



## **SQI Diagnostics Inc.**

**Condensed Interim Consolidated Financial Statements**

**(Unaudited)**

**(Expressed in Canadian dollars)**

**For the Three and Six Months Ended March 31, 2014 and 2013**

### **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 March 31, 2014	As at September 30, 2013
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents		\$ 880	\$ 1,415
Prepays, deposits and amounts receivable	5	237	253
Inventory	6	34	56
		<b>1,151</b>	<b>1,724</b>
<b>Property and equipment</b>	7	<b>2,051</b>	<b>2,307</b>
<b>Patents and trademarks</b>	8	<b>804</b>	<b>775</b>
		<b>\$ 4,006</b>	<b>\$ 4,806</b>
<b>Liabilities</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	9	\$ 626	\$ 454
<b>Shareholders' Equity</b>			
<b>Capital stock</b>	13	<b>45,871</b>	<b>45,558</b>
<b>Warrant capital</b>	14	<b>7,147</b>	<b>5,349</b>
<b>Contributed surplus</b>		<b>9,688</b>	<b>10,306</b>
<b>Deficit</b>		<b>(59,326)</b>	<b>(56,861)</b>
		<b>3,380</b>	<b>4,352</b>
		<b>\$ 4,006</b>	<b>\$ 4,806</b>

*Contingencies (Note 17)*  
*Subsequent Events (Note 20)*

Approved by the Board

\_\_\_\_\_  
**"Peter Winkley"**  
Director (Signed)

\_\_\_\_\_  
**"Andrew Morris"**  
Director (Signed)

**SQI Diagnostics Inc.****Condensed Interim Consolidated Statements of Operations****(Unaudited)**

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

		<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>Note</b>	<b>March 31, 2014</b>	<b>March 31, 2013</b>	<b>March 31, 2014</b>	<b>March 31, 2013</b>
<b>Revenue</b>					
Product and services revenue		<b>18</b>	-	<b>20</b>	3
		<b>18</b>	-	<b>20</b>	3
<b>Expenses</b>					
Corporate and general	10	<b>371</b>	484	<b>680</b>	941
Sales and marketing	11	<b>99</b>	105	<b>267</b>	215
Research and development costs	12	<b>514</b>	765	<b>1,542</b>	1,772
		<b>984</b>	1,354	<b>2,489</b>	2,928
<b>Operating loss</b>		<b>(966)</b>	(1,354)	<b>(2,469)</b>	(2,925)
Interest Income		<b>2</b>	3	<b>4</b>	11
<b>Net loss</b>		<b>\$ (964)</b>	<b>\$ (1,351)</b>	<b>\$ (2,465)</b>	<b>\$ (2,914)</b>
<b>Loss per share</b>					
Basic and diluted		<b>\$ (0.02)</b>	(0.03)	<b>\$ (0.05)</b>	(0.07)
<b>Weighted average number of common shares outstanding (thousands of shares)</b>					
Weighted average number of shares		<b>47,080</b>	39,826	<b>46,013</b>	39,826

**SQI Diagnostics Inc.****Condensed Interim Consolidated Statements of Changes in Equity****(Unaudited)**

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

	Note	Issued Capital Stock		Warrant Capital	Contributed Surplus	Deficit	Total Equity
		Number of Shares	Amount				
<b>Balance as at September 30, 2012</b>		39,826	\$ 43,503	\$ 3,692	\$ 9,971	\$ (50,654)	\$ 6,512
Revalue extended warrants	14			4	(4)		-
Stock-based compensation	16				271		271
Net loss						(2,914)	(2,914)
<b>Balance as at March 31, 2013</b>		39,826	\$ 43,503	\$ 3,696	\$ 10,238	\$ (53,568)	\$ 3,869
<b>Balance as at September 30, 2013</b>		44,952	\$ 45,558	\$ 5,349	\$ 10,306	\$ (56,861)	\$ 4,352
Issued in connection with private placements	13(b)	2,965	1,483				1,483
Allocated to warrants	13(b)		(971)	971			-
Share issuance costs	13(b)		(210)	95			(115)
Options exercised	15	19	11		(4)		7
Warrants expired	14			(54)	54		-
Revalue extended warrants	14			786	(786)		-
Stock-based compensation	16				118		118
Net loss						(2,465)	(2,465)
<b>Balance as at March 31, 2014</b>		47,936	\$ 45,871	\$ 7,147	\$ 9,688	\$ (59,326)	\$ 3,380

See accompanying notes

**SQI Diagnostics Inc.****Condensed Interim Consolidated Statements of Cash Flows****(Unaudited)**

(Amounts are in thousands of Canadian dollars)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>March 31, 2014</b>	<b>March 31, 2013</b>	<b>March 31, 2014</b>	<b>March 31, 2013</b>
<b>Cash flow used in operating activities</b>				
Loss for the period	\$ (964)	\$ (1,351)	\$ (2,465)	\$ (2,914)
Add items not affecting cash				
Amortization - patents and trademarks	30	25	59	49
- property and equipment	134	141	270	283
Stock-based compensation	66	146	118	271
	<b>(734)</b>	<b>(1,039)</b>	<b>(2,018)</b>	<b>(2,311)</b>
Changes in non-cash working capital items				
Prepays, deposits and amounts receivable	27	(97)	16	(94)
Investment tax credit recoverable	-	(300)	-	(99)
Inventory	13	1	22	1
Accounts payable and accrued liabilities	(98)	90	172	(509)
	<b>(792)</b>	<b>(1,345)</b>	<b>(1,808)</b>	<b>(3,012)</b>
<b>Cash flows used in investing activities</b>				
Purchase of property and equipment	(1)	(40)	(14)	(136)
Additions to patents and trademarks	(16)	(59)	(88)	(97)
	<b>(17)</b>	<b>(99)</b>	<b>(102)</b>	<b>(233)</b>
<b>Cash flows from financing activities</b>				
Proceeds from private placement and exercise of warrants and options, net of share issuance costs	1,368	-	1,375	-
	<b>1,368</b>	<b>-</b>	<b>1,375</b>	<b>-</b>
Net change in cash and cash equivalents during the period	559	(1,444)	(535)	(3,245)
Cash and cash equivalents at beginning of period	321	2,017	1,415	3,818
Cash and cash equivalents at end of period	\$ 880	\$ 573	\$ 880	\$ 573
<b>Cash and cash equivalents comprise:</b>				
Cash on deposit	880	573	880	573
	<b>\$ 880</b>	<b>\$ 573</b>	<b>\$ 880</b>	<b>\$ 573</b>

**SQI Diagnostics Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Unaudited)**  
**March 31, 2014 and 2013**  
(Amounts are in Canadian dollars; tabular amounts in thousands)

---

**1. NATURE OF OPERATIONS**

SQI Diagnostics Inc., (the "Company"), is incorporated in Canada and is listed on the TSX Venture Exchange under the symbol SQD. 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 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. We do this by offering customers comprehensive "turnkey" solutions that allow them to replace current multiple tests that are very labour intensive with our multiplex tests and automated diagnostic platforms.

The Company has obtained Health Canada licenses and self authorization to sell in the EU and United States Food & Drug Administration ("FDA") clearance of its sqidworks™ and IgX PLEX Rheumatoid Arthritis (RA) system. In addition, the Company has obtained a Health Canada license and self authorization to sell in the EU for its second generation fully quantitative IgX PLEX Celiac™ microarray test kits that run on the Company's automated sqidworks™ platform and FDA clearance for its first generation IgX PLEX Celiac™ qualitative assay. The Company obtained a Health Canada license permitting it to market it Ig\_plex Celiac DGP panel.

**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 and 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, 2013 and 2012.

The significant accounting policies are discussed below.

**Basis of Presentation and Going Concern**

The condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") accounting principles applicable to a going concern using the historical cost basis, except for certain financial instruments that are measured at fair value, as explained in the accounting policies below.

Since inception, the Company has focused on product research, development and more recently on commercialization activities. To date, the Company has earned limited revenues from its Diagnostics Tools and Services business or its IgX PLEX RA™ and IgX PLEX Celiac™ test kits run on installed platforms. The Company has a history of net losses and negative cash flows from operations, which are expected to continue in at least the near term.

**SQI Diagnostics Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Unaudited)**  
**March 31, 2014 and 2013**  
(Amounts are in Canadian dollars; tabular amounts in thousands)

---

**2. BASIS OF PRESENTATION (continued)**

**Basis of Presentation and Going Concern (continued)**

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. The Company has a pipeline of custom Ig<sub>1</sub>plex™ and autoimmune diagnostic products in various stages of development and commercialization. The Company expects to generate revenues from its pipeline of Diagnostic Tools and Services customers and the proof-of concept assays currently in development as well as its IgX PLEX RA™ and IgX PLEX Celiac™ products as it grows its installed base of customers. The Diagnostic Tools and Services business is intended to enable new segments of customers to expand the use of the Company's sqidworks and sqidlite platforms by converting their single-plex immunoassay and other protein-based tests to the Company's multiplexed microarrays.

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, significant risk remains 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.

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 condensed interim consolidated financial statements were authorized for issuance by the Board of Directors on May 9, 2014.

**Basis of Consolidation**

The condensed interim 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 its accounting policies into line with those used by the Company.

Inter-company balances and transactions are eliminated upon consolidation.

**SQI Diagnostics Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Unaudited)**  
**March 31, 2014 and 2013**  
(Amounts are in Canadian dollars; tabular amounts in thousands)

---

**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 comprises 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 comprise 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 ten 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.



### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

At March 31, 2014, the Company was developing three customer-targeted proof-of-concept multiplexed immunogenicity assays, a multiplexed assay targeted at immunogenicity testing of heparin and heparin-based low molecular weight biosimilar compounds (HIT Assay), Ig\_plex diagnostic assays for celiac, vasculitis and an 8-plex cytokine assay. While not in active development, other assays in the development pipeline include lupus (SLE), Crohn's (IBD), antiphospholipid syndrome, a second generation, fully quantitative Ig\_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.

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 stock-based payment 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, stock-based compensation expense recognized reflects estimates of award forfeitures with any change in estimate there of reflected in the period of the change. Consideration received upon the exercise of stock options is credited to capital stock at which time the related contributed surplus is transferred to capital stock.

In situations where non-employee stock-based compensation is issued and some or all of the goods or services received by the entity as consideration cannot be measured reliably, they are measured at the fair value of the stock-based payment.

**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 condensed interim consolidated financial statements, the results and financial position are expressed in Canadian dollars which is the functional currency of the Company and its subsidiary and the presentation currency for the condensed interim 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 for unused tax losses, investment tax credits (ITCs) and deductible temporary differences 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.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investment Tax Credits**

ITCs 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 statement 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 property and equipment.

**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 of 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 the 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.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial Instruments (continued)**

(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 and that are not quoted in an active market are classified as loans receivable.

Loans and receivables are initially measured at the fair value of the amount expected to be received and subsequently carried at amortized cost, using the effective 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 amounts receivable are classified in this category.

(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 rate 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 measured 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.

**SQI Diagnostics Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Unaudited)**  
**March 31, 2014 and 2013**  
(Amounts are in Canadian dollars; tabular amounts in thousands)

---

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial Instruments (continued)**

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.

The Company's cash and cash equivalents are categorized as level 1.

**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 (Loss)**

The Company has not presented a statement of comprehensive income (loss) as it has no items of other comprehensive income (loss).

**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 Company. The outstanding share options and warrants are not included in the diluted net loss per share as they are anti-dilutive for all periods presented.

**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 than the unavoidable costs of meeting its obligations under the contract.

**SQI Diagnostics Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Unaudited)**  
**March 31, 2014 and 2013**  
(Amounts are in Canadian dollars; tabular amounts in thousands)

---

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 and impairment of same, valuation of ITCs recoverable, valuation of stock options and warrants and recognition of 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. The effective date for IFRS 9, which is to be applied retrospectively, has not yet been determined. The Company is assessing the impact of this new standard on its consolidated financial statements.

**5. PREPAIDS, DEPOSITS AND AMOUNTS RECEIVABLE**

	<b>March 31, 2014</b>	September 30, 2013
Accounts receivable	\$ -	\$ -
Prepays and deposits	218	215
Sales tax recoverable	19	38
	<b>\$ 237</b>	<b>\$ 253</b>

**6. INVENTORY**

Inventory consists of component parts that are to be used in the future production of sqidworks™ Platform and Ig\_plex consumable assays.

**SQI Diagnostics Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Unaudited)**  
**March 31, 2014 and 2013**  
(Amounts are in Canadian dollars; tabular amounts in thousands)

**7. PROPERTY AND EQUIPMENT**

<b>Cost</b>	<b>Computer Hardware</b>	<b>Computer Software</b>	<b>Laboratory Fixtures and Equipment</b>	<b>Office Equipment</b>	<b>Leasehold Improvements</b>	<b>Total</b>
September 30, 2012	\$ 270	\$ 179	\$ 4,642	\$ 176	\$ 265	\$ 5,532
Additions	1	-	235	-	-	236
September 30, 2013	\$ 271	\$ 179	\$ 4,877	\$ 176	\$ 265	\$ 5,768
<b>Additions</b>	<b>2</b>	<b>-</b>	<b>12</b>	<b>-</b>	<b>-</b>	<b>14</b>
<b>March 31, 2014</b>	<b>\$ 273</b>	<b>\$ 179</b>	<b>\$ 4,889</b>	<b>\$ 176</b>	<b>\$ 265</b>	<b>\$ 5,782</b>

<b>Accumulated Amortization</b>	<b>Computer Hardware</b>	<b>Computer Software</b>	<b>Laboratory Fixtures and Equipment</b>	<b>Office Equipment</b>	<b>Leasehold Improvements</b>	<b>Total</b>
September 30, 2012	\$ 230	\$ 165	\$ 2,167	\$ 143	\$ 190	\$ 2,895
Amortization expense	36	13	498	5	14	566
September 30, 2013	\$ 266	\$ 178	\$ 2,665	\$ 148	\$ 204	\$ 3,461
<b>Amortization expense</b>	<b>3</b>	<b>1</b>	<b>256</b>	<b>3</b>	<b>7</b>	<b>270</b>
<b>March 31, 2014</b>	<b>\$ 269</b>	<b>\$ 179</b>	<b>\$ 2,921</b>	<b>\$ 151</b>	<b>\$ 211</b>	<b>\$ 3,731</b>

<b>Net Book Value</b>						
September 30, 2013	\$ 5	\$ -	\$ 2,212	\$ 28	\$ 61	\$ 2,307
<b>March 31, 2014</b>	<b>\$ 4</b>	<b>\$ -</b>	<b>\$ 1,968</b>	<b>\$ 25</b>	<b>\$ 54</b>	<b>\$ 2,051</b>

**SQI Diagnostics Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Unaudited)**  
**March 31, 2014 and 2013**  
(Amounts are in Canadian dollars; tabular amounts in thousands)

---

**8. PATENTS AND TRADEMARKS**

<b>Cost</b>	
September 30, 2012	\$ 1,525
Additions	193
September 30, 2013	\$ 1,718
<b>Additions</b>	<b>88</b>
<b>March 31, 2014</b>	<b>\$ 1,806</b>

<b>Accumulated Amortization</b>	
September 30, 2012	\$ 840
Amortization expense	103
September 30, 2013	\$ 943
Amortization expense	<b>59</b>
<b>March 31, 2013</b>	<b>\$ 1,002</b>

<b>Net Book Value</b>	
September 30, 2013	\$ 775
<b>March 31, 2014</b>	<b>\$ 804</b>

**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>March 31, 2014</b>	September 30, 2013
Trade payables	\$ 448	\$ 253
Accrued liabilities	172	194
Payroll taxes	6	7
	<b>\$ 626</b>	<b>\$ 454</b>



**SQI Diagnostics Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Unaudited)**  
**March 31, 2014 and 2013**  
(Amounts are in Canadian dollars; tabular amounts in thousands)

**10. CORPORATE AND GENERAL EXPENSE**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>March 31, 2014</b>	<b>March 31, 2013</b>	<b>March 31, 2014</b>	<b>March 31, 2013</b>
Salaries and wages	\$ 106	\$ 179	\$ 247	\$ 360
General and administrative	131	151	233	294
Professional and consulting	108	61	163	127
Stock based compensation	26	93	37	160
Corporate and general expense by nature	\$ 371	\$ 484	\$ 680	\$ 941

**11. SALES AND MARKETING EXPENSE**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>March 31, 2014</b>	<b>March 31, 2013</b>	<b>March 31, 2014</b>	<b>March 31, 2013</b>
Contractor fees	\$ 56	\$ 66	\$ 150	\$ 150
Travel and marketing	15	36	71	61
Stock based compensation	28	3	46	4
Sales and marketing expense by nature	\$ 99	\$ 105	\$ 267	\$ 215

**12. RESEARCH AND DEVELOPMENT EXPENSE**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>March 31, 2014</b>	<b>March 31, 2013</b>	<b>March 31, 2014</b>	<b>March 31, 2013</b>
Salaries and wages	\$ 539	\$ 658	\$ 1,213	\$ 1,294
Laboratory costs and supplies	83	187	225	335
Professional fees	16	4	40	4
Investment tax credit	(300)	(300)	(300)	(300)
Amortization – patents and trademarks	30	25	59	49
Amortization – property and equipment	134	141	270	283
Stock based compensation	12	50	35	107
Research and development expense by nature	\$ 514	\$ 765	\$ 1,542	\$ 1,772

**SQI Diagnostics Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Unaudited)**  
**March 31, 2014 and 2013**  
(Amounts are in Canadian dollars; tabular amounts in thousands)

---

**13. CAPITAL STOCK**

- (a) The Company has authorized an unlimited number of common shares.
- (b) On January 27, 2014, the Company completed a non-brokered private placement of 2,965,000 units of the Company at \$0.50 per unit for gross proceeds of \$1,483,000.

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 \$0.65 for a period of two 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 \$971,000 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 \$0.52; dividend yield 0%; risk free interest 1.25%; volatility 133%; and an expected life of 2 years. Expected volatility is based on historical volatility.

In connection with the private placement, the Company paid a finder's fee of \$104,000 and issued 296,500 compensation warrants exercisable for 24 months from the closing of the private placement. Each compensation warrant is exercisable into one common share and one warrant at a price of \$0.50. Each underlying warrant included in the compensation warrant is exercisable into one common share at a price of \$0.65 for a two year period from the date of the private placement. The fair value of the compensation warrants was estimated at \$95,000 using the Black-Scholes pricing model with the following assumptions: share price \$0.52; dividend yield 0%; risk free interest 1.25%; volatility 133%; and an expected life of 2 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 \$210,000.

**SQI Diagnostics Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Unaudited)**  
**March 31, 2014 and 2013**  
(Amounts are in Canadian dollars; tabular amounts in thousands)

---

**14. WARRANT CAPITAL**

The Company had the following warrants outstanding at March 31, 2014:

<b>Number of Warrants</b>	<b>Purchase Price</b>	<b>Weighted average time to maturity</b>
1,140	\$5.00	1.37 years
1,199	\$4.00	0.68 years
5,784	\$2.50	0.70 years
210	\$1.75	0.14 years
5,126	\$1.10	1.08 years
513	\$0.75	1.08 years
2,965	\$0.65	1.82 years
297	\$0.50	1.82 years
<b>17,234</b>		

On December 4, 2011 the Company extended the expiry of 1,199,052 warrants by 12 months to December 4, 2012. The warrants were issued in December 2009 in connection with a private placement. Each warrant entitles the holder to acquire one common share at a price of \$4.00 per share. The fair value of the extension was estimated using the Black-Scholes pricing model with the following assumptions: share price \$1.80; dividend yield 0%; risk free interest 0.91%; volatility 61%; and an expected life of 1 years. Expected volatility is based on historical volatility. As a result of the extension \$87,000 was recorded in warrant capital with a corresponding reduction in contributed surplus. On December 4, 2012 the Company received approval to extend the expiry of these warrants for an additional 12 months to December 4, 2013. All other terms of the warrants remained unchanged. The fair value of the extension was estimated using the Black-Scholes pricing model with the following assumptions: share price \$0.34; dividend yield 0%; risk free interest 1.07%; volatility 103%; and an expected life of 1 year. Expected volatility is based on historical volatility. As a result of the extension \$4,000 was recorded in warrant capital with a corresponding reduction in contributed surplus. On December 4, 2013, the Company received approval to extend the expiry of these warrants for an additional 12 months to December 4, 2014. All other terms of the warrants remained unchanged. The fair value of the extension was estimated using the Black-Scholes pricing model with the following assumptions: share price \$0.70; dividend yield 0%; risk free interest 1.1%; volatility 154%; and an expected life of 1 year. Expected volatility is based on historical volatility. As a result of the extension \$170,000 was recorded in warrant capital with a corresponding reduction in contributed surplus.

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. The fair value of the extension was estimated using the Black-Scholes pricing model with the following assumptions: share price \$0.76; dividend yield 0%; risk free interest 1.2%; volatility 96%; and an expected life of 3 year. Expected volatility is based on historical volatility. As a result of the extension \$616,000 was recorded in warrant capital with a corresponding reduction in contributed surplus. In addition, 86,040 warrants with an expiry of October 26, 2013 expired unexercised and \$54,000 was transferred to contributed surplus upon expiry.

**SQI Diagnostics Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Unaudited)**  
**March 31, 2014 and 2013**  
(Amounts are in Canadian dollars; tabular amounts in thousands)

**15. 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:

	<b>Three Months Ended</b>			
	<b>March 31, 2014</b>		March 31, 2013	
	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	Number of Options	Weighted Average Exercise Price
Beginning Balance	2,308	\$ 1.25	1,775	\$ 1.93
Granted	200	\$ 0.57	1,070	\$ 0.42
Exercised (i)	(19)	\$ 0.35		
Cancelled/Expired	(89)	\$ 1.69	(535)	\$ 1.60
Forfeited	(63)	\$ 1.20	(105)	\$ 1.80
Ending Balance	2,337	\$ 1.16	2,205	\$ 1.28
Exercisable	1,806	\$ 1.38	1,055	\$ 1.88

- (i) On the exercise of stock options, \$4,000 was transferred from contributed surplus to capital stock for the six months ended March 31 2014. The average market price on the date of exercise for these options was \$0.70. No options were exercised during the six months ended March 31, 2013.

The Company had the following stock options outstanding under the Plan at March 31, 2014:

<b>Number of Options</b>	<b>Range of Exercise Prices</b>	<b>Weighted average time to maturity</b>
1,473	\$0.35 - 1.31	3.74 years
537	\$1.32 - 2.28	2.67 years
327	\$2.29 - 3.26	1.40years
2,337		

**SQI Diagnostics Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Unaudited)**  
**March 31, 2014 and 2013**  
(Amounts are in Canadian dollars; tabular amounts in thousands)

---

**16. STOCK-BASED COMPENSATION**

The fair value of the options granted during the six months ended March 31, 2014 was \$83,000 (six months ended March 31, 2013 - \$285,000), which will be recognized over the vesting periods of 12 - 36 months. The stock-based compensation expense for the six months ended March 31, 2014 was \$118,000 (six months ended March 31, 2013 - \$271,000). The total amount credited to contributed surplus for the six months ended March 31, 2014 was \$118,000 (six months ended March 31, 2013 - \$271,000).

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:

	<b>Three Month Period Ended</b>	
	<b>March 31, 2014</b>	March 31, 2013
Dividend Yield	<b>0%</b>	0%
Expected Volatility (historical data basis)	<b>97%</b>	82%
Risk-free Interest Rate	<b>1.1%</b>	1.1%
Share price	<b>\$ 0.57</b>	\$ 0.35
Expected Life (years)	<b>5.00</b>	5.00
Weighted average grant date fair value	<b>\$ 0.42</b>	\$ 0.23

The Company estimates forfeiture rates 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 the 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. The Company's objective is to minimize credit risk by investing in highly liquid instruments with highly rated counterparties.

**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 due to the short term nature of the Company's investments.

**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 \$1,000 in the reported profit and loss.

**d) Fair Value Risk**

The carrying amount of cash and cash equivalents, amounts receivables, and accounts payable and accrued liabilities, approximate their fair values due to the short-term maturities of these instruments.

**e) Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. At March 31, 2014 the Company had a working capital surplus of \$525,000 and at September 30, 2013 the Company had a working capital surplus of \$1,270,000. The Company's liabilities consist of accounts payables and accrued liabilities which are due within one year of the balance sheet date. 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.

**SQI Diagnostics Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Unaudited)**  
**March 31, 2014 and 2013**  
(Amounts are in Canadian dollars; tabular amounts in thousands)

---

**20. SUBSEQUENT EVENTS**

**Financing**

On April 10, 2014 the Company completed public offering of 8,400,000 units of the Company at a price of \$0.50 per unit for gross proceeds of \$4,200,000.

Each unit comprises one common share of the Company and one Common Share purchase warrant. Each warrant is exercisable at a price of \$0.65 and entitles the holder thereof to acquire one Common Share until April 10, 2016.

The Units were issued pursuant to an agency agreement the Company entered into with Euro Pacific Canada Inc. (the "Agent"). H.C. Wainwright & Co., LLC and Kingsdale Capital Markets Inc. formed part of the selling group, and H.C. Wainwright & Co., LLC acted as lead U.S. placement agent. The Company paid the Agent a fee equal to 7% of the gross proceeds raised (\$0.035 per unit) and issued 588,000 compensation warrants exercisable until April 10, 2016. Each warrant is exercisable into one common share and one warrant at a price of \$0.50. Each underlying warrant is exercisable into one common share at a price of \$0.65 until April 10, 2016.

**Warrant Extension**

On May 8, 2014 the Company received approval from the TSX Venture exchange to extend the expiry of 3,508,171 warrants with an exercise price of \$2.50 issued in connection with a private placement which was completed on June 20, 2014. The warrants which have expiry dates ranging from May 10, 2014 to June 19, 2014 have been extended for one year. All other provisions of the warrants remain unchanged.