

SQI Diagnostics Inc.

Consolidated Financial Statements

(Expressed in Canadian dollars)

For the Years Ended September 30, 2012 and 2011

INDEPENDENT AUDITORS' REPORT**To the Shareholders of SQI Diagnostics Inc.**www.collinsbarrow.com

We have audited the accompanying consolidated financial statements of SQI Diagnostics Inc. and its subsidiary which comprise the consolidated balance sheets as at September 30, 2012, September 30, 2011 and October 1, 2010 and the consolidated statements of operations, changes in equity and cash flows for the years ended September 30, 2012 and September 30, 2011 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SQI Diagnostics Inc. and its subsidiary as at September 30, 2012, September 30, 2011 and October 1, 2010, and its financial performance and its cash flows for the years ended September 30, 2012 and September 30, 2011 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that SQI Diagnostics Inc. has material uncertainties that may cast significant doubt about the company's ability to continue as a going concern.

Licensed Public Accountants
Chartered Accountants
December 12, 2012
Toronto, Ontario

SQI Diagnostics Inc.
Consolidated Balance Sheets

(Amounts are in thousands of Canadian dollars)

	Note	As at September 30, 2012	As at September 30, 2011 (Note 24)	As at October 1, 2010 (Note 24)
Assets				
Current				
Cash and cash equivalents		\$ 3,818	\$ 851	\$ 9,408
Prepays, deposits and amounts receivable	5	135	277	168
Inventory	6	54	138	260
Investment tax credit recoverable		201	-	-
Due from related party	7	-	-	66
		4,208	1,266	9,902
Due from related party	7	-	-	32
Property and equipment	8	2,637	2,853	2,731
Patents and trademarks	9	685	615	469
		\$ 7,530	\$ 4,734	\$ 13,134
Liabilities				
Current				
Accounts payable and accrued liabilities	10	\$ 1,018	\$ 2,588	\$ 972
Shareholders' Equity				
Capital stock	15	43,503	35,387	35,026
Warrant capital	16	3,692	1,614	1,799
Employee share purchase loan	15	-	-	(10)
Contributed surplus		9,971	9,488	8,946
Deficit		(50,654)	(44,343)	(33,599)
		6,512	2,146	12,162
		\$ 7,530	\$ 4,734	\$ 13,134

Contingencies (Note 21)

Approved by the Board

"Peter Winkley"
 Director (Signed)

"Claude Ricks"
 Director (Signed)

SQI Diagnostics Inc.**Consolidated Statements of Operations**

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

	Note	Year Ended	
		September 30, 2012	September 30, 2011 (Note 24)
Revenue			
Product sales		\$ 12	\$ 27
Consulting fees	11	-	9
		12	36
Expenses			
Corporate and general	12	2,131	3,835
Sales and marketing	13	288	460
Research and development costs	14	3,890	6,295
		6,309	10,590
Operating loss		(6,297)	(10,554)
Interest Income		11	61
Write down of trademarks	9	(25)	-
Write down of equipment	8	-	(251)
		(14)	(190)
Net loss		\$ (6,311)	\$ (10,744)
Loss per share			
Basic and diluted		\$ (0.17)	\$ (0.32)
Weighted average number of common shares outstanding (thousands of shares)			
Weighted average number of shares		37,406	33,874

SQI Diagnostics Inc.

Consolidated Statements of Changes in Equity

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

	Note	Issued Capital Stock		Warrant Capital	Employee Share Purchase Loan	Contributed Surplus	Deficit	Total Equity
		Number of Shares	Amount					
Balance as at October 1, 2010		33,758	\$ 35,026	\$ 1,799	\$ (10)	\$ 8,946	\$ (33,599)	\$ 12,162
Options exercised	17	81	174			(55)		119
Warrants expired	16			(125)		125		-
Warrants exercised	16	107	193	(60)				133
Share issuance costs			(6)					(6)
Loan repayment	15				10			10
Stock based compensation	18					472		472
Net loss							(10,744)	(10,744)
Balance as at September 30, 2011		33,946	\$ 35,387	\$ 1,614	\$ -	\$ 9,488	\$ (44,343)	\$ 2,146
Issued in connection with private placements	15	5,784	10,691					10,691
Allocated to warrants	15		(1,857)	1,857				-
Share issuance costs	15		(881)	162				(719)
Warrants issued	16			43				43
Options exercised	17	96	163			(44)		119
Warrants expired	16			(190)		190		-
Revalue extended warrants	16			206		(206)		-
Stock-based compensation	18					543		543
Net loss							(6,311)	(6,311)
Balance as at September 30, 2012		39,826	\$ 43,503	\$ 3,692	\$ -	\$ 9,971	\$ (50,654)	\$ 6,512

SQI Diagnostics Inc.**Consolidated Statements of Cash Flows**

(Amounts are in thousands of Canadian dollars)

	Year Ended	
	September 30, 2012	September 30, 2011
Cash flows used in operating activities		
Loss for the period	\$ (6,311)	\$ (10,744)
Add items not affecting cash		
Amortization - patents and trademarks	99	122
- property and equipment	536	456
Stock-based compensation	543	472
Warrants issued	43	
Loss on sale of property and equipment	-	43
Write down of equipment	-	251
Write down of trademarks	25	-
	(5,065)	(9,400)
Changes in non-cash working capital items		
Prepays, deposits and amounts receivable	142	(109)
Investment tax credit recoverable	(201)	-
Due from related party	-	98
Inventory	2	(270)
Accounts payable and accrued liabilities	(1,570)	1,616
	(6,692)	(8,065)
Cash flows used in investing activities		
Purchase of property and equipment	(238)	(482)
Additions to patents and trademarks	(194)	(268)
Sale of property and equipment	-	2
	(432)	(748)
Cash flows from financing activities		
Repayment of shareholder loan	-	10
Proceeds from private placement and exercise of warrants and options, net of share issuance costs	10,091	246
	10,091	256
Net change in cash and cash equivalents during the period	2,967	(8,557)
Cash and cash equivalents at beginning of period	851	9,408
Cash and cash equivalents at end of period	\$ 3,818	\$ 851
Cash and cash equivalents comprise		
Cash on deposit	3,671	258
Short term deposits	147	593
	\$ 3,818	\$ 851
Non-cash investing activities		
Equipment reclassified from inventory and segregated for use by the Company	\$ 82	\$ 392

See accompanying notes

SQI Diagnostics Inc.
Notes to Consolidated Financial Statements
September 30, 2012 and 2011

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

1. NATURE OF OPERATIONS

SQI Diagnostics Inc., (the "Company"), is incorporated in Canada and is listed on the TSX Venture Exchange under the symbol SQD. It has its head office and development centre at 36 Meteor Drive Toronto, Ontario. The Company is a life sciences company that develops and commercializes proprietary technologies and products for advanced microarray diagnostics. The Company's goal is to become a leader in the development and commercialization of microarray and multiplexed diagnostics by offering customers a comprehensive "turnkey" solution that increases the efficiency and ease of diagnostic testing and test development.

During fiscal 2009 the Company obtained Health Canada licenses and self authorization to sell in the EU and during fiscal 2010 received United States Food & Drug Administration ("FDA") clearance of its SQiDworks™ and IgX PLEX Rheumatoid Arthritis (RA) system. During fiscal 2010 the Company obtained a Health Canada license for its IgX PLEX Celiac™ microarray test kits that run on the Company's automated SQiDworks™ platform. During the year ended September 30, 2011 the Company obtained FDA clearance for its IgX PLEX Celiac™ qualitative assay and obtained a Health Canada license and self authorization to sell in the EU its second generation fully quantitative IgX PLEX Celiac™ assay.

2. BASIS OF PRESENTATION

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These are the Company's first consolidated financial statements prepared in accordance with IFRS and the Company's transition date is October 1, 2010. IFRS 1, First-time adoption of International Financial Reporting Standards ("IFRS1"), has been applied. An explanation of how the transition to IFRS has affected the consolidated financial statements is included in Note 24.

The significant accounting policies are discussed below.

Basis of Presentation and Going Concern

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

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

SQI Diagnostics Inc.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

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

2. BASIS OF PRESENTATION (continued)

The Company's ability to continue as a going concern and execute on its research, development and commercialization activities is dependent upon the Company's ability to successfully generate product or service revenues, or to finance its cash requirements through further equity and/or debt financings. The Company has a pipeline of additional autoimmune diagnostic products in various stages of development and commercialization. The Company expects to generate revenues from its IgX PLEX RA™ and IgX PLEX Celiac™ products as it grows its installed base of customers as well as from products to be launched as they complete commercialization. The Diagnostic Tools and Services business is intended to enable new segments of customers to expand the use of the Company's SQiDworks and SQiDlite platforms by converting their single-plex immunoassay and other protein-based content to multiplexed microarrays.

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

These 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 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 December 12, 2012.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary.

Earnings and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of operations from the effective date of acquisition and up to the effective date of disposal as appropriate. The Company owns 100% of its subsidiary.

When necessary, adjustments are made to the financial statements of the subsidiary to bring their accounting policies into line with those used by the Company.

Inter-company balances and transactions are eliminated upon consolidation.

SQI Diagnostics Inc.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

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

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

Cash and cash equivalents include bank deposits and highly liquid money market investments such as banker's acceptance notes, treasury bills, cashable money market funds, and cashable guaranteed investment certificates.

Inventory

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

Property and Equipment

Property and equipment are recorded at cost less accumulated amortization and accumulated impairment losses, if any. Property and equipment are initially recorded at cost based on the fair value of the consideration paid or payable. Subsequent to the acquisition date, an impairment assessment is made in accordance with the Company's impairment review policy described herein. Accordingly, the carrying value of property and equipment at a reporting date subsequent to the date of their acquisition may include a provision for accumulated impairment losses. Where an item of property and equipment comprises major components with different useful lives, the components are accounted for as separate items of property and equipment. Amortization is provided on the straight-line basis over the items' estimated useful lives as follows:

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

Intangible Assets

Patents and trademarks comprise costs, including professional fees, incurred in connection with the creation and filing of patents and registration of trademarks related to the Company's core technology and trademarks. The costs relating to initial patent and trademark fees are deferred and amortized over 10 years on a straight-line basis. Patents and trademarks are recorded net of impairment losses, if any. Research costs are charged to operations in the period in which they are incurred. Development costs are expensed as incurred or deferred if they meet the criteria for deferral under International Financial Reporting Standards and are expected to provide future benefits with reasonable certainty.

At September 30, 2012, the Company was developing Ig_PLEX diagnostics assays for celiac, vasculitis and an 8-plex cytokine assay. While not in active development, other assays in the development pipeline include lupus (SLE), Crohn's (IBD), antiphospholipid syndrome, the second generation, fully quantitative Ig_PLEX RA assay, and a diagnostic assay to detect and measure infliximab (also referred to as anti-TNF) in the blood of autoimmune patients. Deferral criteria have not been met, and accordingly, all development costs have been expensed in the period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Long-lived Assets

Long-lived assets comprise property and equipment and intangible assets with finite lives (patents and trademarks). The Company reviews the carrying value of its long-lived assets with finite lives annually to determine whether there is any indication that those assets have suffered impairment. If any such indication exists the asset is tested for impairment. The recoverable amount of the asset is estimated in order to determine the extent of impairment. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risk specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying value, the carrying value of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying value of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying value does not exceed the carrying value that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Revenue Recognition

Product sales are recognized upon the shipment of products to customers, if a signed contract exists, the sales price is fixed and determinable, collection of the resulting receivables is reasonably assured and any uncertainties with regard to customer acceptance are insignificant. Sales are recorded net of discounts and sales returns.

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

The Company also 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock-Based Compensation and Other Stock-Based Payments

The Company offers a share option plan for its directors, officers, and employees. The fair value of stock-based payment awards granted is recognized as an expense with a corresponding increase in contributed surplus. The Company grants stock options with multiple vesting periods, with each vesting period being treated as a separate tranche and considered a separate grant for the calculation of fair value. Fair value is calculated using the Black-Scholes option pricing model and the resulting fair value is amortized over the vesting period of the respective tranches. In addition, stock-based compensation expense recognized reflects estimates of award forfeitures with any change in estimate there of reflected in the period of the change. Consideration received upon the exercise of stock options is credited to capital stock at which time the related contributed surplus is transferred to capital stock.

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

Foreign Currency Translation

The financial statements of the Company and its subsidiary are maintained in the currency of the primary economic environment in which the entity operates (its functional currency). For purposes of the consolidated financial statements, the results and financial position are expressed in Canadian dollars which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

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

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets for unused tax losses, investment tax credits (ITCs) and deductible temporary differences are recorded in the financial statements, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment Tax Credits

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

Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

The Company's financial instruments are measured initially at fair value and thereafter based on their classification. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics, and the Company's designation of such instruments. At initial recognition financial instruments are classified in the following categories depending on the nature and purpose for which the instruments were acquired:

(i) Financial Assets and Liabilities at Fair Value through Profit or Loss

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term.

Financial instruments in this category are initially and subsequently stated at fair value. Transaction costs are expensed in the statement of operations. Gains and losses arising from changes in fair value are presented in the statement of operations in the period in which they arise.

The Company's cash and cash equivalents are classified in this category.

(ii) Available-for-Sale Investments

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available-for-sale investments are initially measured at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive loss. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are transferred from other comprehensive loss to the statement of operations.

The Company does not have any instruments classified in this category.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Held to Maturity

Financial instruments held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intent and ability to hold to maturity.

These assets are measured at amortized cost using the effective interest method of amortization. Transaction costs are expensed when incurred.

The Company does not have any instruments classified in this category.

(iv) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments and that are not quoted in an active market are classified as loans receivable.

Loans and receivables are initially measured at the fair value of the amount expected to be received and subsequently carried at amortized cost, using the effective interest rate method except for short-term receivables where the recognition of interest would be immaterial. Any gains or losses on the realization of loans and receivables are included in net loss.

The Company's amounts receivable and due from related party are classified in this category.

(v) Other Financial Liabilities

Other financial liabilities are initially measured at the amount required to be paid, less, when material, a discount to reduce the payable to fair value. Subsequently, other financial liabilities are measured at amortized cost using the effective interest rate method. Any gains or losses in the realization of other liabilities are included in operations. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time. Increases in the liability due to the passage of time are recognized as finance expense. Actual costs incurred upon settlement of the obligations are charged against the liability with any differences charged to income.

Accounts payable and accrued liabilities are classified as other financial liabilities.

Fair Value Measurement

The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other standard valuation techniques derived from observable market inputs.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Fair Value Measurement Instruments (continued)

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

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

Impairment of Financial Assets

All financial assets except those at fair value through profit and loss are subject to review for impairment at each reporting date. Financial assets are impaired when there is objective evidence that a financial asset or group of assets is impaired. The loss is determined as the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the financial asset's original effective interest rate. The carrying value of the asset is reduced by this amount indirectly through the use of an allowance account. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Comprehensive Income (Loss)

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

Net Income (Loss) Per Share

Basic net income or loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted average number of common and potential common shares outstanding during the period. The dilutive effect of outstanding stock options and warrants on earnings per share is calculated by determining the proceeds for the exercise of such securities which are then assumed to be used to purchase common shares of the Corporation.

Provisions

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable costs of meeting its obligations under the contract.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Critical Accounting Estimates and Judgments

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the period. Actual results could differ from those estimates.

Significant areas requiring the use of management estimates relate to the determination of the useful lives of property and equipment and patents and trademarks for amortization purposes and impairment of same, valuation of ITCs recoverable, valuation of stock options and warrants and recognition of deferred tax assets.

4. RECENT ACCOUNTING PRONOUNCEMENTS

IFRS 9 Financial Instruments

In October 2010, the IASB issued IFRS 9, Financial Instruments (IFRS 9). IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for annual periods beginning on or after January 1, 2015, with earlier application permitted. The Company is assessing the impact of this new standard on its consolidated financial statements.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

In May, 2011, the IASB issued IFRS 10, Consolidated Financial Statements (IFRS 10) and IAS 27 Separate Financial Statements (IAS 27). IFRS 10 and the amended IAS 27 together replace IAS 27 Consolidated and Separate Financial Statements. IFRS 10 establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IAS 27 prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. These standards are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is assessing the impact of this new standard on its consolidated financial statements.

IFRS 13 Fair Value Measurement

In May, 2011, the IASB issued IFRS 13 Fair Value Measurement (IFRS 13). IFRS 13, which is to be applied prospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IFRS 13 defines fair value, provides a framework for measuring fair value and includes disclosure requirements for fair value measurements. IFRS 13 will be applied in most cases when another IFRS requires (or permits) fair value measurement. The Company is assessing the impact of this new standard on its consolidated financial statements.

SQI Diagnostics Inc.**Notes to Consolidated Financial Statements****September 30, 2012 and 2011**

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

5. PREPAIDS, DEPOSITS AND AMOUNTS RECEIVABLE

	September 30, 2012	September 30, 2011	October 1, 2010
Accounts receivable	\$ -	\$ 5	\$ 3
Prepays and deposits	90	150	82
Sales tax recoverable	45	122	83
	\$ 135	\$ 277	\$ 168

6. INVENTORY

Inventory consists of component parts that are to be used in the future production of SQiDworks™ Platform and Ig_PLEX consumable assays.

7. DUE FROM RELATED PARTY

	September 30, 2012	September 30, 2011	October 1, 2010
Amount due from an officer and director (i) and (ii)	\$ -	\$ -	\$ 98
Less: Current portion	-	-	(66)
	\$ -	\$ -	\$ 32

(i) Amount due was secured. The principal amount of \$98,000 was repayable in three equal payments on September 1, 2010, 2011 and 2012. Terms of the promissory note were amended on April 16, 2010 as follows: interest bearing at Canada Revenue Agency prescribed rate for taxable benefits to employees and shareholders on interest-free and low-interest loans, which was 1% per annum at September 30, 2011. Prior to amendment, the loan was bearing interest at 4.25% per annum during the year ended December 31, 2009 and non-interest bearing from October 1, 2009 to April 15, 2010.

(ii) The loan was paid in full during the year ended September 30, 2011.

SQI Diagnostics Inc.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

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

8. PROPERTY AND EQUIPMENT

Cost	Computer Hardware	Computer Software	Laboratory Fixtures and Equipment	Office Equipment	Leasehold Improvements	Total
October 1, 2010	\$ 193	\$ 153	\$ 4,172	\$ 176	\$ 263	\$ 4,957
Additions	73	26	381		2	482
Transfers from inventory			392			392
Disposals			(95)			(95)
Impairment loss			(524)			(524)
September 30, 2011	266	179	4,326	176	265	5,212
Additions	4	-	234	-	-	238
Transfers from inventory	-	-	82	-	-	82
September 30, 2012	\$ 270	\$ 179	\$ 4,642	\$ 176	\$ 265	\$ 5,532

Accumulated Amortization	Computer Hardware	Computer Software	Laboratory Fixtures and Equipment	Office Equipment	Leasehold Improvements	Total
October 1, 2010	\$ 141	\$ 130	\$ 1,670	\$ 128	\$ 157	\$ 2,226
Amortization expense	45	17	366	9	19	456
Disposal			(50)			(50)
Impairment loss			(273)			(273)
September 30, 2011	186	147	1,713	137	176	2,359
Amortization expense	44	18	454	6	14	536
September 30, 2012	\$ 230	\$ 165	\$ 2,167	\$ 143	\$ 190	\$ 2,895

Net Book Value

October 1, 2010	\$ 52	\$ 23	\$ 2,502	\$ 48	\$ 106	\$ 2,731
September 30, 2011	\$ 80	\$ 32	\$ 2,613	\$ 39	\$ 89	\$ 2,853
September 30, 2012	\$ 40	\$ 14	\$ 2,475	\$ 33	\$ 75	\$ 2,637

SQI Diagnostics Inc.**Notes to Consolidated Financial Statements****September 30, 2012 and 2011**

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

8. PROPERTY AND EQUIPMENT (continued)

During the year ended September 30, 2011 the Company determined that certain laboratory equipment intended for use in the SQiDworks™ platform would not be incorporated into future platforms or used to develop future assays. Accordingly, laboratory equipment with a net book value of \$251,000 was written off.

During the year ended September 30, 2011 the Company also determined that the useful life of certain laboratory equipment with a book value of \$282,000 should be reduced from 10 years to 3 years as this equipment would not be used for future platforms or in future assay development, but would be maintained by the Company for future use. The impact of this change does not have a material impact on the financial statements.

9. PATENTS AND TRADEMARKS

Cost	
October 1, 2010	\$ 1,096
Additions	268
September 30, 2011	1,364
Additions	194
Write down of trademarks	(33)
September 30, 2012	\$ 1,525
Accumulated Amortization	
October 1, 2010	\$ 627
Amortization expense	122
Balance, September 30, 2011	749
Amortization expense	99
Write down of trademarks	(8)
September 30, 2012	\$ 840
Net Book Value	
October 1, 2010	\$ 469
September 30, 2011	\$ 615
September 30, 2012	\$ 685

As at September 30, 2012 the Company decided to discontinue three trademarks accordingly trademarks with a net book value of \$25,000 were written off.

SQI Diagnostics Inc.**Notes to Consolidated Financial Statements****September 30, 2012 and 2011**

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

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2012	September 30, 2011	October 1, 2010
Trade payables	\$ 796	\$ 1,570	\$ 763
Accrued liabilities	213	1,009	200
Payroll taxes	9	9	9
	\$ 1,018	\$ 2,588	\$ 972

11. RELATED PARTY TRANSACTIONS

Transactions with related parties occur in the normal course of business. Related party transactions have been listed below, unless they have been disclosed elsewhere in the financial statements.

Included in general and administrative expense for the year ended September 30, 2011 is \$38,000 related to recovery of occupancy costs from a corporation in which an officer of the Company is also an officer. Consulting fee revenue for the year ended September 30, 2011 of \$9,000 was earned from this corporation. At October 1, 2010, \$1,000 due from this corporation is included in amounts receivable. No transactions occurred with this related party in 2012 and no balance was outstanding at either September 30, 2011 or 2012.

Compensation of key management

Key management includes the Company's Officers and Directors. Compensation to key management includes:

	Year Ended	
	September 30, 2012	September 30, 2011
Salaries and short-term employee benefits	\$ 1,158	\$ 1,075
Stock based compensation	433	314
	\$ 1,591	\$ 1,389

SQI Diagnostics Inc.**Notes to Consolidated Financial Statements****September 30, 2012 and 2011**

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

12. CORPORATE AND GENERAL EXPENSE

	Year Ended	
	September 30, 2012	September 30, 2011
Salaries and wages	\$ 833	\$ 816
General and administrative (note 11)	545	737
Professional and consulting	423	2,083
Stock based compensation	330	199
Total corporate and general expense by nature	\$ 2,131	\$ 3,835

13. SALES AND MARKETING EXPENSE

	Year Ended	
	September 30, 2012	September 30, 2011
Contractor fees	\$ 247	\$ 394
Travel and marketing	26	54
Stock based compensation	15	12
Total sales and marketing expense by nature	\$ 288	\$ 460

14. RESEARCH AND DEVELOPMENT COSTS

	Year Ended	
	September 30, 2012	September 30, 2011
Salaries and wages	\$ 2,532	\$ 3,604
Laboratory costs and supplies	916	1,679
Professional fees	113	473
Investment tax credit	(504)	(300)
Amortization – patents and trademarks	99	122
Amortization – property and equipment	536	456
Stock based compensation	198	261
Total research and development expense by nature	\$ 3,890	\$ 6,295

SQI Diagnostics Inc.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

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

15. CAPITAL STOCK

- (a) The Company has authorized an unlimited number of common shares.
- (b) On October 26, 2011 the Company completed a non-brokered private placement of 2,276,000 units of the Company at \$2.00 per unit for gross proceeds of \$4,552,000.

Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at a price of \$2.50 for a period of two years from the date of issuance, provided that if on any day that is 12 months following the date of issuance the 20-day volume weighted average trading price of the Company's shares on the TSX Venture Exchange equals or exceeds \$3.25, then upon the Company sending subscribers written notice of such date and issuing a news release announcing such date, the common share purchase warrants will only be exercisable for a period of 30 days following the date on which such written notice is sent to the subscribers. The proceeds from the issuance of units are allocated between capital stock and warrant capital based on their relative fair values, with \$794,000 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 \$1.65; dividend yield 0%; risk free interest 1.10%; volatility 61%; and an expected life of 2 years. Expected volatility is based on historical volatility.

In connection with the private placement, the Company paid a finder's fee of \$258,000 and issued 86,040 compensation warrants exercisable for 24 months from the closing of the private placement. Each compensation warrant is exercisable into one common share and one warrant at a price of \$2.00. Each underlying warrant included in the compensation warrant is exercisable into one common share at a price of \$2.50 for a two year period from the date of the private placement. The fair value of the compensation warrants was estimated at \$53,000 using the Black-Scholes pricing model with the following assumptions: share price \$1.91; dividend yield 0%; risk free interest 1.10%; volatility 61%; and an expected life of 2 years. Expected volatility is based on historical volatility. Broker warrants and related financings were not measured at the fair value of the services received as the fair value of such services was not reliably measurable. The total share issuance costs were \$362,000.

Pursuant to a non-brokered private placement the Company issued 3,508,171 units at a price of \$1.75 per unit for gross proceeds of \$6,139,000. The private placement was completed in four tranches which closed on May 11, 2012, May 17, 2012, June 14, 2012 and June 20, 2012, respectively.

Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant will entitle the holder to purchase one common share at a price of \$2.50 for a period of two years from the date of issuance. The proceeds from the issuance of units are allocated between capital stock and warrant capital based on their relative fair values, with \$1,063,000 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 \$1.45; dividend yield 0%; risk free interest 1.20%; volatility 67%; and an expected life of 2 years. Expected volatility is based on historical volatility.

SQI Diagnostics Inc.

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

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

15. CAPITAL STOCK (continued)

In connection with the private placement, the Company paid a finder's fee of \$368,000 and issued 210,491 compensation warrants expiring 24 months after issuance. Each compensation warrant is exercisable into one common share and one warrant at a price of \$1.75. Each underlying warrant included in the compensation warrant is exercisable into one common share at a price of \$2.50 expiring 24 months following the respective closing dates of the private placement. The fair value of the compensation warrants was estimated at \$109,000 using the Black-Scholes pricing model with the following average assumptions: share price \$1.55; dividend yield 0%; risk free interest 1.22%; volatility 67%; and an expected life of 2 years. Expected volatility is based on historical volatility. Broker warrants and related financings were not measured at the fair value of the services received as the fair value of such services was not reliably measurable. Total share issuance costs were \$519,000.

- (c) During the period ended September 30, 2007, the Company made a non-interest bearing loan to an officer, which was used to acquire 100,000 common shares. The loan was accounted for as a share purchase loan and, accordingly, the \$10,000 loan balance was deducted from capital stock. The loan was paid in full during the year ended September 30, 2011.

16. WARRANT CAPITAL

The Company had the following warrants outstanding at September 30, 2012:

Number of Warrants	Purchase Price	Weighted average time to maturity
1,199	\$4.00	0.18 years
1,140	\$5.00	0.87 years
5,784	\$2.50	1.36 years
86	\$2.00	1.07 years
311	\$1.75	1.36 years
8,520		

On December 4, 2010, 143,886 warrants with an expiry of December 4, 2010 expired unexercised, and \$125,000 was transferred to contributed surplus upon expiry.

On January 22, 2011, 106,520 warrants with an expiry of January 22, 2011 were exercised for proceeds of \$133,000. Upon exercise \$60,000 was transferred to capital stock.

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

16. WARRANT CAPITAL (continued)

On December 23, 2011, 236,800 warrants with an expiry of December 23, 2011 expired unexercised, and \$127,000 was transferred to contributed surplus upon expiry.

On July 16, 2012 the Company issued warrants to purchase 100,000 shares of the Company's common stock at a price of \$1.75 in consideration for various corporate finance services. The warrants are exercisable for a one year period from the date of grant. The fair value of the warrants was estimated at \$43,000 using the Black-Scholes pricing model with the following assumptions: share price \$1.50; dividend yield 0%; risk free interest 1%; volatility 86%; and an expected life of 1 year. Expected volatility is based on historical volatility. The warrants were not measured at the fair value of the services received as the fair value of such services was not reliably measurable.

On July 31, 2012 the Company extended the expiry of 1,140,000 warrants by an additional 12 months to August 12, 2013. The warrants were issued in August 2010 in connection with a private placement. Each warrant entitles the holder to acquire one common share at a price of \$5.00 per share. The fair value of the extension was estimated using the Black-Scholes pricing model with the following assumptions: share price \$1.55; dividend yield 0%; risk free interest 1.10%; volatility 89%; and an expected life of 1 years. Expected volatility is based on historical volatility. As a result of the extension \$119,000 was recorded in warrant capital with a corresponding reduction in contributed surplus.

On August 12, 2012, 57,000 warrants with an expiry of August 12, 2012 expired unexercised, and \$63,000 was transferred to contributed surplus upon expiry.

SQI Diagnostics Inc.**Notes to Consolidated Financial Statements****September 30, 2012 and 2011**

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17. STOCK OPTIONS

The Company maintains a Stock Option Plan (the "Plan") for the benefit of directors, officers, employees and consultants. 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:

	Year Ended			
	September 30, 2012		September 30, 2011	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning Balance	1,541	\$ 1.92	1,814	\$ 1.77
Granted	725	\$ 1.85	175	\$ 2.88
Exercised (i)	(96)	\$ 1.24	(81)	\$ 1.45
Cancelled/Expired	(254)	\$ 1.86	(36)	\$ 1.71
Forfeited	(141)	\$ 2.00	(331)	\$ 1.71
Ending Balance	1,775	\$ 1.93	1,541	\$ 1.92
Exercisable	1,223	\$ 1.93	962	\$ 1.61

- (i) On exercise of stock options, \$44,000 (2011 - \$55,000) was transferred from contributed surplus to capital stock. The average market price on date of exercise was \$2.00 (2011 - \$3.09).

The Company had the following stock options outstanding under the Plan at September 30, 2012:

Number of Options	Range of Exercise Prices	Weighted average time to maturity
1,382	\$1.30 - 1.95	2.59 years
233	\$1.96 - 2.60	2.81 years
160	\$2.61 - 3.26	2.94 years
1,775		

SQI Diagnostics Inc.
Notes to Consolidated Financial Statements
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18. STOCK-BASED COMPENSATION

The fair value of the options granted during the year ended September 30, 2012 was \$789,000 (2011 - \$327,000), which will be recognized over the vesting periods of 18 - 36 months. The total compensation expense for year ended September 30, 2012 was \$543,000 (2011 - \$472,000). The total amount credited to contributed surplus for the year period ended September 30, 2012 was \$543,000 (2011- \$472,000).

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:

	Year Ended	
	September 30, 2012	September 30, 2011
Dividend Yield	0%	0%
Expected Volatility (historical data basis)	77%	80%
Risk-free Interest Rate	1.21%	2.13%
Share price	\$ 1.84	\$ 2.88
Expected Life (years)	5.00	5.00
Weighted average grant date fair value	\$ 1.09	\$ 1.87

The Company estimates forfeiture rates based on historic experience with any change in estimate thereof reflected in the year they occur.

19. INCOME TAXES

(a) Income Tax Expense

The following table reconciles income taxes calculated at combined Canadian federal/provincial tax rates with the income tax expense in the financial statements:

	Year Ended	
	September 30, 2012	September 30, 2011
Loss before income taxes	\$ (6,311)	\$ (10,744)
Statutory rate	27.00%	29%
Expected income tax recovery	\$ (1,704)	\$ (3,116)
Effect on income taxes of unrecognized deferred income tax assets relating to deductible temporary differences on:		
Change in deferred taxes not recognized	2,963	3,288
Change in future tax rates	(751)	314
Impact of SR&ED filings	(465)	(600)
Share issue costs	(191)	-
Non-deductible expenses and other items	148	114
Income tax expense	\$ -	\$ -

SQI Diagnostics Inc.
Notes to Consolidated Financial Statements
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(Amounts are in Canadian dollars; tabular amounts in thousands)

19. INCOME TAXES (continued)

(b) Deferred Income Taxes

The temporary differences that give rise to deferred income tax assets and deferred income tax liabilities are presented below:

	Year Ended	
	September 30,	September 30,
	2012	2011
Amounts related to tax loss and other credits carry forwards	\$ 14,582	\$ 11,892
Property and equipment and intangibles	(57)	(130)
Share issue costs	245	173
Net deferred tax asset	14,770	11,935
Less: Deferred taxes not recognized	(14,770)	(11,935)
	\$ -	\$ -

(c) Loss and Tax Credit Carryforwards

As at September 30, 2012, the Company has non-capital losses of approximately \$28,704,000 expiring as follows:

2014	\$ 63
2025	119
2026	3,124
2027	1,154
2028	2,815
2029	3,619
2030	5,211
2031	6,566
2032	6,033
	\$ 28,704

In addition, the Company has undeducted scientific research and experimental development costs of approximately \$14,355,000 and investment tax credits relating to scientific research and development costs of approximately \$3,476,000 available to apply against future taxable income.

The potential tax benefit relating to the non-capital losses and tax credit carryforwards has not been reflected in these financial statements.

SQI Diagnostics Inc.

Notes to Consolidated Financial Statements

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

20. RESEARCH AND DEVELOPMENT COSTS

The Company's autoimmune diagnostic research and development programs focus primarily on the following technology platforms:

- (a) Platform and fundamentals: The Company develops various platforms and processes to enable its customers to run and analyze the Company's immunoassay Ig_PLEX™ and QuantiSpot test kits. The Company's SQiDworks™ platform is a fully automated, multi plate system used to process up to three Ig_PLEX™ or QuantiSpot test kits. The SQiDworks™ platform is a fully load-and-go device that completes all sample handling, biochemistry, plate scanning and data analysis. The Company's platform research and development activities focus on continuous improvement to the platforms, novel applications, required modifications for the Company's pipeline Ig_PLEX and QuantiSpot content as well as the evolution of the platform to meet customer needs and market demands. The SQiDlite™ platform, in the development stage in 2012, is designed to address customers' requirements for smaller, less costly, fully automated systems and is intended to address the IVD and Diagnostic Tools and Services markets as well as the research and drug development markets.
- (b) Gastrointestinal ("GI"): The Company is developing a pipeline of Ig_PLEX™ test kits targeted at autoimmune disorders of the digestive system. The first such test kit for Celiac disease has been licensed in Canada and is FDA approved in the United States. The Ig_PLEX™ products currently in development include fully quantitative and expanded multiplex microarrays detecting and measuring serum antibodies to aid in the diagnosis of celiac disease and Crohn's/ulcerative colitis.
- (c) Rheumatoid Arthritis ("RA"): The Company is continuing the development of its in-market test and believes that it must continuously improve and update its products. During the year the Company moved into development enhancements which include fully quantitative Ig_PLEX microarray technology and expanded biomarker content.
- (d) Vascular: The Company is developing a pipeline of Ig_PLEX™ test kits targeted at autoimmune disorders of the vasculature. The Ig_PLEX™ products in development during the year include multiplex microarrays detecting and measuring serum antibodies to aid in the diagnosis of vasculitis and Antiphospholipid Syndrome (APS).
- (e) Immunogenicity: The Company is pursuing a number of Custom PLEX™ opportunities in the pharmaceutical and drug development testing markets. Immunogenicity testing is required and conducted by pharmaceutical companies, or by Contract Research Organizations on their behalf, to measure immunological responses in patients exposed to a drug undergoing clinical trials. Custom PLEX tests for customers in this market will be developed on a customized basis using the Company's core underlying multiplexing intellectual property. Immunogenicity efforts have been expended in the application of the Company's novel multiplexing technologies to antibody isotyping and antibody subclass proof of concept assays to enable marketing of the Company's capabilities to these target customers.
- (f) General Discovery Markers: The Company conducts discovery research as the first step in the development process. Discovery includes basic research to determine the suitability of candidate biomarkers that could be combined in marketable multiplex microarrays. The research during the year included biomarkers used to aid in the diagnosis of autoimmune diseases and includes: lupus, thyroid disease, autoimmune hepatitis, autoimmune renal disease and food intolerance.

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

20. RESEARCH AND DEVELOPMENT COSTS (continued)

- (g) Therapeutic Monitoring: The Company initiated a program to develop monitoring tests used to aid in the therapeutic treatment of autoimmune diseases. These tests are used to measure biologic therapies in patient's blood to assist clinicians in their use of various clinical approaches. Therapeutic Monitoring may be used alone, or in combination with the Company's Ig_PLEX™ products.

The following table summarizes the Company's research and development costs, excluding non-cash expenditures:

	Year Ended	
	September 30, 2012	September 30, 2011
Platform and fundamentals	\$ 525	\$ 636
Gastrointestinal	1,783	2,004
Rheumatoid Arthritis	374	1,413
Vascular	651	1,331
Immunogenicity	228	-
General Discovery Markets	-	354
Therapeutic Monitoring	-	18
	3,561	5,756
ITC Refund	(504)	(300)
	\$ 3,057	\$ 5,456

21. CONTINGENCIES

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

22. CAPITAL RISK MANAGEMENT

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

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

23. FINANCIAL RISK MANAGEMENT

a) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and cash equivalents are exposed to credit risk. The credit risk on cash and cash equivalents is small because the counterparties are highly rated Canadian banks. The Company's objective is to minimize credit risk by investing in highly liquid instruments with highly rated counterparties.

b) Interest Rate Risk

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

c) Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk due to its purchases in US dollars. A 1% change in the foreign exchange rate would result in a change of approximately \$7,000 in the reported profit and loss.

d) Fair Value Risk

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

e) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. At September 30, 2012 the Company had a working capital surplus of \$3,190,000 and at September 30, 2011 the Company had a working capital deficit of \$1,322,000. The Company's liabilities consist of accounts payables and accrued liabilities which are due within one year of the balance sheet date. The Company has sufficient liquidity to meet its current obligations as they come due. The continuation of the Company's research, development and commercialization activities is dependent upon the Company's ability to generate product or service revenues or to finance its operations through further equity and or debt financings.

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24. EXPLANATION OF TRANSITION TO IFRS

The Company adopted International Financial Reporting Standards (IFRS) effective October 1, 2011. The Company's financial statements for the year ended September 30, 2012 are the first annual statements that comply with IFRS. Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with Canadian generally accepted accounting principles (Canadian GAAP).

The accounting policies set out in Note 3 have been applied in preparing the financial statements for the years ended September 30, 2012 and 2011 and in the preparation of the opening IFRS consolidated balance sheet as at October 1, 2010, subject to certain exemptions from full retrospective application of IFRS as described below.

The Company has applied IFRS 1; First time Adoption of International Financial Reporting Standards (IFRS1) in preparing these first IFRS consolidated statements. In preparing the opening IFRS consolidated balance sheet, the Company had adjusted amounts previously reported in financial statements prepared in accordance with Canadian GAAP. This note explains the principal adjustments made by the Company in restating its Canadian GAAP balance sheet as at October 1, 2010 and its previously published Canadian GAAP financial statements for the year ended September 30, 2011.

IFRS optional exemptions

Business Combinations

The Company has elected to apply IFRS 3 – Business combinations relating to business combinations prospectively from October 1, 2010, and accordingly has not restated any balances pertaining to any prior transactions.

Share-based payments

The Company has elected not to apply the requirements of IFRS 2 – Share-based payment to awards that vested as of October 1, 2010.

IFRS mandatory exceptions

Use of Estimates

The estimates made by the Company under Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any differences in accounting policies.

SQI Diagnostics Inc.
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Reconciliation of Financial Position and Shareholders' Equity

(Amounts are in thousands of dollars)

Note	as at October 1, 2010			as at September 30, 2011		
	Canadian GAAP	Reclassification for IFRS Presentation	IFRS	Canadian GAAP	Reclassification for IFRS Presentation	IFRS
ASSETS						
Current						
Cash and cash equivalents	\$ 9,408		\$ 9,408	\$ 851		\$ 851
Prepays deposits and amounts receivable	168		168	277		277
Inventory	260		260	138		138
Due from related party	66		66	-		-
	9,902		9,902	1,266		1,266
Due from related party	32		32	-		-
Property and equipment	2,731		2,731	2,853		2,853
Patents and trademarks	469		469	615		615
	\$ 13,134		\$ 13,134	\$ 4,734		\$ 4,734
LIABILITIES						
Current						
Accounts payable and accrued liabilities	\$ 972		\$ 972	\$ 2,588		\$ 2,588
SHAREHOLDERS' EQUITY						
Capital Stock	35,026		35,026	35,387		35,387
Warrants	1,799		1,799	1,614		1,614
Employee share purchase loan	(10)		(10)	-		-
Contributed Surplus	a 8,832	114	8,946	9,377	111	9,488
Deficit	a (33,485)	(114)	(33,599)	(44,232)	(111)	(44,343)
	12,162		12,162	2,146		2,146
	\$ 13,134		\$ 13,134	\$ 4,734		\$ 4,734

SQI Diagnostics Inc.
Notes to Consolidated Financial Statements
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Reconciliation of Net Loss

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

		Year Ended September 30, 2011		
		Canadian		
		GAAP	Adjustments	IFRS
Note				
Revenue				
Product sales		27		27
Consulting fees		9		9
		36		36
Expenses				
Corporate and general	a	3,820	15	3,835
Sales and marketing		460		460
Research and development costs	a	6,313	(18)	6,295
		10,593	(3)	10,590
Operating loss		(10,557)	(3)	(10,554)
Interest Income		61		61
Write down of assets		(251)		(251)
		(190)		(190)
Net loss		(10,747)	(3)	(10,744)
Loss per Share				
Basic and diluted loss per share		(0.32)		(0.32)
Weighted average number of common shares outstanding				
Weighted average number of shares (thousands of share		33,874		33,874

SQI Diagnostics Inc.
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(Amounts are in Canadian dollars; tabular amounts in thousands)

Reconciliation of Shareholders' Equity

(Amounts are in thousands of dollars)

	Note	as at October 1, 2010	as at September 30, 2011
Shareholders' Equity previously reported under Canadian GAAP		\$ 12,162	\$ 2,146
Adjustment to Contributed Surplus	a	114	111
Adjustment to Deficit	a	(114)	(111)
Shareholders' Equity reported under IFRS		\$ 12,162	\$ 2,146

Note to reconciliation

(a) Share-based payments

As disclosed in notes 17 and 18, the Company's share-based awards vest in three equal installments over a period of 18 to 36 months. Under IFRS each installment of the award is accounted for as a separate share-based payment arrangement. In addition, under IFRS, forfeitures are estimated at the time of grant, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. Under previous Canadian GAAP, the Company accounted for stock-based awards as a single award. In addition, forfeitures were not considered at the time of grant but accounted for as they occurred, as permitted under Canadian GAAP.

The impact of these changes on the consolidated balance sheet at October 1, 2010 and September 30, 2011 is an increase to contributed surplus and deficit of \$114,000 and \$111,000, respectively.

The impact on the statement of operations for the year ended September 30, 2011 is to decrease stock based compensation by \$3,000.

The restatement from Canadian GAAP to IFRS had no significant effect on the reported cash flows generated by the Company. The reconciling items between Canadian GAAP and IFRS presentation have no net effect on the cash flows generated.