

# **SQI Diagnostics Inc.**

**Interim Consolidated Financial Statements**

**For the Three and Nine Month Periods ended June 30, 2008**

## **NOTICE TO READER**

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

# SQI Diagnostics Inc.

## Interim Consolidated Balance Sheets

	Note	June 30 2008	September 30 2007 (audited)
<b>Assets</b>			
<b>Current</b>			
Cash and short-term investments	5	\$ 4,200,362	\$ 3,399,601
Amounts receivable		830,002	191,662
Inventory		47,127	-
Prepays and deposits		22,442	83,529
		<b>5,099,933</b>	3,674,792
Due from related party	6	100,456	100,456
Property and equipment	7	2,456,390	2,379,250
Patents		383,631	369,306
		<b>\$ 8,040,410</b>	\$ 6,523,804

## Liabilities

<b>Current</b>			
Accounts payable and accrued liabilities		\$ 321,043	\$ 240,364
Current portion of long-term debt	8	5,763	16,511
		<b>326,806</b>	256,875
Long-term debt	8	730,000	-
		<b>1,056,806</b>	256,875

## Shareholders' Equity

Capital stock	10	17,506,484	14,113,145
Warrants	10	89,188	89,188
Employee share purchase loan		(10,000)	(10,000)
Contributed surplus	11	7,973,051	7,790,715
Deficit		(18,575,119)	(15,716,119)
		<b>6,983,604</b>	6,266,929
		<b>\$ 8,040,410</b>	\$ 6,523,804

Approved by the Board \_\_\_\_\_ Director \_\_\_\_\_ Director

See accompanying notes.

# SQI Diagnostics Inc.

## Interim Consolidated Statements of Operations and Deficit

	Three Month Period Ended, June 30 2008	Three Month Period Ended, June 30 2007	Nine Month Period Ended, June 30 2008	Nine Month Period Ended, June 30 2007
<b>Revenue</b>				
Consulting fees	\$ 7,175	\$ 23,220	\$ 70,813	\$ 76,095
<b>Expenses</b>				
Administrative Salaries and wages	69,694	66,277	274,486	327,625
Advertising and promotion	-	10,172	-	10,172
General and administrative	60,999	93,164	209,088	230,656
Professional and consulting fees	135,963	244,746	292,512	370,162
Stock-based compensation	82,200	11,499	187,392	78,089
Research and development costs	828,032	685,442	1,611,834	1,481,002
Interest income	33,245	(7,833)	-	(34,726)
Travel	-	8,210	-	8,210
Amortization - patents	20,630	21,905	60,176	60,878
Amortization - property and equipment	100,216	61,636	294,325	167,887
	<b>1,330,979</b>	1,195,218	<b>2,929,813</b>	2,699,955
<b>Net loss</b>	<b>(1,323,804)</b>	(1,171,998)	<b>(2,859,000)</b>	(2,623,860)
<b>Deficit at beginning of period</b>	<b>(17,251,315)</b>	(13,597,907)	<b>(15,716,119)</b>	(12,146,045)
<b>Deficit at end of period</b>	<b>\$(18,575,119)</b>	\$(14,769,905)	<b>\$(18,575,119)</b>	\$(14,769,905)
<b>Loss per share</b>	<b>(0.06)</b>	(0.07)	<b>(0.14)</b>	(0.18)
<b>Weighted average shares outstanding</b>	<b>20,458,300</b>	14,719,319	<b>19,982,016</b>	14,719,319

See accompanying notes.

# SQI Diagnostics Inc.

## Interim Consolidated Statements of Cash Flows

	Three Month Period Ended, June 30 2008	Three Month Period Ended, June 30 2007	Nine Month Period Ended, June 30 2008	Nine Month Period Ended, June 30 2007
<b>Cash flows from (used in)</b>				
<b>operating activities</b>				
Loss for the period	\$ (1,323,804)	\$ (1,171,998)	\$ (2,859,000)	\$ (2,623,860)
Add items not affecting cash				
Amortization - patents	20,630	21,905	60,176	60,878
- property and equipment	100,216	61,636	294,325	167,887
Stock-based compensation	82,200	11,499	187,392	78,089
	<b>(1,120,758)</b>	<b>(1,076,958)</b>	<b>(2,317,107)</b>	<b>(2,317,006)</b>
Changes in non-cash working capital items				
Amounts receivable	58,095	(37,331)	(638,340)	(39,962)
Inventory	-	-	(47,127)	-
Prepays and deposits	12,046	363	61,087	(8,654)
Accounts payable and accrued liabilities	(8,707)	481,199	80,680	736,287
	<b>(1,059,324)</b>	<b>(632,727)</b>	<b>(2,860,807)</b>	<b>(1,629,335)</b>
<b>Cash flows from (used in)</b>				
<b>investing activities</b>				
Purchase of property and equipment	(41,538)	(509,343)	(371,465)	(1,106,527)
Additions to patents	(28,813)	(78,963)	(74,502)	(136,453)
Short-term investments	600,000	400,000	2,530,000	2,000,000
	<b>529,649</b>	<b>(188,306)</b>	<b>2,084,033</b>	<b>757,020</b>
<b>Cash flows from (used in)</b>				
<b>financing activities</b>				
Advances of long term debt	730,000	-	730,000	-
Repayment of bank indebtedness	(186)	-	-	-
Repayment of long-term debt	(2,810)	(65,760)	(10,748)	(108,582)
Cash acquired (Note 1)	-	606,909	-	606,909
Proceeds from private placement, exercise of warrants, net of share issuance costs	3,383,033	4,668,170	3,388,283	4,611,966
	<b>4,110,037</b>	<b>5,209,319</b>	<b>4,107,535</b>	<b>5,110,293</b>
<b>Increase in cash during the period</b>	<b>3,580,362</b>	<b>4,388,286</b>	<b>3,330,761</b>	<b>4,237,978</b>
<b>Cash at beginning of period</b>	<b>-</b>	<b>182,732</b>	<b>249,601</b>	<b>333,040</b>
<b>Cash at end of period</b>	<b>\$ 3,580,362</b>	<b>\$ 4,571,018</b>	<b>\$ 3,580,362</b>	<b>\$ 4,571,018</b>

See accompanying notes.

# **SQI Diagnostics Inc.**

**Notes to Interim Consolidated Financial Statements**

**June 30, 2008**

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## **1. NATURE OF OPERATIONS AND AMALGAMATION**

SQI Diagnostics Inc., (the "Company"), has its head office and development centre in Toronto, Ontario. The Company is a healthcare diagnostic technology company engaged in the business of providing laboratories testing human patient serum with a novel and patented diagnostic system that enables more rapid test results with significantly less labour than current diagnostic instrumentation.

While the Company currently does not market any diagnostic tests or platforms, its SQiDWorks™ automated analytical platform and its lead QuantiSpot™ RA test kit used to detect and quantify a panel of biomarkers to aid in the diagnosis of Rheumatoid Arthritis, and QuantiSpot™ APS, a diagnostics test kit used to detect and quantify a panel of biomarkers to aid in the diagnosis of antiphospholipid syndrome (APS) are being prepared for third party clinical validation studies. QuantiSpot™ tests are designed to run only on the SQiDWorks™ platform. In order to get our platform and QuantiSpot™ consumable tests approved for sale in the United States, the Food & Drug Administration ("FDA") typically requires the conduct of clinical validation studies to compare the performance of a new test to predicate tests currently approved for sale in the USA. Upon successful completion of the validation studies, the data derived is then presented to the FDA in the form of a 510(k) Pre-market Notification. It is typical for the external validation studies to take several months to complete and upon receipt of a completed 510(k) submission, the FDA may take up to four months to render an approval decision on the application. The Company has completed extensive internal testing of its QuantiSpot™ RA test panel using the SQiDWorks™ platform and has completed extensive development testing of its QuantiSpot™ APS test panel.

The Company has not earned revenues from its QuantiSpot™ test kits or SQiDWorks™ platform and is therefore considered to still be in the development stage. The continuation of the Company's research and development activities is dependent upon the Company's ability to successfully finance its cash requirements through the generation of revenue from its partners and potential customers, or to complete further equity financing. Management believes that the Company's current level of cash will be sufficient to execute the Company's current planned expenditures for the remainder of 2007 and believes it will be able to manage its cash flows through the middle of 2008.

On April 26, 2007, an amalgamation between the Company and 670194 Canada Inc., a wholly-owned subsidiary of SQI Diagnostics Inc. (formerly Emblem Capital Inc.) was completed. The amalgamated company continued under the name SQI Diagnostics Inc. ("SQI"). Pursuant to the amalgamation of the Company and 670194 Canada Inc., the shareholders of the Company received an aggregate of 14,719,314 outstanding common shares of SQI in exchange for all of the outstanding common shares of the Company.

In addition, SQI issued replacement options and warrants to all holders of the Company's options and warrants who surrendered such securities pursuant to the Amalgamation Agreement. The replacement options and warrants issued by SQI are identical to the Company's options and warrants surrendered except in respect of the number of post-consolidation common shares to which a holder is entitled upon exercise and the exercise price, which terms were modified to give effect to the acquisition and share consolidation.

# SQI Diagnostics Inc.

## Notes to Interim Consolidated Financial Statements

June 30, 2008

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### 1. NATURE OF OPERATIONS AND AMALGAMATION (Cont'd)

Prior to the completion of the Qualifying Transaction pursuant to rules of the TSX Venture Exchange, Emblem Capital Inc. ("Emblem"), a Capital Pool Company, subdivided its common shares on a 6 for 1 basis.

Following the transaction, the shareholders of umedik, Inc. controlled SQI and consequently, the transaction was accounted for as a reverse takeover with umedik, Inc. as the acquirer and continuing company. Since Emblem did not constitute a business, the transaction was accounted for as a capital transaction, that is, a financing and recapitalization of umedik, Inc.

Accordingly:

- (i) the assets and liabilities of umedik are included in the balance sheet at their historic carrying value;
- (ii) the net assets of Emblem are included at fair value which equalled to their carrying value;
- (iii) capital stock, contributed surplus and deficit of Emblem are eliminated.
- (iv) the comparative figures are those of umedik.

Emblem's net assets acquired are as follows:

Cash	\$	606,909
Accounts payable and accrued liabilities		(11,338)
<b>Net asset value</b>	<b>\$</b>	<b>595,571</b>

### 2. INTERIM REPORTING

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles. The disclosures contained in these unaudited interim consolidated financial statements do not include all requirements of Canadian generally accepted accounting principles for the presentation of annual financial statements. Notwithstanding, the unaudited interim financial statements follow the same accounting policies and methods of application as the audited financial statements of the Company for the period ended September 30, 2007. The unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the period ended September 30, 2007.

Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. In the opinion of management, the accompanying unaudited interim consolidated financial statements include all adjustments of a normal recurring nature to present fairly the position of the Company as at June 30, 2008 and reflect the results of operations for the three and nine month periods then ended.

# **SQI Diagnostics Inc.**

**Notes to Interim Consolidated Financial Statements**

**June 30, 2008**

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## **3. SIGNIFICANT ACCOUNTING POLICIES**

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

### **Basis of Consolidation**

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

### **Short-Term Investments**

Short-term investments consist of highly liquid investments with original maturities greater than three months but less than one year when purchased and are carried at cost plus accrued interest.

### **Inventory**

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

### **Property and Equipment**

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

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

### **Patents**

The costs relating to initial patent fees are deferred and amortized over 10 years on a straight-line basis. Patents are recorded net of accumulated amortization of \$457,701 (September 30, 2007 - \$397,525 (audited)).

# **SQI Diagnostics Inc.**

**Notes to Interim Consolidated Financial Statements  
June 30, 2008**

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## **3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

### **Research and Development Costs**

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

At June 30, 2008, the Company was carrying out verification studies to determine viability of the diagnostic system. Deferral criteria have not been met, and accordingly, all development costs have been expensed.

### **Impairment of Long-Lived Assets**

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

### **Revenue Recognition**

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

### **Accounting for Stock-Based Compensation and Other Stock-Based Payments**

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

### **Foreign Currency Translation**

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



# SQI Diagnostics Inc.

Notes to Interim Consolidated Financial Statements  
June 30, 2008

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## 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Income Taxes

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

### Investment Tax Credits

Investment tax credits are accrued when qualifying expenditures are incurred and there is reasonable assurance that the credits will be realized. Investment tax credits earned with respect to current expenditures for qualified research and development activities are included in the statements of operations as a reduction of research and development costs. Investment tax credits associated with capital expenditures are reflected as reductions in the carrying amounts of capital assets.

During the nine month period ended June 30, 2008, the Company recorded an amount receivable relating to investment tax credits of \$792,339 (September 30, 2007 - \$148,750 (audited)) and a corresponding reduction in research and development costs.

### Financial Instruments

The Company has classified its financial instruments as follows:

<u>Financial Instrument</u>	<u>Classification</u>
Cash and short-term investments	Held for trading
Amounts receivable	Loans and receivable
Due from related party	Loans and receivable
Accounts payable and accruals	Other financial liabilities
Long-term debt	Other financial liabilities

# **SQI Diagnostics Inc.**

## **Notes to Interim Consolidated Financial Statements**

**June 30, 2008**

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### **3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

#### **Comprehensive Income**

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

#### **Use of Estimates**

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

Significant areas requiring the use of management estimates relate to the determination of the useful lives of property and equipment and patents for amortization purposes, amounts recorded as accrued liabilities, valuation of stock options and warrants, valuation allowance on future tax assets and the fair values of financial instruments.

### **4. ADOPTION OF NEW ACCOUNTING POLICIES**

#### **Capital disclosures**

On December 1, 2006, the CICA issued new accounting standard: Capital Disclosures (Handbook Section 1535). This new standards became effective for the Company on October 1, 2007. Handbook Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by the new Handbook section in Note 16 to these interim consolidated financial statements.

Effective October 01 2007, the Company adopted the recommendations of CICA Handbook Section 3862, Financial Instruments – Disclosure ("Section 3862"). Section 3862 provides standards for disclosures about financial instruments, including disclosures about fair value and the credit, liquidity and market risks associated with the financial instruments. Disclosure requirements pertaining to Section 3862 are contained in Note 18.

Effective July 01 2008, the Company adopted the recommendations of CICA Handbook Section 3863, Financial Instruments – Presentation ("Section 3863"). Section 3863 provides standards for presentation of financial instruments and non-financial derivatives. Adoption of this standard had no impact on the Corporations' financial instrument related presentation disclosures and is further detailed in Note17.

# SQI Diagnostics Inc.

Notes to Interim Consolidated Financial Statements  
June 30, 2008

## 5. CASH AND SHORT-TERM INVESTMENTS

	June 30 2008	September 30 2007 (audited)
Cash	\$ 3,580,362	\$ 249,601
Short-term investments	620,000	3,150,000
	<b>\$ 4,200,362</b>	<b>\$ 3,399,601</b>

## 6. DUE FROM RELATED PARTY

The amount is due from an officer and director of the Company, bears interest at 4.25% and is due on December 14, 2008.

## 7. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2008:

	Cost	Accumulated Amortization	Net
Computer hardware	\$ 124,222	\$ 82,110	\$ 42,112
Computer software	123,941	76,949	46,992
Laboratory equipment	3,128,488	940,653	2,187,835
Office equipment	147,216	92,939	54,277
Leasehold improvements	226,863	101,689	125,174
	<b>\$ 3,750,730</b>	<b>\$ 1,294,340</b>	<b>\$ 2,456,390</b>

Property and equipment at September 30, 2007 (audited):

	Cost	Accumulated Amortization	Net
Computer hardware	\$ 117,851	\$ 63,650	\$ 54,201
Computer software	109,225	59,364	49,861
Laboratory equipment	2,781,665	710,526	2,071,139
Office equipment	145,656	81,768	63,888
Leasehold improvements	224,868	84,707	140,161
	<b>\$ 3,379,265</b>	<b>\$ 1,000,015</b>	<b>\$ 2,379,250</b>

# SQI Diagnostics Inc.

Notes to Interim Consolidated Financial Statements  
June 30, 2008

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## 8. LONG-TERM DEBT

	June 30, 2008	September 30, 2007 (audited)
Note payable to supplier, non-interest bearing, payable in monthly installments of \$5,600	\$ 5,763	\$ 16,511
Less: Current portion	(5,763)	(16,511)
Term loan, bearing interest at prime plus 4% per annum, maturing with accrued interest on 30 November 2008, or upon receipt of 2006 & 2007 SR&ED ITC refunds, whichever is sooner	\$ 730,000	\$ -
	<b>\$ 730,000</b>	<b>\$ -</b>

## 9. RELATED PARTY TRANSACTIONS

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

Included in general and administrative expense for the nine month period ended June 30, 2008 is \$33,161 (nine month period ended June 30, 2007 - \$28,361), related to recovery of occupancy costs, from a corporation in which an officer is also an officer of the Company. As well, for the nine month period ending June 30, 2008, consulting fee revenue of \$41,725 (nine month period ended June 30, 2007 - \$72,135) was earned from this corporation. At period-end, \$37,663 (2007 - \$27,928) of amounts due from this corporation are included in amounts receivable.

# SQI Diagnostics Inc.

Notes to Interim Consolidated Financial Statements  
June 30, 2008

## 10. CAPITAL STOCK

Authorized - unlimited common shares

Issued - common shares

	Number	Value
Emblem Shares outstanding at December 31, 2006	7,999,999	\$ 867,300
Share consolidation at 6 for 1	(6,666,666)	-
	1,333,333	867,300
Elimination of share capital due to reverse takeover	-	(867,300)
Shares issued to former shareholders of Umedik (Note 1)	14,719,314	8,514,699
Net asset value of SQI ascribed to issued shares (Note 1)	-	595,571
Share issuance costs	-	(128,107)
Warrants exercised	77,501	7,735
Proceeds from 2007 private placement <sup>(i)</sup>	3,567,551	5,212,435
Amount allocated to warrants	-	(89,188)
<b>Balance, September 30, 2007 (audited)</b>	<b>19,697,699</b>	<b>\$ 14,113,145</b>
Warrants exercised	52,501	5,250
Issued in connection with 2008 private placement <sup>(ii)</sup>	2,439,500	3,349,700
Options Exercised <sup>(iii)</sup>	27,778	33,333
<b>Balance, March 31, 2008</b>	<b>22,217,478</b>	<b>\$ 17,501,428</b>

(i) Pursuant to the 2007 private placement, the Company issued 3,567,551 units at a price of \$1.60 per unit as follows:

(a) On June 29, 2007, 3,192,551 units were issued for a net amount of \$4,660,435;

(b) On July 3, 2007, 375,000 units were issued for a net amount of \$552,000.

Each issued unit is comprised of one common share and one-half common share warrant. Each whole warrant is exercisable at a price of \$2.40 per common share, expiring on June 29, 2009.

(ii) Pursuant to the 2008 private placement, the Company issued 2,439,500 shares at a price of \$1.50 per share for net proceeds of \$3,349,700.

(iii) On exercise of stock options, \$6056 was transferred from Contributed Surplus to Share Capital.

# SQI Diagnostics Inc.

Notes to Interim Consolidated Financial Statements  
June 30, 2008

## 11. CONTRIBUTED SURPLUS

The following summarizes the change in contributed surplus:

	June 30 2008	September 30 2007 (audited)
Balance, beginning of period	\$ 7,790,715	\$ 7,738,492
Stock-based compensation	187,392	52,223
Balance, end of period	<b>\$ 7,978,107</b>	<b>\$ 7,790,715</b>

## 12. STOCK OPTIONS

The Company maintains a Stock Option Plan (the "Plan") for the benefit of directors, officers, employees and consultants. The aggregate number of common shares reserved for issuance under the Plan, together with any other employee stock option plans, options for services and employee share purchase plans, will not exceed 10% of total issued and outstanding common shares. The aggregate number of common shares which may be issued and sold under the Plan will not exceed 8% of the total issued and outstanding common shares. 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.

The following summarizes the stock option activities under the Plan:

	Nine Month Period Ended 30-Jun-08		Nine Month Period Ended 30-Jun-07	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning balance	1,814,200	\$ 0.67	1,650,033	\$ 0.80
Granted	807,500	\$ 1.59	0.00	
Exercised	27,778	\$ 1.20	0.00	
Cancelled/expired	216,672	\$ 1.20	0.00	
Forfeited	0	\$ -	0.00	
Ending balance	<b>2,377,250</b>	<b>\$ 0.92</b>	<b>1,650,033</b>	<b>\$ 0.80</b>
Exercisable	<b>1,300,793</b>	<b>\$ 0.83</b>	1,650,033	\$ 0.80

# SQI Diagnostics Inc.

Notes to Interim Consolidated Financial Statements  
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## 12. STOCK OPTIONS (Cont'd)

The Company had the following stock options outstanding under the Plan at June 30, 2008:

Number of Options	Exercise Price	Expiry Date
133,336	\$0.13	16-Dec-08
8,334	\$1.68	01-Jul-09
833,350	\$0.06	15-Apr-10
141,670	\$1.20	15-Apr-10
172,226	\$1.20	29-Jun-11
83,335	\$1.20	29-Aug-11
197,500	\$1.74	07-Aug-12
50,000	\$1.50	23-Oct-12
757,500	\$1.60	26-Feb-13
<b>2,377,250</b>		

The Company also had 133,333 options outstanding at June 30, 2008 that were not issued under the plan. All of these options were exercisable at June 30, 2008 and have an exercise price of \$0.90 and expire on October 14, 2009.

## 13. STOCK-BASED COMPENSATION

The compensation cost of the grants issued during the nine month period ended June 30, 2008 was \$793,108 (nine month period ended June 30, 2007 - \$793,108), which will be recognized over various vesting periods of 18 months, 36 months and other milestone-based vesting periods. The total compensation expense for the period ended June 30, 2008 is \$187,392 (nine month period ended June 30, 2007 - \$105,192). The total amount credited to contributed surplus for the nine month period ended June 30, 2008 was \$187,392 (nine month period ended June 30, 2007 - \$105,192).

The fair value of each option granted has been estimated at the date of grant or the date when it became measurable using the Black-Scholes option pricing model with the following weighted average assumptions at the measurement date:

	June 30 2008	June 30 2007
Dividend yield	0%	NIL
Expected volatility	80%	NIL
Risk-free interest rate	4.5%	NIL
Expected life (years)	5	NIL
Weighted average grant date fair value	\$0.98	\$NIL

# SQI Diagnostics Inc.

Notes to Interim Consolidated Financial Statements  
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## 13. STOCK-BASED COMPENSATION (Cont'd)

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

## 14. WARRANTS

The Company had the following warrants outstanding at March 31, 2008:

Number of Warrants	Purchase Price	Expiry Date
83,335	\$ 0.438	April 26, 2009
50,001	\$ 0.132	April 26, 2009
20,834	\$ 1.200	April 26, 2009
89,147	\$ 2.502	April 26, 2009
1,076,867	\$ 0.600	April 26, 2009
344,004	\$ 1.200	April 26, 2009
285,404	\$ 1.600	June 29, 2009
1,783,776	\$ 2.400	June 29, 2009
194,200	\$1.5000	June 03, 2010
<b>3,927,568</b>		

## 15. COMMITMENTS

The Company had the following lease commitments for premises and equipment at September 30, 2007 (audited):

2008	\$	69,369
2009		7,866
2010		7,866
	\$	<b>85,101</b>

## 16. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are:

- 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, and



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## 16. CAPITAL RISK MANAGEMENT (Cont'd)

- to provide an adequate return to shareholders through the use of appropriate debt instruments commensurate with the level of risk and availability, to reduce the after-tax cost of capital.

Owing to the nature of the business and the Company's continuing operating losses it has limited access to debt instruments at this time.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, repurchase shares, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Company's objective is met by seeking and retaining adequate equity to provide for continued operating losses and will continue to do so until cash flows from assets are sufficient to meet future cash flow requirements.

## 17. FINANCIAL RISK MANAGEMENT

The Company does not use derivative instruments or hedges to manage risks because the Company's exposure to credit risk, interest rate risk and currency risk is small.

### 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 short term investments is small because the counterparties are highly rated banks.

### 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 short term investments are exposed to interest rate risk as the Corporation invests cash and short term investments at floating rates of interest in highly liquid instruments. Fluctuations in interest rates impact the value of cash and cash equivalents. For the period ending June 30, 2008, if interest rates had been 1% lower, income would have been \$1,948 lower.

### c) Currency Risk

Currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The

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## **17. FINANCIAL RISK MANAGEMENT (Cont'd)**

Company's exposure to currency risk is negligible because the Company's operations are in one country, being Canada. The dollar amount and number of transactions conducted in currencies other than the Canadian dollar are not material.

### **d) Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation's accounts payable and accrued liabilities are all current and due within 90 days of the balance sheet date. The Corporation ensures that it has sufficient capital to meet short term financial obligations after taking into account its exploration obligations and cash on hand.

## **18. FINANCIAL INSTRUMENTS**

It is management's opinion that the fair value of cash and short-term investments, amounts receivable, amount due from related party, accounts payable and accrued liabilities and long-term debt approximates their carrying value due to the relatively short term maturities of these instruments.