

SQL Diagnostics Inc.

Interim Consolidated Financial Statements

For the Three and Six Month Periods Ending March 31, 2009

NOTICE TO READER

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

SQL Diagnostics Inc.

Interim Consolidated Balance Sheets

| | Note | March 31 2009 | September 30 2008 (audited) |
|--|------|------------------|-----------------------------------|
| ASSETS | | | |
| Current | | | |
| Cash and cash equivalents | | \$ 4,944,620 | \$ 3,091,486 |
| Amounts receivable | | 27,772 | 24,481 |
| Investment tax credits recoverable | | 1,075,407 | 1,075,407 |
| Inventory | 5 | 186,813 | 111,255 |
| Prepays and deposits | | 109,915 | 59,691 |
| | | \$ 6,344,527 | \$ 4,362,320 |
| | | | |
| Due from related party | 6 | 104,579 | 104,579 |
| Property and equipment | 7 | 2,313,965 | 2,400,906 |
| Patents | | 460,965 | 402,779 |
| | | 9,224,036 | 7,270,584 |
| LIABILITIES | | | |
| Current | | | |
| Accounts payable and accrued liabilities | | \$ 480,894 | \$ 382,420 |
| Loans payable | 8 | 734,644 | 735,482 |
| | | 1,215,538 | 1,117,902 |
| | | | |
| STOCKHOLDERS' EQUITY | | | |
| Capital Stock | 10 | 21,737,141 | 17,322,585 |
| Warrants | 11 | 460,776 | 274,086 |
| Employee share purchase loan | | (10,000) | (10,000) |
| Contributed Surplus | 12 | 8,262,289 | 8,067,709 |
| Deficit | | (22,441,708) | (19,501,698) |
| | | 8,008,498 | 6,152,682 |
| | | 9,224,036 | 7,270,584 |

Approved by the Board "Peter Winkley" Director "David Williams" Director
(Signed) (Signed)

See accompanying notes.

SQL Diagnostics Inc.

March 31, 2009 and 2008

Interim Consolidated Statements of Operations and Deficit

| | Note | Three Month Period Ended March 31, 2009 | Three Month Period Ended March 31, 2008 | Six Month Period Ended March 31, 2009 | Six Month Period Ended March 31, 2008 |
|---------------------------------------|------|---|---|---|---|
| Revenue | | | | | |
| Consulting Fees | 9 | \$ 6,975 | \$ 19,145 | \$ 17,075 | \$ 63,638 |
| Expenses | | | | | |
| Salaries and wages | | 144,748 | 115,729 | \$ 250,212 | 204,792 |
| General and administrative | 9 | 85,963 | 69,832 | \$ 205,481 | 121,919 |
| Professional and consulting fees | | 150,740 | 92,257 | \$ 357,607 | 156,549 |
| Stock-based compensation | 14 | 98,826 | 69,730 | \$ 197,652 | 105,192 |
| Research and development costs | | 849,736 | 85,142 | \$ 1,664,888 | 783,802 |
| Amortization - Patents | | 24,066 | 20,172 | \$ 46,614 | 39,546 |
| Amortization - Property & Equipment | | 103,373 | 98,986 | \$ 206,101 | 194,109 |
| | | 1,457,453 | 551,848 | 2,928,556 | 1,605,909 |
| Operating loss before interest | | (1,450,478) | (532,703) | (2,911,481) | (1,542,271) |
| Interest Income | | 7,856 | 21,554 | 17,453 | 33,245 |
| Interest Expense | | (29,938) | (10,125) | (45,983) | (26,170) |
| Net loss | | (1,472,559) | (521,274) | (2,940,010) | (1,535,196) |
| Deficit at beginning of period | | (20,969,150) | (16,730,041) | (19,501,698) | (15,716,119) |
| Deficit at end of period | | (22,441,708) | (17,251,315) | (22,441,708) | (17,251,315) |
| Weighted average number of shares | | 25,836,509 | 19,750,200 | 24,144,018 | 19,743,853 |
| Basic and diluted loss per share | | \$ (0.06) | \$ (0.03) | \$ (0.12) | \$ (0.08) |

SQL Diagnostics Inc.

March 31, 2009 and 2008 Interim Consolidated Statements of Cash Flows

| | Three Month Period Ended March 31, 2009 | Three Month Period Ended March 31, 2008 | Six Month Period Ended March 31, 2009 | Six Month Period Ended March 31, 2008 |
|--|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Loss for the period | \$ (1,472,559) | \$ (521,274) | \$ (2,940,010) | \$ (1,535,196) |
| Add items not affecting cash | | | | |
| Amortization - patents | 24,066 | 20,172 | 46,614 | 39,546 |
| -property and equipment | 103,373 | 98,986 | 206,101 | 194,109 |
| Stock-based compensation | 98,826 | 69,730 | 197,652 | 105,192 |
| | (1,246,294) | (332,386) | (2,489,643) | (1,196,349) |
| Changes in non-cash working capital items | | | | |
| Amounts Receivable | (5,213) | (699,975) | (3,291) | (696,435) |
| Inventory | (75,558) | (12,190) | (75,558) | (47,127) |
| Prepays and deposits | (14,952) | 24,223 | (50,224) | 49,041 |
| Accounts payable and accrued liabilities | 103,225 | (177,886) | 98,474 | 89,387 |
| | (1,238,793) | (1,198,214) | (2,520,243) | (1,801,483) |
| Cash flows used in investing activities | | | | |
| Purchase of property and equipment | (61,901) | (25,076) | (119,161) | (329,927) |
| Additions to patents | (67,333) | (32,196) | (104,800) | (45,689) |
| Short-term investments | - | 930,000 | - | 1,930,000 |
| | (129,235) | 872,728 | (223,960) | 1,554,384 |
| Cash flows from financing activities | | | | |
| Repayment of loans payable | (473) | 396 | (838) | (7,938) |
| Proceeds from private placement and exercise of warrants and options, net of share issuance costs | 1,591,076 | - | 4,598,174 | 5,250 |
| | 1,590,604 | 396 | 4,597,336 | (2,688) |
| Increase (Decrease) in cash during the period | 222,576 | (325,090) | 1,853,134 | (249,787) |
| Cash at beginning of period | 4,722,043 | 324,904 | 3,091,486 | 249,601 |
| Cash at end of period | 4,944,620 | (186) | 4,944,620 | (186) |
| Supplemental Disclosure | | | | |
| Cash paid for interest | \$ (29,938) | \$ (10,125) | \$ (45,983) | \$ (16,045) |

SQL Diagnostics Inc.

Notes to Consolidated Financial Statements
March 31, 2009 and 2008

1. NATURE OF OPERATIONS AND AMALGAMATION

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Consolidation

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

Cash and Cash Equivalents

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

Inventory

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

Property and Equipment

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

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

SQL Diagnostics Inc.

Notes to Consolidated Financial Statements
March 31, 2009 and 2008

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Patents

The costs relating to initial patent fees are deferred and amortized over 10 years on a straight-line basis. Patents are recorded net of accumulated amortization of \$526,017 (September 31, 2008 - \$479,403).

Research and Development Costs

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

At March 31, 2009, the Company was developing assays for APS, celiac and thyroid assays and completing validation studies to augment its SQiDworks and QuantiSpot Rheumatoid Arthritis assay regulatory application of the diagnostic system for the US market. Deferral criteria have not been met, and accordingly, all development costs have been expensed.

Impairment of Long-Lived Assets

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

Revenue Recognition

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

Stock-Based Compensation and Other Stock-Based Payments

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

SQL Diagnostics Inc.

Notes to Consolidated Financial Statements
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2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign Currency Translation

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

Income Taxes

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

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

(i) Financial Assets

Held-for-Trading

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

Held-to-Maturity

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

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2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Loans and receivables

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

Available-for-Sale

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

(ii) Financial Liabilities

Held-for-Trading

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

Other liabilities

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

The Company has classified its financial instruments as follows:

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

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Notes to Consolidated Financial Statements
March 31, 2009 and 2008

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Comprehensive Income

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

Loss Per Share

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

Use of Estimates

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

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

3. ADOPTION OF NEW ACCOUNTING POLICIES

Effective October 1, 2007, the Company adopted the recommendations of the CICA Handbook Section 1535, Capital Disclosures. Handbook Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by the new Handbook section in Note 16 to these consolidated financial statements.

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

SQL Diagnostics Inc.

Notes to Consolidated Financial Statements
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3. ADOPTION OF NEW ACCOUNTING POLICIES (Cont'd)

the nature of future accounting changes and the required additional disclosure on Recent Accounting Pronouncements is disclosed elsewhere in this Note.

Effective October 1, 2007, the Company adopted the recommendations of CICA Handbook Section 3862, Financial Instruments – Disclosure. Section 3862 provides standards for disclosures about financial instruments, including disclosures about fair value and the credit, liquidity and market risks associated with the financial instruments. Disclosure requirements pertaining to Section 3862 are contained in Note 17.

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

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

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

4. RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET APPLIED

The CICA plans to converge Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011, when IFRS will be fully adopted. The impact of the transition to IFRS on the Company's consolidated financial statements is currently being assessed by the Company.

5. INVENTORY

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

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Notes to Consolidated Financial Statements
March 31, 2009 and 2008

6. DUE FROM RELATED PARTY

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

7. PROPERTY AND EQUIPMENT

As at March 31, 2009:

| | Cost | Accumulated Amortization | Net |
|-----------------------------------|------------------|-------------------------------------|------------------|
| Computer hardware | \$ 138,042 | \$ 101,788 | \$ 36,254 |
| Computer software | 125,392 | 94,745 | 30,648 |
| Laboratory fixtures and equipment | 3,264,099 | 1,181,138 | 2,082,961 |
| Office equipment | 147,216 | 104,187 | 43,029 |
| Leasehold improvements | 240,373 | 119,299 | 121,074 |
| | 3,915,123 | 1,395,057 | 2,313,965 |

As at September 30, 2008:

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

8. LOANS PAYABLE

| | March 31 2009 | September 30, 2008 (audited) |
|---|--------------------------|------------------------------------|
| Term loan, bearing interest at prime plus 4% per annum, maturing with accrued interest on upon receipt of 2006 and 2007 SR&ED ITC refunds | \$ 730,000 | \$ 730,000 |
| Note payable to supplier, non-interest bearing, payable in monthly installments of \$5,600 | \$ 4,644 | \$ 5,117 |
| | \$ 734,644 | \$ 735,117 |

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Notes to Consolidated Financial Statements

March 31, 2009 and 2008

9. RELATED PARTY TRANSACTIONS

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

Included in general and administrative expense for the six month period ended March 31, 2009 is \$23,711 (six month period ended March 31, 2008 - \$19,917), related to recovery of occupancy costs, from a corporation in which an officer of the Company was also an officer. Consulting fee revenue of \$17,075 for the six month period ended March 31, 2009 (six month period ended March 31, 2008- \$31,140) was earned from this corporation. At quarter end, \$1,727 (September 31, 2008 - \$37,663) due from this corporation is included in amounts receivable.

10. CAPITAL STOCK

Authorized
unlimited common shares

Issued - common shares

| | Number | | Value |
|---|------------|----|------------|
| Balance, September 30, 2007 | 19,697,699 | \$ | 14,113,145 |
| Warrants exercised | 52,501 | | 5,250 |
| Issued in connection with private placement(i) | 2,439,500 | | 3,659,350 |
| Options exercised | 27,778 | | 39,390 |
| Share issuance cost (i) | | | (494,550) |
| Balance, September 30, 2008 | 22,217,478 | \$ | 17,322,585 |
| Issued in connection with private placement(ii) | 2,400,000 | | 3,000,000 |
| Share issuance cost | | | (137,391) |
| Options exercised | 133,336 | | 20,352 |
| Balance, December 31, 2008 | 24,750,814 | \$ | 20,205,546 |
| Warrants Exercised | 99,752 | | 59,851 |
| Issued in connection with private placement (iii) | 1,331,500 | | 1,664,375 |
| Share issuance cost | | | (192,631) |
| Balance, March 31, 2009 | 26,182,066 | \$ | 21,737,141 |

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

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Notes to Consolidated Financial Statements
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10. CAPITAL STOCK (Cont'd)

- (ii) Pursuant to a non-brokered private placement completed in two tranches. On December 23, 2008, the Company issued 2,400,000 shares at a price of \$1.25 per share and resulting in net proceeds of \$3,000,000 under the first tranche. The Company paid a finder's fee in relation to the private placement satisfied through the issuance of 236,800 warrants with an exercise price of \$1.90 and expiring on December 23, 2011. Total share issuance costs were \$137,391.
- (iii) Pursuant to a private placement the Company completed the second tranche of a non-brokered private placement. The second tranche, closed January 21, 2009, resulted in gross proceeds of \$1,664,375 through the issuance of 1,331,500 shares at \$1.25 per common share. The shares issued through the private placement are subject to a four month hold period. The Company paid a finder's fee in relation to the private placement satisfied through the issuance of 106,520 warrants with an exercise price of \$1.25 and expiring on December 23, 2011 and payment of \$133,150. The total share issuance costs were \$192,631.

11. WARRANT CAPITAL

The following summarizes the change in warrant capital:

| | March 31, 2009 | September 30, 2008 |
|---------------------------------|-------------------|-----------------------|
| Balance, beginning of period | \$ 274,086 | \$ 89,188 |
| Finders warrants (Note 10(ii)) | 127,209 | - |
| Finders warrants (Note 10(iii)) | 59,481 | |
| Broker Warrants | - | 184,898 |
| Balance, end of period | \$ 460,776 | \$ 274,086 |

SQL Diagnostics Inc.

Notes to Consolidated Financial Statements
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12. CONTRIBUTED SURPLUS

The following summarizes the change in contributed surplus:

| | March 31, 2009 | September 30, 2008 |
|------------------------------------|-------------------|-----------------------|
| Balance, beginning of period | \$ 8,067,709 | \$ 7,790,715 |
| Stock based compensation (Note 14) | 197,652 | 283,050 |
| Options exercised | (3,072) | (6,056) |
| Balance, end of period | \$ 8,262,289 | \$ 8,067,709 |

13. STOCK OPTIONS

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

The following summarizes the stock option activities under the Plan:

| | 6 Month Period Ended March 31, 2009 | | 6 Month Period Ended March 31, 2008 | |
|-------------------|--|--|--|---------------------------------------|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Beginning balance | 2,624,193 | \$ 0.90 | 1,814,200 | \$ 0.67 |
| Granted | 0 | \$ - | 807,500 | \$ 1.59 |
| Exercised | 133,336 | \$ 0.13 | 0 | |
| Cancelled/expired | 27,778 | \$ 1.20 | 58,335 | \$ 1.01 |
| Forfeited | 0 | \$ - | 0.00 | |
| Ending balance | 2,463,079 | \$ 1.24 | 2,563,365 | \$0.94 |
| Exercisable | 1,367,272 | \$ 0.93 | 1,427,573 | \$ 0.78 |

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

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Notes to Consolidated Financial Statements
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13. STOCK OPTIONS (Cont'd)

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

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

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

14. STOCK-BASED COMPENSATION

The compensation cost of the options granted during the six month period ended March 31, 2009 was \$NIL (six period ended March 31, 2008 was \$793,108). The total compensation expense for the six period ended March 31, 2009 was \$197,652 (six month period ended March 31, 2008 - \$66,590). The total amount credited to contributed surplus for the six month period ended March 31, 2009 was \$197,652 (period ended March 31, 2008 - \$105,192).

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:

| | March 31 2008 |
|---|------------------|
| Dividend yield | 0 % |
| Expected volatility | 80 % |
| Risk-free interest rate | 4.5 % |
| Expected life (years) | 5 |
| Weighted average grant date fair value | \$0.98 |

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

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Notes to Consolidated Financial Statements
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15. WARRANTS

The Company had the following warrants outstanding at March 31, 2009:

| Number of Warrants | Purchase Price | Expiry Date |
|--------------------|----------------|------------------|
| 83,335 | \$ 0.44 | 26 April 2009 |
| 20,834 | \$ 1.20 | 26 April 2009 |
| 344,004 | \$ 1.20 | 26 April 2009 |
| 285,404 | \$ 1.60 | 26 April 2009 |
| 1,783,776 | \$ 2.40 | 29 June 2009 |
| 977,115 | \$ 0.60 | 26 April 2010 |
| 194,200 | \$ 1.50 | 03 June 2010 |
| 236,800 | \$ 1.90 | 23 December 2011 |
| 106,520 | \$ 1.25 | 22 January 2011 |
| 4,031,988 | | |

Subsequent to the period end 83,335 warrants with an expiry of April 26, 2009 were exercised resulting in the issuance of 83,335 shares and net proceeds of \$36,667 and 100,000 warrants with an expiry of April 26, 2009 were exercised resulting in the issuance of 100,000 shares and net proceeds of \$120,000. The remaining 264,838 warrants with an expiry date of 26 April 2009 expired unexercised.

16. CAPITAL RISK MANAGEMENT

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

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

17. FINANCIAL RISK MANAGEMENT

a) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and cash equivalents are exposed to credit risk. The credit risk on cash and cash equivalents is small because the counterparties are highly rated Canadian banks. There is no credit risk related to the Amounts Receivable or the Investment Tax Credits Receivable as both are due from government agencies.

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17. FINANCIAL RISK MANAGEMENT (Cont'd)

b) Interest Rate Risk

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

c) Currency Risk

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

d) Liquidity Risk

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