



## **SQI Diagnostics Inc.**

**Condensed Interim Consolidated Financial Statements**

**(Unaudited)**

**(Expressed in Canadian dollars)**

**For the Three and Nine Months Ended June 30, 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 Statements of Loss and Comprehensive Loss****(Unaudited)**

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>June 30, 2016</b>	June 30, 2015	<b>June 30, 2016</b>	June 30, 2015
<b>Revenue</b>				
Services revenue	\$ 232	\$ 180	\$ 668	\$ 265
Product sales	3	-	44	-
	<b>235</b>	180	<b>712</b>	265
Cost of products sold	1	-	10	-
Gross profit	<b>234</b>	180	<b>702</b>	265
<b>Expenses</b>				
Corporate and general (Note 12)	394	569	1,154	1,423
Sales and marketing (Note 13)	161	210	492	584
Research and development (Note 14)	1,000	857	2,486	2,633
Interest and accretion expense (Note 7)	128	118	371	182
	<b>1,683</b>	1,754	<b>4,503</b>	4,822
<b>Operating loss</b>	<b>(1,449)</b>	(1,574)	<b>(3,801)</b>	(4,557)
Interest income	3	3	10	8
<b>Net loss and comprehensive loss</b>	<b>(1,446)</b>	\$ (1,571)	<b>(3,791)</b>	\$ (4,549)
<b>Loss per share</b>				
Basic and diluted	<b>(0.02)</b>	\$ (0.03)	<b>(0.06)</b>	\$ (0.08)
<b>Weighted average number of common shares outstanding (thousands of shares)</b>	<b>69,347</b>	56,381	<b>67,254</b>	56,351
Weighted average number of shares				

**SQI Diagnostics Inc.**

**Condensed Interim Consolidated Statements of Changes in Equity**

**(Unaudited)**

(Amounts are in thousands of Canadian dollars)

	<b>Issued Capital Stock</b>		<b>Warrant Capital</b>	<b>Contributed Surplus</b>	<b>Deficit</b>	<b>Total Equity</b>
	<b>Number of Shares (thousands of shares)</b>	<b>Amount</b>				
		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance as at September 30, 2014	56,336	47,942	8,805	9,732	(62,321)	4,158
Options exercised (Note 13)	50	29		(11)		18
Warrants expired (Note 9)			(2,649)	2,649		-
Warrants issued (Note 7)			978			978
Revaluation of extended warrants (Note 9)			1,960	(1,960)		-
Stock-based compensation (Note 11)				109		109
Net loss					(4,549)	(4,549)
Balance as at June 30, 2015	56,386	47,971	9,094	10,519	(66,870)	714
<b>Balance as at September 30, 2015</b>	<b>61,716</b>	<b>49,490</b>	<b>9,295</b>	<b>11,442</b>	<b>(68,418)</b>	<b>1,809</b>
<b>Issued in connection with private placements (Note 8b)</b>	<b>7,631</b>	<b>3,052</b>				<b>3,052</b>
<b>Allocated to warrants – private placement (Note 8b)</b>		<b>(1,183)</b>	<b>1,183</b>			<b>-</b>
<b>Share issuance costs (Note 8b)</b>		<b>(32)</b>				<b>(32)</b>
<b>Revaluation of extended warrants</b>			<b>1,723</b>	<b>(1,723)</b>		<b>-</b>
<b>Warrants expired</b>			<b>(286)</b>	<b>286</b>		<b>-</b>
<b>Stock-based compensation (Note 11)</b>				<b>102</b>		<b>102</b>
<b>Net loss and comprehensive loss</b>					<b>(3,791)</b>	<b>(3,791)</b>
<b>Balance as at June 30, 2016</b>	<b>69,347</b>	<b>51,327</b>	<b>11,915</b>	<b>10,107</b>	<b>(72,209)</b>	<b>1,140</b>

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>Nine Months Ended</b>	
	<b>June 30, 2016</b>	June 30, 2015	<b>June 30, 2016</b>	June 30, 2015
<b>Cash flows used in operating activities</b>				
Net loss	\$ (1,446)	\$ (1,571)	\$ (3,791)	\$ (4,549)
Add items not affecting cash				
Amortization - patents and trademarks	32	34	105	99
- property and equipment	100	105	291	326
Stock-based compensation	68	39	102	109
Loss on sale of property and equipment	-	15	-	15
Accretion on debenture	47	38	127	59
	<b>(1,199)</b>	<b>\$ (1,340)</b>	<b>(3,166)</b>	<b>(3,941)</b>
Changes in non-cash working capital items				
Accounts receivable	92	(69)	28	(92)
Prepays and other assets	17	31	(46)	(47)
Investment tax credit recoverable	192	-	(168)	-
Inventory	(115)	(86)	(281)	(164)
Accounts payable and accrued liabilities	24	169	(64)	270
Deferred revenue	(2)	-	54	-
	<b>(991)</b>	<b>(1,295)</b>	<b>(3,643)</b>	<b>(3,974)</b>
<b>Cash flows used in investing activities</b>				
Purchase of property and equipment	(25)	(13)	(90)	(75)
Additions to patents and trademarks	(39)	(38)	(138)	(129)
Sale of property and equipment		24		24
	<b>(64)</b>	<b>(27)</b>	<b>(228)</b>	<b>(180)</b>
<b>Cash flows from financing activities</b>				
Proceeds from issuance of debentures, net of issuance costs	-	-	-	3,011
Proceeds from issuance of shares and exercise of warrants and options, net of share issuance costs	-	18	3,020	18
	<b>-</b>	<b>18</b>	<b>3,020</b>	<b>3,029</b>
Net change in cash during the period	<b>(1,055)</b>	<b>(1,304)</b>	<b>(851)</b>	<b>(1,125)</b>
Cash at beginning of period	<b>2,056</b>	1,914	<b>1,852</b>	1,735
<b>Cash at end of period</b>	<b>\$ 1,001</b>	<b>\$ 610</b>	<b>\$ 1,001</b>	<b>\$ 610</b>

# **SQI Diagnostics Inc.**

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

**(Unaudited)**

**June 30, 2016 and 2015**

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

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### **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.

## **SQI Diagnostics Inc.**

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

**(Unaudited)**

**June 30, 2016 and 2015**

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

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

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

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 consolidated financial statements were authorized for issuance by the Board of Directors on August 16, 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.

**SQI Diagnostics Inc.****Notes to Condensed Interim Consolidated Financial Statements****(Unaudited)****June 30, 2016 and 2015**

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

**4. 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, 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
<b>Additions</b>	<b>38</b>	<b>17</b>	<b>36</b>	<b>-</b>	<b>-</b>	<b>91</b>
<b>June 30, 2016</b>	<b>\$ 344</b>	<b>\$ 211</b>	<b>\$ 4,781</b>	<b>\$ 176</b>	<b>\$ 265</b>	<b>\$ 5,777</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, 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
<b>Amortization expense</b>	<b>16</b>	<b>7</b>	<b>255</b>	<b>4</b>	<b>10</b>	<b>292</b>
<b>June 30, 2016</b>	<b>\$ 296</b>	<b>\$ 190</b>	<b>\$ 3,646</b>	<b>\$ 164</b>	<b>\$ 242</b>	<b>\$ 4,538</b>

**Net Book Value**

September 30, 2015	\$ 26	\$ 11	\$ 1,354	\$ 16	\$ 33	\$ 1,440
<b>June 30, 2016</b>	<b>\$ 48</b>	<b>\$ 21</b>	<b>\$ 1,135</b>	<b>\$ 12</b>	<b>\$ 23</b>	<b>\$ 1,239</b>



**SQI Diagnostics Inc.****Notes to Condensed Interim Consolidated Financial Statements****(Unaudited)****June 30, 2016 and 2015**

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

**5. PATENTS AND TRADEMARKS**

<b>Cost</b>	
September 30, 2014	\$ 1,770
Additions	199
Write off of patents	(105)
September 30, 2015	\$ 1,864
<b>Additions</b>	<b>138</b>
<b>June 30, 2016</b>	<b>\$ 2,002</b>
<b>Accumulated Amortization</b>	
September 30, 2014	\$ 1,036
Amortization expense	135
Write off of patents	(18)
September 30, 2015	\$ 1,153
<b>Amortization expense</b>	<b>105</b>
<b>June 30, 2016</b>	<b>\$ 1,258</b>
<b>Net Book Value</b>	
September 30, 2015	\$ 711
<b>June 30, 2016</b>	<b>\$ 744</b>

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. DEFERRED REVENUE**

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

## SQI Diagnostics Inc.

### Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

June 30, 2016 and 2015

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

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#### 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%

	June 30, 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	223	96
Balance end of period	\$ 2,256	\$ 2,129

## SQI Diagnostics Inc.

### Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

June 30, 2016 and 2015

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

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#### 8. CAPITAL STOCK

- (a) The Company has authorized an unlimited number of common shares and has 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 June 30, 2016:

Number of Warrants	Purchase Price	Weighted average time to maturity
2,276	\$2.50	0.32 years
5,126	\$1.10	1.84 years
16,695	\$0.65	2.15 years
3,560	\$0.60	3.61 years
7,631	\$0.52	2.46 years
35,288		

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 fiscal 2015.

On May 1, 2015, the Company extended the expiry of 5,126,000 warrants by 36 months to May 1, 2018. In addition, at any time prior to the expiry date, as amended, should the 20-day trailing average price exceed \$1.43, warrant holders shall have 30 days to exercise this series of warrants and any unexercised warrants shall expire thereafter. All other provisions of the warrants will remain the same. The warrants were issued in May 2013 in connection with a private placement. The fair value of the extension was estimated using the Black-Scholes pricing model with the following assumptions: share price \$0.53; dividend yield 0%; risk free interest 0.7%; volatility 129%; and an expected life of 3 year. Expected volatility is based on historical volatility. As a result of the extension in 2015 \$1,960,000 was recorded in warrant capital with a corresponding reduction in contributed surplus. In addition, 512,604 warrants with an expiry of May 1, 2015 expired unexercised and \$331,000 was transferred to contributed surplus upon expiry in 2015.

## **SQI Diagnostics Inc.**

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

**(Unaudited)**

**June 30, 2016 and 2015**

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

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#### **9. WARRANT CAPITAL (continued)**

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, 2012. The warrants which had expiry dates of May 10, 2014, May 16, 2014, June 13, 2014 and June 19, 2014 were extended to May 10, 2015, May 16, 2015, June 13, 2015 and June 19, 2015. During the quarter-ended June 30, 2015 these warrants expired unexercised. As a result of the expiry \$1,211,000 was transferred to contributed surplus.

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.

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. In addition, 588,000 warrants with an expiry of April 10, 2016 expired unexercised and \$191,000 was transferred to contributed surplus.

**SQI Diagnostics Inc.****Notes to Condensed Interim Consolidated Financial Statements****(Unaudited)****June 30, 2016 and 2015**

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

**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:

	<b>Nine Months Ended</b>			
	<b>June 30, 2016</b>		<b>June 30, 2015</b>	
	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Beginning Balance	<b>2,422</b>	<b>\$ 0.70</b>	2,540	\$ 1.12
Granted	<b>2,132</b>	<b>\$ 0.30</b>	475	\$ 0.54
Exercised (i)	-	-	(50)	\$ 0.35
Cancelled/Expired	<b>(413)</b>	<b>\$ 1.17</b>	(158)	\$ 1.55
Forfeited	<b>(412)</b>	<b>\$ 0.54</b>	(130)	\$ 0.36
Ending Balance	<b>3,729</b>	<b>\$ 0.52</b>	2,677	\$ 1.03
Exercisable	<b>1,600</b>	<b>\$ 0.79</b>	2,197	\$ 1.14

The Company had the following stock options outstanding under the Plan at June 30, 2016:

<b>Number of Options</b>	<b>Range of Exercise Prices</b>	<b>Weighted average time to maturity</b>
3,039	\$0.30 – 0.60	4.09 years
390	\$0.61 – 1.65	1.52 years
300	\$1.66 – 1.90	0.57 years
<b>3,729</b>		

## SQI Diagnostics Inc.

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(Unaudited)

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(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 June 30, 2016 was \$465,000 (nine months ended June 30, 2015 - \$260,000), which will be recognized over vesting periods of 12 - 36 months. The total compensation expense credited to contributed surplus for the nine months ended June 30, 2016 was \$102,000 (nine months ended June 30, 2015 - \$109,000).

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:

	Nine Months Ended	
	June 30, 2016	June 30, 2015
Dividend Yield	0%	0%
Expected Volatility (historical data basis)	114%	108%
Risk-free Interest Rate	0.67%	0.69%
Share price	\$ 0.30	\$ 0.55
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		Nine Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Salaries and wages	\$ 117	\$ 153	\$ 459	\$ 407
General and administrative	132	129	369	393
Professional and consulting	102	259	310	559
Stock-based compensation	43	28	16	64
Corporate and general expense by nature	\$ 394	\$ 569	\$ 1,154	\$ 1,423

#### 13. SALES AND MARKETING EXPENSE

	Three Months Ended		Nine Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Contractor fees	\$ 113	\$ 114	\$ 326	\$ 369
Travel and marketing	45	94	159	197
Stock-based compensation	3	2	7	18
Sales and marketing expense by nature	\$ 161	\$ 210	\$ 492	\$ 584

## SQI Diagnostics Inc.

### Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

June 30, 2016 and 2015

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

#### 14. RESEARCH AND DEVELOPMENT COSTS

	Three Months Ended		Nine Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Salaries and wages	\$ 662	\$ 610	\$ 1916	\$ 1,795
Laboratory costs and supplies	180	94	373	371
Investment tax credit recoverable	-	-	(360)	-
Professional fees	4	5	82	15
Amortization – patents and trademarks	32	34	105	99
Amortization – property and equipment	100	105	291	326
Stock-based compensation	22	9	79	27
Research and development expense by nature	\$ 1,000	\$ 857	\$ 2,486	\$ 2,633

#### 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.

## **SQI Diagnostics Inc.**

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

**(Unaudited)**

**June 30, 2016 and 2015**

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

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#### **17. FINANCIAL RISK MANAGEMENT (continued)**

##### **(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 June 30, 2016 the Company had a working capital surplus of \$1,413,000 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.