed a non-brokered private placement of an aggregate of 31,061,300 units of the Company at $0.15 per unit for gross proceeds of $4,659,000. Each unit comprises one common share of the Company and one common share purchase warrant. Each warrant is exercisable at a price of $0.20 and entitles the holder thereof to acquire one common share for a period of five years from the date of issuance, subject to accelerated expiry in certain circumstances. The proceeds from the issuance of units are allocated between capital stock and warrant capital based on their relative fair values, with $2,048,000 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 $0.14; dividend yield 0%; risk free interest 1.75%; volatility 117%; and an expected life of 5 years. Expected volatility is based on historical volatility.

In connection with the private placement, the Company paid a finder's fee of $75,000 and issued 463,260 compensation warrants exercisable for 36 months from the closing of the private placement. Each compensation warrant is exercisable into one common share at a price of $0.20. The fair value of the compensation warrants was estimated at $40,000 using the Black-Scholes pricing model with the following assumptions: share price $0.14; dividend yield 0%; risk free interest 1.75%; volatility 112%; and an expected life of 3 years. Expected volatility is based on historical volatility. Broker 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 share issuance costs were $175,000 and $77,000 was allocated to warrant capital.

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

9. WARRANTS

The Company had the following warrants outstanding at December 31, 2017:

Number of Warrants	Exercise Price	Maturity
5,126	$1.10	May 1, 2018
16,695	$0.64	July 16, 2018 – April 10, 2019
3,560	$0.59	January 30, 2020 and February 20, 2020
7,631	$0.52	December 15 and 21, 2018
22,970	$0.21	March 10, 2022
31,061	$0.20	December 20, 2022
463	$0.20	December 20, 2020
87,506		

On October 25, 2016, 2,276,000 warrants issued in October 2011 in connection with a private placement with an exercise price of $2.50 expired unexercised. Accordingly, $1,410,000 was transferred from warrant capital to contributed surplus in fiscal 2017.

Pursuant to the terms of the warrant agreement and as a result of the August 2016 rights offering the exercise price of 16,695,000 warrants were adjusted from $0.65 to $0.64. After the adjustment each whole warrant is exchangeable into 1.015625 common shares.

Pursuant to the terms of the warrant agreement and as a result of the August 2016 rights offering the exercise price of 3,560,000 warrants were adjusted from $0.60 to $0.59. After the adjustment each whole warrant is exchangeable into 1.015625 common shares.

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

10. 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 12 to 36 months.

The following summarizes the stock option activities under the Plan:

	Three Months Ended			
	December 31, 2017		December 31, 2016	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Beginning Balance	**4,545**	**$ 0.33**	3,731	$ 0.52
Granted	**357**	**$ 0.16**	30	$ 0.18
Cancelled/Expired	**(179)**	**$ 0.36**	(25)	$ 1.65
Forfeited	**(35)**	**$ 0.20**	-	-
Ending Balance	**4,688**	**$ 0.32**	3,736	$ 0.51
Exercisable	**2,723**	**$ 0.39**	2,023	$ 0.68

The Company had the following stock options outstanding under the Plan at December 31, 2017:

Number of Options	**Range of Exercise Prices**	**Weighted average time to maturity**
3,623	$ 0.16 - 0.39	3.66 years
700	$ 0.40 – 0.69	1.56 years
365	$ 0.70 – 0.75	0.09 years
4,688		

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

11. STOCK-BASED COMPENSATION

The fair value of the options granted during the three months ended December 31, 2017 was $46,000 (three months ended December 31, 2016 - $4,000), 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, 2017 was $49,000 (three months ended December 31, 2016 - $78,000).

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 inputs and assumptions at the measurement date:

	Three Months Ended	
	December 31, 2017	December 31, 2016
Dividend Yield	**0%**	0%
Expected Volatility (historical data basis)	**121%**	120%
Risk-free Interest Rate	**1.65%**	1.01%
Share price and exercise price	**$ 0.16**	$ 0.18
Expected Life (years)	**5.00**	5.00
Weighted average grant date fair value	**$ 0.13**	$ 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.

12. CORPORATE AND GENERAL EXPENSE

	Three Months Ended	
	December 31, 2017	December 31, 2016
Salaries and wages	**$ 111**	$ 109
General and administrative	**117**	121
Professional and consulting	**177**	71
Stock-based compensation	**20**	55
Total corporate and general expense by nature	**$ 425**	$ 356

13. SALES AND MARKETING EXPENSE

	Three Months Ended	
	December 31, 2017	December 31, 2016
Contractor fees	**$ 222**	$ 246
Travel and marketing	**53**	63
Stock-based compensation	**2**	2
Total sales and marking expense by nature	**$ 277**	$ 311

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

14. RESEARCH AND DEVELOPMENT COSTS

	Three Months Ended	
	December 31, 2017	December 31, 2016
Salaries and wages	**$ 603**	$ 659
Laboratory costs and supplies	**313**	133
Professional fees	**19**	-
Amortization – patents and trademarks (Note 7)	**39**	41
Amortization – property and equipment (Note 6)	**66**	102
Stock-based compensation	**27**	21
Total research and development expense by nature	**$ 1,067**	$ 956

15. 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.

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 and secured debentures. 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 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. 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.

(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.

(e) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. At December 31, 2017, the Company had a working capital surplus of $4,582,000 (September 30, 2017 - $1,919,000). 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.