



SQI Diagnostics Inc.

Condensed Interim Consolidated Financial Statements

(Unaudited)

(Expressed in Canadian dollars)

For the Three and Six Months Ended March 31, 2017 and 2016

Notice to Reader

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

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

	As at March 31, 2017	As at September 30, 2016
Assets		
Current		
Cash	\$ 3,750	\$ 2,921
Accounts receivable	399	700
Investment tax credit recoverable	229	-
Prepays and other assets	375	278
Inventory (Note 3)	442	345
	5,195	4,244
Property and equipment (Note 4)	977	1,143
Patents and trademarks (Note 5)	734	747
	\$ 6,906	\$ 6,134
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 524	\$ 769
Deferred revenue	-	55
	524	824
Long Term		
Secured debentures (Note 6)	2,402	2,302
	2,926	3,126
Shareholders' Equity		
Capital stock (Note 7)	56,369	54,380
Warrant capital (Note 8)	12,265	11,915
Contributed surplus	11,589	10,170
Deficit	(76,243)	(73,457)
	3,980	3,008
	\$ 6,906	\$ 6,134

Going concern (Note 2)
Contingencies (Note 14)

Approved by the Board _____
"Clive Beddoe"
Director (Signed)

_____ "Andrew Morris"
Director (Signed)

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, 2017	March 31, 2016	March 31, 2017	March 31, 2016
Revenue				
Services revenue	\$ 202	\$ 239	\$ 412	\$ 436
Product sales	49	41	254	41
	251	280	666	477
Expenses				
Cost of products sold	11	9	176	9
Corporate and general (Note 12)	361	342	717	760
Sales and marketing (Note 13)	216	176	527	331
Research and development (Note 14)	821	621	1,777	1,486
Interest and accretion expense (Note 7)	131	119	255	236
	1,540	1,267	3,452	2,822
Net loss and comprehensive loss	(1,289)	(987)	(2,786)	(2,345)
Loss per share				
Basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.04)
Weighted average number of common shares outstanding (thousands of shares)				
Weighted average number of shares	86,520	69,347	83,681	66,214

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

	Issued Capital Stock		Warrant Capital	Contributed Surplus	Deficit	Total Equity
	Number of Shares (thousands of shares)	Amount				
Balance as at September 30, 2015	61,716	\$ 49,490	\$ 9,295	\$ 11,442	\$ (68,418)	\$ 1,809
Issued in connection with private placement (Note 7b)	7,631	3,052				3,052
Allocated to warrants – private placement (Note 7b)		(1,183)	1,183			-
Share issuance costs – private placement (Note 7b)		(32)				(32)
Revaluation of extended warrants (Note 8)			1,723	(1,723)		-
Warrants expired (Note 8)			(95)	95		-
Stock-based compensation (Note 10)				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
Balance as at September 30, 2016	80,905	\$ 54,380	\$ 11,915	\$ 10,170	\$ (73,457)	\$ 3,008
Issued in connection with private placement (Note 7c)	22,970	3,675				3,675
Allocated to warrants – private placement (Note 7c)		(1,631)	1,631			-
Share issuance costs – private placement (Note 7c)		(55)				(55)
Revaluation of extended warrants			129	(129)		-
Warrants expired (Note 8)			(1,410)	1,410		-
Stock-based compensation (Note 10)				138		138
Net loss and comprehensive loss					(2,786)	(2,786)
Balance as at March 31, 2017	103,875	\$ 56,369	\$ 12,265	\$ 11,589	\$ (76,243)	\$ 3,980

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, 2017	March 31, 2016	March 31, 2017	March 31, 2016
Cash flows used in operating activities				
Net loss	\$ (1,289)	\$ (987)	\$ (2,786)	\$ (2,345)
Add items not affecting cash				
Amortization - patents and trademarks	40	37	81	73
- property and equipment	103	98	205	191
Stock-based compensation	60	(14)	138	34
Accretion on debenture	53	43	100	80
	(1,033)	(823)	(2,262)	(1,967)
Changes in non-cash working capital items				
Accounts receivable	11	(60)	301	(63)
Prepays and other assets	(83)	(86)	(97)	(64)
Investment tax credit recoverable	(229)	(360)	(229)	(360)
Inventory	-	(162)	(88)	(166)
Accounts payable and accrued liabilities	(519)	(96)	(245)	(88)
Deferred revenue	-	56	(55)	56
	(1,853)	(1,531)	(2,675)	(2,652)
Cash flows used in investing activities				
Purchase of property and equipment	(34)	(18)	(48)	(65)
Additions to patents and trademarks	(26)	(38)	(68)	(99)
	(60)	(56)	(116)	(164)
Cash flows from financing activities				
Proceeds from issuance of shares and exercise of warrants and options, net of share issuance costs	3,620	-	3,620	3,020
	3,620	-	3,620	3,020
Net change in cash during the period	1,707	(1,587)	829	204
Cash at beginning of period	2,043	3,643	2,921	1,852
Cash at end of period	\$ 3,750	\$ 2,056	\$ 3,750	\$ 2,056

SQI Diagnostics Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

March 31, 2017 and 2016

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

1. NATURE OF OPERATIONS

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

2. BASIS OF PRESENTATION

Statement of Compliance

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

Basis of Presentation and Going Concern

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

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

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

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

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

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

SQI Diagnostics Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

March 31, 2017 and 2016

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

2. BASIS OF PRESENTATION (continued)

Basis of Presentation and Going Concern (continued)

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

These consolidated financial statements were authorized for issuance by the Board of Directors on May 9, 2017.

Basis of Consolidation

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

Inter-company balances and transactions are eliminated upon consolidation.

3. INVENTORY

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

SQI Diagnostics Inc.**Notes to Condensed Interim Consolidated Financial Statements****(Unaudited)****March 31, 2017 and 2016**

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

4. PROPERTY AND EQUIPMENT

Cost	Computer Hardware	Computer Software	Laboratory Fixtures and Equipment	Office Equipment	Leasehold Improvements	Total
September 30, 2015	\$ 306	\$ 194	\$ 4,745	\$ 176	\$ 265	\$ 5,686
Additions	39	18	38	-	-	95
Transfers to inventory	-	-	(12)	-	-	(12)
September 30, 2016	\$ 345	\$ 212	\$ 4,771	\$ 176	\$ 265	\$ 5,769
Additions	8	2	38	-	-	48
Transfers to inventory	-	-	(13)	-	-	(13)
December 31, 2016	\$ 353	\$ 214	\$ 4,796	\$ 176	\$ 265	\$ 5,804

Accumulated Amortization	Computer Hardware	Computer Software	Laboratory Fixtures and Equipment	Office Equipment	Leasehold Improvements	Total
September 30, 2015	\$ 280	\$ 183	\$ 3,391	\$ 160	\$ 232	\$ 4,246
Amortization expense	22	9	340	6	13	390
Transfers to inventory	-	-	(10)	-	-	(10)
September 30, 2016	\$ 302	\$ 192	\$ 3,721	\$ 166	\$ 245	\$ 4,626
Amortization expense	12	6	177	3	7	205
Transfers to inventory	-	-	(4)	-	-	(4)
March 31, 2017	\$ 314	\$ 198	\$ 3,894	\$ 169	\$ 252	\$ 4,827

Net Book Value

September 30, 2016	\$ 43	\$ 20	\$ 1,050	\$ 10	\$ 20	\$ 1,143
March 31, 2017	\$ 39	\$ 16	\$ 902	\$ 7	\$ 13	\$ 977

SQI Diagnostics Inc.
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)
March 31, 2017 and 2016
(Amounts are in Canadian dollars; tabular amounts in thousands)

5. PATENTS AND TRADEMARKS

Cost	
September 30, 2015	\$ 1,864
Additions	182
September 30, 2016	\$ 2,046
Additions	68
March 31, 2017	\$ 2,114
Accumulated Amortization	
September 30, 2015	\$ 1,153
Amortization expense	146
September 30, 2016	\$ 1,299
Amortization expense	81
March 31, 2017	\$ 1,380
Net Book Value	
September 30, 2016	\$ 747
March 31, 2017	\$ 734

SQI Diagnostics Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

March 31, 2017 and 2016

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

6. SECURED DEBENTURES

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

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

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

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

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

	March 31, 2017	September 30, 2016
Secured debentures	\$ 3,236	\$ 3,236
Equity component of secured debenture	(858)	(858)
Issuance costs	(345)	(345)
	2,033	2,033
Accretion in carrying amount of notes	369	269
Balance end of period	\$ 2,402	\$ 2,302

SQI Diagnostics Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

March 31, 2017 and 2016

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

7. CAPITAL STOCK

- (a) The Company has authorized an unlimited number of common shares.
- (b) On December 15, 2015 and December 21, 2015, the Company completed a non-brokered private placement of an aggregate of 7,630,945 units of the Company at \$0.40 per unit for gross proceeds of \$3,052,000. Each unit comprises one common share of the Company and one common share purchase warrant. Each warrant is exercisable at a price of \$0.52 and entitles the holder thereof to acquire one common share for a period of three years from the date of issuance. The proceeds from the issuance of units are allocated between capital stock and warrant capital based on their relative fair values, with \$1,183,000 being allocated to warrant capital. The fair value of the warrants was estimated using the Black-Scholes pricing model with the following assumptions: share price \$0.30; dividend yield 0%; risk free interest 0.54%; volatility 125%; and an expected life of 3 years. Expected volatility is based on historical volatility. The total share issuance costs were \$32,000.
- (c) On March 10, 2017, the Company completed a non-brokered private placement of an aggregate of 22,970,000 units of the Company at \$0.16 per unit for gross proceeds of \$3,675,000. Each unit comprises one common share of the Company and one common share purchase warrant. Each warrant is exercisable at a price of \$0.21 and entitles the holder thereof to acquire one common share for a period of five years from the date of issuance, subject to accelerated expiry in certain circumstances. The proceeds from the issuance of units are allocated between capital stock and warrant capital based on their relative fair values, with \$1,631,000 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 \$0.16; dividend yield 0%; risk free interest 1.15%; volatility 120%; and an expected life of 5 years. Expected volatility is based on historical volatility. The total share issuance costs were \$55,000.

8. WARRANT CAPITAL

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

Number of Warrants	Exercise Price	Maturity
5,126	\$1.10	May 1, 2018
16,695	\$0.64	July 16, 2018 – April 10, 2019
3,560	\$0.59	January 30, 2020 and February 20, 2020
7,631	\$0.52	December 15 and 21, 2018
22,970	\$0.21	March 10, 2022
55,982		

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 recorded in warrant capital with a corresponding reduction in contributed surplus in fiscal 2016. In addition, 296,500 warrants with an expiry of January 26, 2016 expired unexercised and \$95,000 was transferred to contributed surplus in fiscal 2016.

SQI Diagnostics Inc.
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)
March 31, 2017 and 2016
(Amounts are in Canadian dollars; tabular amounts in thousands)

8. WARRANT CAPITAL (continued)

On March 14, 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 recorded in warrant capital with a corresponding reduction in contributed surplus in fiscal 2016.

On October 10, 2013, the Company extended the expiry of 2,276,000 warrants by 36 months to October 25, 2016. The warrants were issued in October 2011 in connection with a private placement. All other terms of the warrants remained unchanged. On October 25, 2016, these warrants, having reached the maximum term allowable under TSX Venture rules, expired unexercised. Accordingly, \$1,410,000 was transferred from warrant capital to contributed surplus in fiscal 2017.

On January 13, 2017, the Company extended the expiry of 2,965,000 warrants that were issued in connection with a private placement in January 2014. The warrants were amended on January 14, 2016 to extend the term of such Warrants until January 26, 2017. The warrants were further amended, to extend the term of such Warrants until January 26, 2019. All other provisions of the warrants remain the same. Accordingly, \$129,000 was recorded in warrant capital with a corresponding reduction in contributed surplus in fiscal 2017.

SQI Diagnostics Inc.**Notes to Condensed Interim Consolidated Financial Statements****(Unaudited)****March 31, 2017 and 2016**

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

9. STOCK OPTIONS

The Company maintains a Stock Option Plan (the "Plan") for the benefit of employees, officers and directors. The maximum number of common shares reserved for issuance under the Plan, together with any other employee stock option plans, options for services and employee share purchase plans, will not exceed 10% of the issued and outstanding shares at the time of the option grant. Options granted pursuant to the Plan will have terms not to exceed five years, and are granted at an option price which will not be less than the fair market price at the time the options are granted. All options granted to individual optionees, other than consultants, generally vest in three equal installments over a period of 18 to 36 months.

The following summarizes the stock option activities under the Plan:

	Six Months Ended			
	March 31, 2017		March 31, 2016	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning Balance	3,731	\$ 0.52	2,422	\$ 0.70
Granted	1,145	\$ 0.16	2,132	\$ 0.30
Cancelled/Expired	(295)	\$ 1.88	(362)	\$ 1.25
Forfeited	-	-	(382)	\$ 0.54
Ending Balance	4,581	\$ 0.34	3,810	\$ 0.36
Exercisable	2,269	\$ 0.64	1,418	\$ 0.86

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

Number of Options	Range of Exercise Prices	Weighted average time to maturity
3,469	\$0.16 - 0.39	4.11 years
717	\$0.40 - 0.69	2.31 years
395	\$0.70 - 1.80	0.80 years
4,581		

SQI Diagnostics Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

March 31, 2017 and 2016

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

10. STOCK-BASED COMPENSATION

The fair value of the options granted during the six months ended March 31, 2017 was \$147,000 (six months ended March 31, 2016 - \$465,000), which will be recognized over vesting periods of 18 to 36 months. The total compensation expense credited to contributed surplus for the six months ended March 31, 2017 was \$138,000 (six months ended March 31, 2016 - \$34,000).

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, 2017	March 31, 2016
Dividend Yield	0%	0%
Expected Volatility (historical data basis)	120%	114%
Risk-free Interest Rate	1.18%	0.67%
Share price	\$ 0.16	\$ 0.304
Expected Life (years)	5.00	5.00
Weighted average grant date fair value	\$ 0.13	\$ 0.22

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

11. CORPORATE AND GENERAL EXPENSE

	Three Months Ended		Six Months Ended	
	March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2016
Salaries and wages	\$ 128	\$ 185	\$ 237	\$ 342
General and administrative	122	111	243	237
Professional and consulting	99	96	170	208
Stock-based compensation	12	(50)	67	(27)
Corporate and general expense by nature	\$ 361	\$ 342	\$ 717	\$ 760

12. SALES AND MARKETING EXPENSE

	Three Months Ended		Six Months Ended	
	March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2016
Contractor fees	\$ 155	\$ 114	\$ 401	\$ 213
Travel and marketing	59	60	122	114
Stock-based compensation	2	2	4	4
Sales and marketing expense by nature	\$ 216	\$ 176	\$ 527	\$ 331

SQI Diagnostics Inc.**Notes to Condensed Interim Consolidated Financial Statements****(Unaudited)****March 31, 2017 and 2016**

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

13. RESEARCH AND DEVELOPMENT COSTS

	Three Months Ended		Six Months Ended	
	March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2016
Salaries and wages	\$ 728	\$ 649	\$ 1,387	\$ 1,254
Laboratory costs and supplies	103	85	236	193
Investment tax credit recoverable	(229)	(360)	(229)	(360)
Professional fees	31	78	31	78
Amortization – patents and trademarks	40	37	81	73
Amortization – property and equipment	103	98	205	191
Stock-based compensation	45	34	66	57
Research and development expense by nature	\$ 821	\$ 621	\$ 1,777	\$ 1,486

14. CONTINGENCIES

In the ordinary course of business, the Company may be contingently liable for litigation and claims with customers, suppliers, former employees or competitors. Management believes that provisions have been recorded in the accounts where required.

15. CAPITAL RISK MANAGEMENT

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

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

16. FINANCIAL RISK MANAGEMENT

(a) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and accounts receivable are exposed to credit risk. The credit risk on cash is mitigated because the counterparties are Schedule 1 Canadian banks. The credit risk on accounts receivable is due to the concentration of accounts as a result of the few large customers that comprise the Company's international customer base. The Company is also exposed to counterparty risk on accounts receivable. The maximum credit risk exposure is limited to the reported amounts of these financial assets. Credit risk on accounts receivable is managed by ongoing review of the amount and aging of accounts receivable balances.

Allowance for doubtful accounts and past due receivables are reviewed by Management at each balance sheet date. The Company updates its estimate of the allowance for doubtful accounts based on the evaluation of the recoverability of receivable balances from each customer taking into account historic collection trends of past due accounts. Receivables are written off once determined not to be collectible.

(b) Interest Rate Risk

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

(c) Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is not exposed to significant currency risk.

(d) Fair Value Risk

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

SQI Diagnostics Inc.**Notes to Condensed Interim Consolidated Financial Statements****(Unaudited)****March 31, 2017 and 2016**(Amounts are in Canadian dollars; tabular amounts in thousands)

16. FINANCIAL RISK MANAGEMENT (Continued)**(e) Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. At March 31, 2017, the Company had a working capital surplus of \$4,671,000 (September 30, 2016 - working capital surplus of \$3,420,000). The Company's liabilities consist of accounts payables and accrued liabilities which are due within one year of the balance sheet date and secured debentures which require annual interest payments of \$324,000 on the anniversary date and the principal amount of \$3,236,000 is due five years from the date of issuance. The Company has sufficient liquidity to meet its current obligations as they come due. The continuation of the Company's research, development and commercialization activities is dependent upon the Company's ability to generate product or service revenues or to finance its operations through further equity and or debt financings.