SQI Diagnostics Inc.

Condensed Interim Consolidated Financial Statements

(Unaudited)

(Expressed in Canadian dollars)

For the Three and Six Months Ended March 31, 2016 and 2015

Notice to Reader

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

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

	As at March 31, 2016	As at September 30, 2015
Assets		
Current		
Cash	**$ 2,056**	$ 1,852
Accounts receivable	**215**	151
Prepaids and other assets	**396**	333
Investment tax credit recoverable	**360**	-
Inventory (Note 3)	**385**	219
	3,412	2,555
Property and equipment (Note 4)	**1,314**	1,440
Patents and trademarks (Note 5)	**737**	711
	$ 5,463	$ 4,706
Liabilities		
Current		
Accounts payable and accrued liabilities	**$ 680**	$ 768
Deferred revenue (Note 6)	**56**	-
	736	768
Long Term		
Secured debentures (Note 7)	**2,209**	2,129
	2,945	2,897
Shareholders' Equity		
Capital stock (Note 8)	**51,327**	49,490
Warrant capital (Note 9)	**12,106**	9,295
Contributed surplus	**9,848**	11,442
Deficit	**(70,763)**	(68,418)
	2,518	1,809
	$ 5,463	$ 4,706

Contingencies (Note 15)

Approved by the Board **"Clive Beddoe"** Director **(Signed)** **"Andrew Morris"** 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		Six Months Ended	
	March 31, 2016	March 31, 2015	**March 31, 2016**	March 31, 2015
Revenue				
Services revenue	**$ 239**	$ 70	**$ 436**	$ 85
Product sales	**41**	-	**41**	-
	280	70	**477**	85
Cost of products sold	**9**	-	**9**	-
Gross profit	**271**	-	**468**	-
Expenses				
Corporate and general (Note 12)	**342**	476	**760**	854
Sales and marketing (Note 13)	**176**	201	**331**	374
Research and development (Note 14)	**621**	944	**1,486**	1,776
Interest and accretion expense (Note 7)	**123**	64	**243**	64
	1,262	1,685	**2,820**	3,068
Operating loss	**(991)**	(1,615)	**(2,352)**	(2,983)
Interest income	**4**	2	**7**	5
Net loss and comprehensive loss	**(987)**	$ (1,613)	**(2,345)**	$ (2,978)
Loss per share				
Basic and diluted	**(0.01)**	$ (0.03)	**(0.04)**	$ (0.05)
Weighted average number of common shares outstanding (thousands of shares)	**69,347**	56,336	**66,214**	56,336
Weighted average number of shares				

See accompanying notes

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 $**	**Warrant Capital $**	**Contributed Surplus $**	**Deficit $**	**Total Equity $**
Balance as at September 30, 2014	56,336	47,942	8,805	9,732	(62,321)	4,158
Warrants expired (Note 9)			(1,107)	1,107		-
Warrants issued (Note 7)			978			978
Stock-based compensation (Note 11)				70		70
Net loss					(2,978)	(2, 978)
Balance as at March 31, 2015	56,336	47,942	8,676	10,909	(65,299)	2,228
Balance as at September 30, 2015	**61,716**	**49,490**	**9,295**	**11,442**	**(68,418)**	**1,809**
Issued in connection with private placements (Note 8b)	**7,631**	**3,052**				**3,052**
Allocated to warrants – private placement (Note 8b)		**(1,183)**	**1,183**			**-**
Share issuance costs (Note 8b)		**(32)**				**(32)**
Revaluation of extended warrants			**1,723**	**(1,723)**		**-**
Warrants expired			**(95)**	**95**		**-**
Stock-based compensation (Note 11)				**34**		**34**
Net loss and comprehensive loss					**(2,345)**	**(2,345)**
Balance as at March 31, 2016	**69,347**	**51,327**	**12,106**	**9,848**	**(70,763)**	**2,518**

See accompanying notes

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

	Three Months Ended		Six Months Ended	
	March 31, 2016	March 31, 2015	**March 31, 2016**	March 31, 2015
Cash flows used in operating activities				
Net loss	**$ (987)**	$ (1,613)	**$ (2,345)**	$ (2,978)
Add items not affecting cash				
Amortization - patents and trademarks	**37**	33	**73**	65
- property and equipment	**98**	109	**191**	221
Stock-based compensation	**(14)**	34	**34**	70
Accretion on debenture	**43**	21	**80**	21
	(823)	(1,416)	**(1,967)**	(2,601)
Changes in non-cash working capital items				
Accounts receivable	**(60)**	(41)	**(63)**	(23)
Prepaids and other assets	**(86)**	(63)	**(64)**	(78)
Investment tax credit recoverable	**(360)**	-	**(360)**	-
Inventory	**(162)**	-	**(166)**	(78)
Accounts payable and accrued liabilities	**(96)**	132	**(88)**	101
Deferred revenue	**56**	-	**56**	-
	(1,531)	(1,388)	**(2,652)**	(2,679)
Cash flows used in investing activities				
Purchase of property and equipment	**(18)**	(15)	**(65)**	(62)
Additions to patents and trademarks	**(38)**	(40)	**(99)**	(91)
	(56)	(55)	**(164)**	(153)
Cash flows from financing activities				
Proceeds from issuance of debentures, net of issuance costs	**-**	3,011	**-**	3,011
Proceeds from issuance of shares and exercise of warrants and options, net of share issuance costs	**-**	-	**3,020**	-
	-	3,011	**3,020**	3,011
Net change in cash during the period	**(1,587)**	1,568	**204**	179
Cash at beginning of period	**3,643**	346	**1,852**	1,735
Cash at end of period	**$ 2,056**	$ 1,914	**$ 2,056**	$ 1,914

See accompanying notes

1. NATURE OF OPERATIONS

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

2. BASIS OF PRESENTATION

Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). Our accounting policies have been applied consistently within our condensed interim consolidated financial statements using the same accounting policies and methods as were used for the Company's Consolidated Financial Statements and the notes thereto for the years ended September 30, 2015 and 2014. The financial statements should be read in conjunction with the Company's Audited Consolidated Financial Statements for the years ended September 30, 2015 and 2014.

Basis of Presentation and Going Concern

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

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

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

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

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

2. BASIS OF PRESENTATION (continued)

Basis of Presentation and Going Concern (continued)

These 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 consolidated financial statements were authorized for issuance by the Board of Directors on May 11, 2016.

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.

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

4. PROPERTY AND EQUIPMENT

Cost	**Computer Hardware**	**Computer Software**	**Laboratory Fixtures and Equipment**	**Office Equipment**	**Leasehold Improvements**	**Total**
September 30, 2014	$ 283	$ 179	$ 4,887	$ 176	$ 265	$ 5,790
Additions	23	15	79	-	-	117
Dispositions	-	-	(186)	-	-	(186)
Transfers to inventory	-	-	(35)	-	-	(35)
September 30, 2015	$ 306	$ 194	$ 4,745	$ 176	$ 265	$ 5,686
Additions	**35**	**13**	**17**	**-**	**-**	**65**
March 31, 2016	**$ 341**	**$ 207**	**$ 4,762**	**$ 176**	**$ 265**	**$ 5,751**

Accumulated Amortization	**Computer Hardware**	**Computer Software**	**Laboratory Fixtures and Equipment**	**Office Equipment**	**Leasehold Improvements**	**Total**
September 30, 2014	$ 271	$ 179	$ 3,169	$ 154	$ 218	$ 3,991
Amortization expense	9	4	383	6	14	416
Disposition	-	-	(147)	-	-	(147)
Transfers to inventory	-	-	(14)	-	-	(14)
September 30, 2015	$ 280	$ 183	$ 3,391	$ 160	$ 232	$ 4,246
Amortization expense	**10**	**4**	**167**	**3**	**7**	**191**
March 31, 2016	**$ 290**	**$ 187**	**$ 3,558**	**$ 163**	**$ 239**	**$ 4,437**

Net Book Value						
September 30, 2015	$ 26	$ 11	$ 1,354	$ 16	$ 33	$ 1,440
March 31, 2016	**$ 51**	**$ 20**	**$ 1,204**	**$ 13**	**$ 26**	**$ 1,314**

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

5. PATENTS AND TRADEMARKS

Cost		
September 30, 2014	$	1,770
Additions		199
Write off of patents		(105)
September 30, 2015	$	1,864
Additions		**99**
March 31, 2016	**$**	**1,963**
Accumulated Amortization		
September 30, 2014	$	1,036
Amortization expense		135
Write off of patents		(18)
September 30, 2015	$	1,153
Amortization expense		**73**
March 31, 2016	**$**	**1,226**
Net Book Value		
September 30, 2015	$	711
March 31, 2016	**$**	**737**

During the year ended September 30, 2015 the Company reviewed its patent portfolio and determined that the cost to continue to pursue certain patents outweighed the potential benefits. The Company also decided to allow certain patents to lapse. Accordingly these patents with a net book value of $87,000 were written off as at September 30, 2015.

6. DEFFERED REVENUE

Deferred revenue consists of deposits from customers on the purchase of SQI platforms that have not yet been delivered to the customer.

(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 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 par 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.

For accounting purposes, 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 debenture is accreted to their face value of $3,236,000 using the effective interest rate of 23.4%

	March 31, 2016	September 30, 2015
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	**176**	96
Balance end of period	**$ 2,209**	$ 2,129

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

8. CAPITAL STOCK

(a) The Company has authorized an unlimited number of common shares and 69,347,000 common shares issued and outstanding.

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

9. WARRANT CAPITAL

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

Number of Warrants	Purchase Price	Weighted average time to maturity
2,276	$2.50	0.57 years
5,126	$1.10	2.08 years
16,695	$0.65	2.40 years
3,560	$0.60	3.86 years
7,631	$0.52	2.71 years
588	$0.50	0.02 years
35,876		

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. On December 4, 2012 the Company received approval to extend the expiry of these warrants for an additional 12 months to December 4, 2013. On December 4, 2013, the Company received approval to extend the expiry of these warrants for a final 12 months to December 4, 2014. All other terms of the warrants remained unchanged. On December 4, 2014 these warrants, having reached the maximum term allowable under TSX rules, expired unexercised. Accordingly, $1,107,000 was transferred from warrant capital to contributed surplus in 2015.

On January 14, 2016 the Company extended the expiry of 2,965,000 warrants that were issued in connection with a private placement in January 2014. Each warrant entitles the holder thereof to purchase one common share of the Company at any time until the close of business on January 26, 2016 at an exercise price of $0.65 per common shares. The warrants were amended to extend the term of such Warrants until January 26, 2017. All other provisions of the warrants remain the same. Accordingly, $239,000 was transferred from warrant capital to contributed surplus in 2016. In addition 296,500 warrants with an expiry of January 26, 2016 expired unexercised and $95,000 was transferred to contributed surplus.

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

9. WARRANT CAPITAL (continued)

On March 11, 2016 the Company extended the expiry of 8,400,000 warrants that were issued in connection with a public offering in April 2014. Each warrant entitles the holder thereof to purchase one common share of the Company at any time until the close of business on April 10, 2016 at an exercise price of $0.65 per common shares. The warrants were amended to extend the term of such Warrants until April 10, 2019, subject to certain accelerated expiry conditions. All other provisions of the warrants remain the same. Accordingly, $1,484,000 was transferred from warrant capital to contributed surplus in 2016.

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:

	Six Months Ended			
	March 31, 2016		March 31, 2015	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Beginning Balance	**2,422**	**$ 0.70**	2,540	$ 1.12
Granted	**2,132**	**$ 0.30**	435	$ 0.54
Exercised (i)	**-**	**-**	-	-
Cancelled/Expired	**(362)**	**$ 1.25**	(40)	$ 2.99
Forfeited	**(382)**	**$ 0.54**	(130)	$ 0.38
Ending Balance	**3,810**	**$ 0.36**	2,805	$ 0.96
Exercisable	**1,418**	**$ 0.86**	2,271	$ 1.14

The Company had the following stock options outstanding under the Plan at December 31, 2015:

Number of Options	**Range of Exercise Prices**	**Weighted average time to maturity**
3,120	$0.30 – 0.60	4.33 years
390	$0.61 – 1.65	1.77 years
300	$1.66 – 1.90	0.82 years
3,810		

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

11. STOCK-BASED COMPENSATION

The fair value of the options granted during the six months ended March 31, 2016 was $465,000 (six months ended March 31, 2015 - $118,000), which will be recognized over vesting periods of 12 - 36 months. The total compensation expense credited to contributed surplus for the six months ended March 31, 2016 was $34,000 (six months ended March 31, 2015 - $70,000).

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:

	Six Months Ended	
	March 31, 2016	March 31, 2015
Dividend Yield	0%	0%
Expected Volatility (historical data basis)	114%	107%
Risk-free Interest Rate	0.67%	0.68%
Share price	$ 0.304	$ 0.54
Expected Life (years)	5.00	5.00
Weighted average grant date fair value	$ 0.22	$ 0.27

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		**Six Months Ended**	
	March 31, 2016	March 31, 2015	**March 31, 2016**	March 31, 2015
Salaries and wages	**$ 185**	$ 143	**$ 342**	$ 254
General and administrative	**111**	139	**237**	264
Professional and consulting	**96**	177	**208**	300
Stock-based compensation	**(50)**	17	**(27)**	36
Corporate and general expense by nature	**$ 342**	$ 476	**$ 760**	$ 854

13. SALES AND MARKETING EXPENSE

	Three Months Ended		**Six Months Ended**	
	March 31, 2016	March 31, 2015	**March 31, 2016**	March 31, 2015
Contractor fees	**$ 114**	$ 153	**$ 213**	$ 255
Travel and marketing	**60**	45	**114**	103
Stock-based compensation	**2**	3	**4**	16
Sales and marketing expense by nature	**$ 176**	$ 201	**$ 331**	$ 374

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

14. RESEARCH AND DEVELOPMENT COSTS

	Three Months Ended		Six Months Ended	
	March 31, 2016	March 31, 2015	**March 31, 2016**	March 31, 2015
Salaries and wages	**$ 649**	$ 620	**$ 1,254**	$ 1,185
Laboratory costs and supplies	**85**	168	**193**	287
Investment tax credit recoverable	**(360)**	-	**(360)**	-
Professional fees	**78**	-	**78**	-
Amortization – patents and trademarks	**37**	33	**73**	65
Amortization – property and equipment	**98**	109	**191**	221
Stock-based compensation	**34**	14	**57**	18
Research and development expense by nature	**$ 621**	$ 944	**$ 1,486**	$ 1,776

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 highly rated 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.

(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 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.

(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 cash, 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 March 31, 2016 the Company had a working capital surplus of $2,676,000 and at September 30, 2015 the Company had a working capital surplus of $1,787,000. 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.

18. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation. In the previous year accounts receivable was included with prepaids and other assets.