SQI Diagnostics Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations

December 31, 2010

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This discussion and analysis covers the unaudited financial statements for the quarters ended December 31, 2010 and 2009, prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). The fiscal year end of SQI Diagnostics Inc. ("SQI" or "Company") is September 30th.

All amounts are expressed in Canadian dollars unless otherwise indicated.

This discussion and analysis was prepared by management using information available as at February 24, 2011. Certain portions of this document including management's assessment of the Company's future plans and operations contain forward-looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Company's control, including the impact of general imprecision of reserve estimates, taxation policies, obtaining regulatory approvals, successful product development, competition from other producers, stock market volatility and the ability to access sufficient capital from internal or external sources. The Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that the Company will derive from them. Additional information relating to the Company is available by accessing the SEDAR website at www.sedar.com and the Company's website at www.sqidiagnostics.com.

OVERVIEW

SQI Diagnostics Inc. is a medical systems company that develops proprietary human diagnostic technology through multiplexing, miniaturization and automation. Our technologies enable laboratories to analyze multiple biomarkers simultaneously, deliver accurate and quantitative patient results in less time, significantly reduce labour costs, and increase profits when compared with current diagnostic instrumentation. The Company's proprietary SQiDworks™ instrument and IgXPLEX consumable tests together form an immunoassay system capable of providing many of the diagnostic tests currently performed in reference laboratories engaged in testing human blood for a wide range of disease markers.

The Company has been primarily involved in research, development and commercialization activities related to its core technology platform since 2003. The Company has expended significant resources to create and protect its technology platform through the filing of patents and in building an automated instrument and multiplexed IgXPLEX assay platform. The Company has invested in fostering partnerships with clinicians who are leaders in our disease areas of focus and with potential novel biomarker collaborators. The Company has also incurred costs associated with gathering market intelligence concerning prospective customers, developing a direct sales platform and in marketing and selling to prospective customers.

The Company's strategy is to develop and commercialize test kits for the autoimmune disease market as further described below, and plans to pursue commercialization of tests in infectious disease and allergen testing in the future. The Company also plans to explore in-licensing opportunities to expand its product pipeline as well as to continuously improve its in-market products through the addition of novel biomarkers to the existing diagnostic panels of tests. To execute this strategy the Company plans to seek regulatory approvals to sell these additional tests globally starting with the North American markets. Following the successful

commercialization of several IgXPLEX test panels, management will evaluate selling in additional markets starting with countries in the European Union.

During the quarter ended December 31, 2010, the Company's strategic focus was to continue their transition from a development Company to a commercial Company. During fiscal 2010, the Company entered into a contract with Gamma Dynacare Medical Laboratories (GDML) to supply them with a SQiDworks assay processing and analytical system and QuantiSpot RA™ test kits, with sales continuing into the 2011 fiscal year. GDML has also agreed to evaluate the Company's IgXPLEX Celiac test kits and the Company began delivery of validation, investigational use only, IgXPLEX Celiac products to them in the second quarter of fiscal 2011. GDML is a key customer for the Company; it processes significant test volumes of both rheumatoid arthritis and celiac disease tests.

The Company is currently in the process of obtaining US FDA clearance of its IgXPLEX Celiac test. The Company believes the clearance of this product will enhance its US market position. The Company is currently pursuing and is optimistic of winning additional Canadian customers based on Health Canada licensing of its IgXPLEX Celiac product during 2011.

The Company is focusing on the continued development of a pipeline of assays and SQiDworks and SQiDman assay processing and analytical platforms. The Company is moving these assays through the development pipeline and expects to advance additional test kits through the regulatory process during fiscal 2011 as discussed further in this document.

Status of Development Program

The Company's development program includes several major components which the Company expects will advance its commercialization strategy. The status of each component is summarized and discussed in further detail below:

Product	Development Status	Approval Status		
		Canada	United States	Europe
SQiDworks	Complete	Approved	Cleared as a system with IgXPLEX RA	CE Marked
SQiDman	Development RUO	Not required	Not required	Not required
IgXPLEX RA	Complete	Approved	Cleared	CE Marked
QuantiSpot RA™	Complete	Approved		CE Marked
IgXPLEX Celiac	Complete	Approved	Filed	
IgXPLEX Vasculitis	Final Development			

Product	Development Status	Approval Status		
		Canada	United States	Europe
IgXPLEX Celiac Quantitative	Verification	IUO product delivered to first customer for evaluation		
IgXPLEX RA Quantitative	Final Development			
IgXPLEX Lupus	Development			
IgXPLEX TNF	Development			
IgXPLEX IBD	Proof of Concept			

1. The Company has developed its fully automated SQiDworks and semi-automated SQiDman™ microarray-based test platforms that enable laboratory customers to generate multiple patient test results with less than one unit of traditional 'test effort'. The Company has received marketing clearance from the United States Food & Drug Administration ("FDA"), Canadian regulatory approval for, and has CE Marked its fully automated, high throughput SQiDworks platform. SQiDworks is the only such platform to achieve these regulatory clearances.

   The SQiDworks platforms are to be used to run a menu of tests used to aid in the diagnosis of a wide range of diseases in targeted market segments. The Company has received clearance from the FDA, Canadian regulatory approval for, and has CE Marked its IgXPLEX RA test kits used to detect and measure a panel of biomarkers to aid in the diagnosis of rheumatoid arthritis. The Company has also received Canadian regulatory approval for, and has CE marked, its fully quantitative QuantiSpot RA™ tests kits, run on the SQiDworks platforms. The QuantiSpot RA test kits provide fully quantitative information to further aid in the diagnosis and diagnostic monitoring of rheumatoid arthritis.

   The Company has received Canadian regulatory approval for its IgXPLEX Celiac test kits and filed for US FDA regulatory clearance to market this product.

   The Company's SQiDworks and SQiDman platforms are also capable of running Research Use Only (RUO) and Investigational Use Only (IUO) test kits and the Company is exploring sales opportunities related to these applications of its platform with the Company's products as well as through the potential development of target customer's content. Delivering RUO/IUO product based on customer owned content would require collaboration and assay development though this effort would be materially less than that experienced with the Company's pipeline of regulatory-cleared products. This creates additional new revenue opportunities for the Company.

2. The Company continues to focus on its in-market tests and believes that it must continuously improve and update its products. The company has identified and has moved into development enhancements to the existing IgXPLEX RA and IgXPLEX Celiac test panels. The enhancements to the IgXPLEX RA panel are in the advanced stages of development and subsequent to the quarter ending December 31, 2010, the enhancements to the IgXPLEX Celiac panel have completed the verification stage. These improvements, requiring regulatory approvals, will represent second generation, fully quantitative IgXPLEX microarray technology and include expanded biomarker content for IgXPLEX RA and IgXPLEX Celiac. All in-development tests will utilize this second generation, fully quantitative multiplexing technology; the Company believes these enhancements will provide significant market advantages compared to our competitors.

3. During the quarter ended December 31, 2010 the Company began implementing the feedback received from our partner related to the development of our IgXPLEX TNF assay and believes that it will deliver a commercial product to its partner during the 2011 calendar year.

Status of Commercialization Activities and Other Events in the Fiscal Year to Date

During the quarter ended December 31, 2010, the Company invested in its sales and marketing team, its science, commercialization, and regulatory groups, and in infrastructure. The Company's sales efforts are focusing on the North American market to generate sales to targeted customers of the currently approved system, including the SQiDworks fully automated analytical platform, IgXPLEX RA panel, QuantiSpot RA panel, and IgXPLEX Celiac panel (Canada). The science, commercialization, and regulatory groups are focusing on the continued development of pipeline assays and SQiDworks and SQiDman platforms.

Following is an overview of the Company's achievements for the fiscal year to date:

(a) The company continued to develop its commercial relationship with Gamma Dynacare Medical Labs (GDML) during the quarter ended December 31, 2010 and achieved additional sales of our RA product in this quarter. The Company is working closely with GDML to develop its multiplexed RA business and subsequent to the quarter end GDML released its first monthly news letter. This marketing material featured the benefits of multiplexing rheumatoid arthritis biomarkers on an automated platform to all of GDML's customers and is featured on GDML's website. The Company believes that this and similar marketing efforts will drive the continued growth of our RA product at GDML.

(b) The company has provided IgXPLEX Celiac test kits on an investigational use only basis, to GDML so that they can perform their internal review of the product's performance. Successful internal review by GDML is expected to lead to the expansion of the current contract to include IgXPLEX QUANTITATIVE Celiac test kits following Canadian licensing of the product. Health Canada review and licensing of the product is expected to follow a similar course as its prior reviews of the Company's RA quantitative and IgXplex Qualitative products.

(c) During the quarter the Company entered into a collaboration and evaluation agreement with a significant US-based reference laboratory and technology opinion-leader. The Company believes that the potential conversion of this laboratory would result in a positive general

market reaction and demand for its products. The Company expects to deliver the SQiDworks platform to this target customer in the third quarter of fiscal 2011.

(d) Progressed a number of pipeline diagnostic tests through our discovery and development program;

(i.) During the first quarter of fiscal 2011, the Company received and responded to questions from the FDA regarding its IgXPLEX Celiac panel. The questions and responses are described by the Company as those expected in the normal course of its regulatory processes.

(ii.) Based on market information obtained through in-depth market surveys and sales calls with potential customers the Company has identified enhancements to its existing RA and Celiac products. These enhancements, requiring regulatory approvals, are in advanced development and verification stages. These enhancements will transition the existing panels from qualitative to fully quantitative reporting and the expansion of additional biomarkers that the Company believes will be relevant in the market.

(iii.) The IgXPLEX Vasculitis assay continues to progress through the assay development pipeline and is expected to complete clinical validation in the third quarter of fiscal 2011. Collaborative studies demonstrating the utility of the Company's assays will be presented at the 15th International Vasculitis and ANCA Workshop May 15th – 18th, 2011.

(iv.) The IgXPLEX Lupus test panel is in the assay development stage. Moving the IgXPLEX Lupus panel through development is a significant achievement. The current development results show that SQI is able to effectively multiplex up to 16 protein biomarkers, including double stranded DNA. This is our largest panel to date and management believes the progress will provide SQI with the only such product in the market Management believes that the successful completion and clearance of the IgXPLEX Lupus product will be transformative to the Company's commercial position. The Company expects to initiate clinical validation of this product in the second calendar quarter of 2011, and complete regulatory filings shortly thereafter.

(v.) IgXPLEX IBD was progressed into the proof of concept stage and is being actively developed with the expectation of being completed and filed for regulatory approvals during 2011.

(vi.) Development continued on the IgXPLEX TNF test kits based on the expanded performance requirements requested by our partner, Mount Sinai Services. During this time, the R&D team also made significant technical improvements in the assay. The Company expects that it will be able to complete commercialization of an IgXPLEX TNF test that will be able to be cleared for IVD sale in Canada. It will remain as a Research Use Only (RUO) product with limited performance claims in the US until expanded clinical studies are performed. However, the Company continues to believe that, as there are no predicate tests currently approved to test for the presence and concentration of anti-TNF, there is a viable RUO market for the product in the US.

(vii.) Initiated the platform development program for SQiDworks Lite and continued platform development for the SQiDman platform with a target to complete development on a timeline to coincide with customer requirements for potential research use collaborations. The SQiDman platform is currently not targeted at IVD applications until the Company is actively developing infectious disease content and at that time the SQiDman platform would require additional development for regulatory requirements. The development of the SQiDworks LITE platform addresses the needs of mid-market IVD customers and of the research market. The SQiDworks LITE platform will be developed as an automated device with the flexibility to process and analyze varying sizes of consumables up to the current 96-well consumable used in the SQiDworks LITE;

(e) Partnering Successes in 2011

The Company has multiple collaboration agreements with leading global autoimmune research and treatment institutes highlighting the market interest in multiplexing and the Company's achievements to date. These collaborations significantly improve the Company's ability to progress its products through the development process through obtaining access to patient sera needed for assay development, verification of in-development products and final product clinical validation.

During the quarter ended December 31, 2010, the Company entered into a clinical validation agreement with the University North Carolina Kidney Center (UNCKC), Chapel Hill, with Dr. Falk acting as the principal investigator. This agreement gives the Company access to a significant bank of prospective and stored patient serum samples for characterized positive vasculitis patients. These serum samples substantially improve the Company's ability to develop and validate its IgXPLEX Vasculitis product. The collaboration agreement also provides the Company professional expertise from the world leader in diagnosing vasculitis disease. The Chapel Hill Protocol is the most recognized diagnostic algorithm used to diagnose vasculitis disease. As part of the agreement, the Company is collaborating to establish a center of excellence for microarray-based multiplex testing of vasculitis with Dr. Falk through the collaboration and delivery of a SQiDworks platform at Chapel Hill. The agreement calls for co-publishing of the results of the collaborative efforts.

The Company anticipates that this platform can be used for expanded purposes alongside the collaboration with Dr. Falk including, but not limited to validation of additional products in its pipeline.

Two abstracts generated in collaboration with Dr. Falk and Dr. Damoiseaux have been accepted for presentation at the 15th International Vasculitis and ANCA Workshop in May of 2011.

The following table provides an overview of our partnering collaborations and the relevant pipeline product as at the period end:

Partnering Institute*	Principal Investigator	Pipeline Product	Purpose
Cleveland Clinic (i)	Dr. R. Tubbs	IBD	Serum Samples Collaboration
Beth Israel Deaconess Medical Center	Dr. C. Kelly	Celiac	Serum Samples Collaboration/Publication
Beth Israel Deaconess Medical Center	Dr. A. Moss	Anti-TNF	Serum Samples Collaboration/Publication
Hospital Clinic de Barcelona, Spain	Dr. R. Cervera	Vasculitis	Serum Samples Collaboration/Publication
Cleveland Clinic	Dr. S. Wang	All Rheumatoid Arthritis Various	Clinical Validation Collaboration Serum Samples
University Hospital Maastricht, the Netherlands	Dr. J. Damoiseaux	Vasculitis	Serum Samples Collaboration
University North Carolina Kidney Center (i)	Dr. R. Falk	Vasculitis	Collaboration Serum Samples Clinical Validation
Mount Sinai Services Toronto, Ontario	Dr. G. Greenberg and Dr. M. Silverberg	IBD	Serum Samples

*All Partnering Institutes are located in the USA unless otherwise annotated.

(f) Subsequent to quarter end the company received the patent "METHOD AND DEVICE TO OPTIMIZE ANALYTE AND ANTIBODY SUBSTRATE BINDING BY LEAST ENERGY ADSORPTION (LEAP) in Europe. This patent is a key element of the Company's intellectual property strategy related to its multiplexing surfaces and capture analyte binding.

CORPORATE FINANCING TRANSACTIONS

A total of 7,500 employee stock options were exercised at a price of $1.74 for total proceeds of $13,000.

During the quarter ended December 31, 2010 143,886 warrants with an expiry of December 4, 2010 expired unexercised; $125,000 was transferred to contributed surplus upon expiry.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

These financial statements are prepared in accordance with Canadian GAAP.
The significant accounting policies that management believes are the most critical in fully understanding and evaluating the reported financial results include the following:

Patents and Trademarks
The costs relating to patent and trademark fees are deferred and amortized over 10 years on a straight-line basis. Patents and trademarks are recorded net of accumulated amortization of $656,000 (September 30, 2010 - $627,000).

Research and Development Costs
Research costs are charged to earnings in the period in which they are incurred. Development costs are expensed as incurred or deferred if they meet the criteria for deferral under Canadian generally accepted accounting principles and are expected to provide future benefits with reasonable certainty. At December 31, 2010, the Company has developed a pipeline of novel tests for its diagnostic system. Deferral criteria have not yet been met, and accordingly, all development costs have been expensed.

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

Share Issuance Costs
Costs incurred in connection with the issuance of capital stock are netted against the proceeds received.

Income Taxes
The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that will be in

effect when the differences are expected to reverse. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

Use of Estimates
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the year. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to the determination of the useful lives of property and equipment and patents and trademarks for amortization purposes, valuation of ITC's receivable, valuation of stock options and warrants and valuation allowance on future tax assets.

Recent Accounting Pronouncements
Business Combinations

In January 2009, the CICA issued Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. In addition, the CICA issued Sections 1601, Consolidated Financial Statements, and 1602, Non-Controlling Interests, which replaces the existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements, while section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

These standards apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier application permitted. The Company is currently evaluating the new sections to determine the potential impact of any future transactions on its consolidated financial statements.

International Financial Reporting Standards (IFRS)
The CICA plans to converge Canadian generally accepted accounting principles with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011, when IFRS will be fully adopted. The Company will be required to adopt IFRS for its 2012 fiscal year end and will be required to provide IFRS comparative information for the previous fiscal year. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS on its financial statements. We have identified the main differences between existing Canadian GAAP and IFRS standards. The Company has a conversion plan in place and believes it has the resources in place to meet the conversion timelines. The following are the main differences and the expected impact on our business processes and information systems:

Key Accounting Areas	Difference with potential impact on the Company
IFRS 1 First time adoption of IFRS	The Company is in the process of selecting the applicable exemptions under IFRS. Additional reconciliations and disclosure upon the initial conversion to IFRS will be included in the initial statements presented under IFRS commencing in the first quarter of fiscal 2012. During 2011 the company will assess and prepare the additional disclosures.

Key Accounting Areas	Difference with potential impact on the Company
IAS 16 Property Plant and Equipment	The Company will re-evaluate the useful life of each component of property plant and equipment and will restate, if applicable, the historic amortization expense.
IAS 36 Impairment of Assets	The Company will evaluate potential impairments using discounted cash flow analysis as required under IFRS
IAS 12 Income Tax	The Company has accumulated non-capital losses, undeducted scientific research and development costs, and investment tax credits that have not been reflected in the financial statements. These items will need to be assessed based on the IFRS criteria to ensure proper classification on the balance sheet.
IFRS 2 Share based payments	IFRS 2 requires that each tranche of options with graded vesting be treated as a separate award. IFRS 2 also requires an estimate of forfeitures to be factored into the determination of compensations costs. The Company expects to utilize the exemptions under IFRS 1 when converting to the new standard. The company has begun to calculate the impact on all unvested tranches of options at the date of transition.
IAS 1 Financial Statement Presentation	Additional disclosure required as well as selection between presentation alternative will be addressed in the initial statements presented under IFRS. The Company is analyzing the impact of the changes on its financial statements.

SELECTED FINANCIAL INFORMATION

First Quarter Commentary

The table below summarizes quarterly financial information for the 3 month periods shown.

	December 31, 2010 (000s)	September 30, 2010 (000s)	June 30, 2010 (000s)	March 31, 2010 (000s)
Revenue	$ 18	$ 14	$ 6	$ 10
Net Loss	$ 2,255	$ 2,621	$ 1,811	$ 2,021
Net Loss Per Share	$ (0.07)	$ (0.08)	$ (0.06)	$ (0.07)
Weighted Average Shares	33,759	32,705	30,790	29,917

	December 31, 2009 (000s)	September 30, 2009 (000s)	June 30, 2009 (000s)	March 31, 2009 (000s)
Revenue	$ 5	$ 7	$ 8	$ 7
Net Loss	$ 1,620	$ 1,616	$ 1,354	$ 1,473
Net Loss Per Share	$ (0.06)	$ (0.06)	$ (0.05)	$ (0.06)
Weighted Average Shares	27,930	27,271	26,326	25,837

Revenue for the quarter ended December 31, 2010 was $18,000 compared to $5,000 for the quarter ended December 31, 2009. Revenue for the first quarter of 2011 included sales of its QuantiSpot RA test kit to a 3rd party and service-based revenue provided to a related party.

For the quarter ended December 31, 2010, the Company recorded a net loss of $2,255,000 ($0.07 net loss per share) compared to a net loss of $1,620,000 ($0.06 net loss per share) for the quarter ended December 31, 2009. Per share values are based on the weighted average shares outstanding in the period. For the quarter ended December 31, 2010 there was an average of 33,759,000 shares outstanding.

Net loss and net loss per share were greater for the quarter ended December 31, 2010 compared to December 31, 2009. The increased loss for the three months ending December 31, 2010 was related to the Company's continued increases in activities and expenses in the discovery efforts for and development of its IgXPLEX assays as discussed in detail below. Additional expenses incurred included ordinary increases in wage and wage-related expenses owing to an increase in personnel, increased lab expenditures to support the greater number of projects, and other direct costs including serum acquisition and development and validation partner costs. Sales and Marketing expense was higher in the quarter ended December 31, 2010 owing to additional travel and contract resources in sales and marketing as the Company increase its sales effort for approved IgXPLEX panels in Canada and the United States and in anticipation of further product approvals.

R&D expenditures for the three month period ended December 31, 2010 were $1,499,000 compared to the $1,054,000 for the three month period ended December 31, 2009. The increase in R&D expense for the three month period ended December 31, 2010 compared to the three months ending December 31, 2009 resulted from increased R&D activity with an increased number of assay panels in development and to continued regulatory validation efforts related to the IgXPLEX Celiac assays. In the first quarter of 2010 the Company had 2 panels in development. In the first quarter of 2011, in addition to the IgXPLEX Celiac assay in regulatory validation, the company had 5 panels in development and 1 additional panel in early discovery and development. The company also incurred increased costs related to autoimmune assay validation services and expenditures for internal and third party clinical studies. In the three month period ended December 31, 2010 the company expended development efforts toward the SQiDman platform and enhancements to the SQiDworks platform and software; these activities did not occur in the three month period ended December 31, 2009.

Corporate expenses include, primarily, salaries and related expenses (including benefits and payroll taxes) of the Company other than salaries and related expenses paid to personnel engaged in research and development. General and Administrative expenses include facility costs, insurance costs, and foreign exchange expenses. Corporate and general expenses totalled $329,000 for the quarter ended December 31, 2010 compared to $209,000 for the quarter ended December 31, 2009. During the first quarter of 2011 corporate expenses increase as a result of higher salary costs, increased personnel and increased occupancy costs. Corporate expenses also included a loss on the disposition of equipment in the quartered ended December 31, 2010, there was no similar loss in the quarter ended December 31, 2009.

Professional consulting (legal, accounting, Board of Directors compensation, recruiting, administrative contractor, and investor relations) costs in the quarter ended December 31, 2010 were $107,000 compared to $121,000 from the quarter ended December 31, 2009. The decrease in professional and consulting costs in the quarter ended December 31, 2010 were primarily related to reduced legal and recruiting fees. Amounts for sales and marketing included in professional and consulting expenses in the first quarter of 2010 have been reclassified to sales and marketing expenses to conform to the current quarter's presentation.

Sales and Marketing expenses were primarily related to sales and marketing consultant fees and to travel related to selling activities in the quarter. Sales and marketing expenses totalled $106,000 for the quarter ended December 31, 2010 compared to $64,000 for the quarter ended December 31, 2009. The increase in sales and marketing expenses were primarily related to additional consulting costs paid to increase staffing to support product pipeline and commercialization efforts.

Operational expenses were partially offset by interest income earned on short-term investments of $24,000 for the quarter ended December 31, 2010 compared to $3,000 for quarter ended December 31, 2009. The Company invests its cash in variable term cashable government investment certificates and short-term money market deposits.

Non-cash stock based compensation charges totalled $115,000 for the quarter ended December 31, 2010 compared to $49,000 for the quarter ended December 31, 2009. The related stock option issuances are described further below in the Outstanding Share Capital section.

Outlook

Management expects losses to continue for the current fiscal year as investment continues in product development and commercialization efforts on its pipeline of autoimmune test kits as well as investment in sales and marketing. During the 2011 fiscal year the Company will focus on sales and placing SQiDworks systems in Canadian and US-based customers for system evaluation and expects that many of these evaluation placements will lead to commercial acceptance and revenues from sales of consumable test kits. The Company delivered one such evaluation placement in the 2010 fiscal year to GDML. Subsequent to GDMLs 90 day internal acceptance and validation testing the Company executed a commercial agreement and generated revenue in the quarters ended September 30, 2010 and December 31, 2010. The company is in the process of having GDML evaluate its IgXPLEX Quantitative Celiac test kits and is optimistic that this evaluation will lead to additional revenues from GDML and attributed to IgXPLEX Quantitative Celiac kits starting in the first half of calendar 2011.

Based on market feedback from a survey conducted in 2010, the Company believes that its strategy of focusing development, commercialization and marketing efforts on panels of autoimmune assays targeted at medium and large reference laboratory customers continues to be sound and aligns with customer demand.

Our analysis of the market would indicate that there are over 315 laboratories in the United States with sufficient volume of rheumatoid arthritis testing to be target customers for the SQiDworks / IgXPLEX RA system. Management believes that the addressable market is sufficiently large and that with the completion of additional IgXPLEX panels, including IgXPLEX Celiac, licensed in Canada and currently under FDA review, the company will be well-positioned for wider scale commercial acceptance of our platforms during the 2011 fiscal year, and beyond. Management believes the number of potential customers upon regulatory clearance of multiple IgXPLEX products (ex IgXPLEX RA and IgXPLEX Celiac) in the US, to greatly exceed those currently targeted with only one approved product in the US. Further, completion of SQiDworks Lite in 2011 for IVD and RUO/IUO applications will greatly enhance the addressable market into the 1,000s of potential customers. Following licensing in Canada of its IgXPLEX Celiac product the Company intensified its Canadian sales efforts and is optimistic that it will convert additional Canadian reference laboratories to customers in the ensuing several quarters.

Subsequent to the quarter ended December 31, 2010 and in anticipation of successful validation and CE marking of its next product, IgXPLEX Quantitative Vasculitis, the Company began exploring customer opportunities in a focussed business development effort in Europe. The initial feedback on the benefits and performance of the SQiDworks platform and IgXPLEX panels has been very positive. During the remainder of 2011 the Company will test its capability to generate revenue in Europe – successful test marketing may lead the Company to launch its European sales efforts in the 2011 fiscal year.

Based on its successful FDA clearance, its Health Canada licenses and EU authorization, management increased the intensity of the development and commercialization of several new IgXPLEX test kits in 2010. This increased intensity continued into the first quarter of 2011 and the Company expects this expanded development activity to result in the submission of an on-going flow of autoimmune test kit applications to the US, Canadian and EU regulatory bodies during the 2011 calendar year. This activity has generated similar R&D expenses in the first quarter of fiscal 2011 as was experienced in the second half of the 2010 fiscal year related to internal development, internal verification and validation studies and third party validation studies. This activity is expected to continue in the foreseeable future as the company completes the

autoimmune pipeline, continues to improve in-market tests and initiates development in new clinical areas.

During the 2011 calendar year the Company believes it to be strategic to expand its marketing and sales program to RUO/IUO customers that conduct research in the relevant disease markets or to those that have an interest in companion testing during drug development and that are targeted in our clinical areas of interest. The Company would target lower throughput customers conducting research with SQiDman platform and RUO/IUO products, higher throughput customers with our SQiDworks platform or SQiDworks Lite, the Company's intermediate platform which started development in the first quarter of fiscal 2011 and is anticipated to be completed in nine months. Management believes that SQiDworks Lite will be an important system for future clinical areas and non-reference lab customers. SQiDworks Lite is expected to be fully automated, allow smaller batch sizes and to have equivalent analytical performance when compared to the current fully automated SQiDworks Platform.

It will also be necessary to invest in expanding the Company's customer service and administrative elements to support our customers and sales, as we are successful in growing our placement of SQiDworks platforms across Canada and the United States, and increase our product menu available to our customers. Management will add these resources as needed to support forecasted customer installations of SQiDworks platforms and sales of consumable kits.

Management will continue to monitor its cash resources in relation to the capital available to it and will manage cash flows as required in the context of the capital markets. Management believes that it may, at some point, seek additional capital to advance and accelerate the number of tests under development and being validated for regulatory submissions, to expand our areas of focus beyond autoimmune disease at the appropriate times, expand our fully marketed analytical platform system portfolio enabling us to address a broader market, to build SQiDworks platforms to address customer demand, as well as to expand our sales team and its efforts in the United States and other jurisdictions as appropriate.

Related Party Transactions

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

Included in general and administrative expense for the quarter ended December 31, 2010 is $12,000 (quarter ended December 31, 2009 - $12,000) related to recovery of occupancy costs from a corporation in which an officer of the Company was also an officer. Consulting fee revenue of $9,000 for the quarter ended December 31, 2010 (quarter ended December 31, 2009- $5,000) was earned from this corporation. At quarter end, $10,000 (September 30, 2010 - $1,000) due from this corporation is included in amounts receivable.

Sources and Uses of Cash

Operational activities for the quarter ended December 31, 2010 were financed by cash on hand.

At December 31, 2010, current assets were $7,274,000 compared to $9,902,000 at September 30, 2010. Working capital as at December 31, 2010 was $6,717,000 compared to $8,930,000 at September 30, 2010.

Cash used in investing activities for the quarter ended December 31, 2010 were $282,000 compared to $86,000 for the quarter ended December 31, 2009. Increased additions to property and equipment in the current quarter reflect the Company's investment in (1) an overhaul of its out-dated network and data storage infrastructure to expand its data storage capacity required to support the research and development program and to enhance its disaster recovery system to protect the vast amounts of data generated through product development and validation, and (2) a SQiDworks platform for internal use for platform development activities.

During the quarter ended December 31, 2010 a total of 7,500 options were exercised at a price of $1.74 for total proceeds of $13,000.

Subsequent to quarter end 106,520 warrants with an expiry date of January 22, 2011 were exercised for total proceeds of $133,000.

Management believes that cash on hand at December 31, 2010, and cash generated from revenues will be sufficient to fund the Company's operations for at least 12 months. The continued successful commercial launch and generation of revenue in the 2011 fiscal years will extend this period.

Risks

The Company is subject to various risks. Factors that could cause results or events to differ materially from management's current expectations include, but are not limited to:

- changing competitive technology and market conditions;
- the Company's ability to successfully commercialize additional IgXPLEX tests in the autoimmune disease market;
- the successful and timely completion of clinical validation studies at partner sites;
- the failure to obtain requisite regulatory approvals (including the clearance of the FDA) for the Company's diagnostic tests in a timely manner, if at all, and other inherent uncertainties related to the regulatory approval process;
- the ability to generate sufficient acceptance of the Company's platforms and sales of test kits; and,
- the ability of the Company to fund its cash requirements from internal and external sources.

Management seeks to mitigate these risks, and others, primarily by retaining experienced employees and advisors who have expertise in the scientific, medical business, regulatory, manufacturing and operational disciplines of automated platform integration and immunoassay diagnostic test development.

The Company's SQiDworks automated analytical platform and its lead IgXPLEX RA test kit used to detect and quantify a panel of biomarkers to aid in the diagnosis of rheumatoid arthritis was cleared and licensed to be sold and marketed in Canada during the quarter ended December 31, 2008 and in the United States in November of 2009, and in the quarter ended March 31, 2009 were authorized to be CE Marked and to be sold in Europe. To the best of the Company's knowledge, this was the first and remains the only multiplexed microarray test in the autoimmune disease market to have been successfully cleared by the FDA or, in combination with IgXPLEX Celiac, the

only tests of this nature licensed in Canada. The Company sought regulatory approvals and clearances for its IgXPLEX Celiac test kit in the fourth quarter of fiscal 2010 and received Health Canada approval on September 17, 2011. The Company is awaiting FDA clearance.

IgXPLEX and QuantiSpot tests are designed to run only on the SQiDworks platform. In order to obtain approval for the SQiDworks platform and the Company's consumable tests for sale in the United States, our largest target market, the FDA typically requires the conduct of clinical validation studies to compare the performance of a new test to predicate tests currently approved for sale in the US. Upon successful completion of validation studies conducted at both SQI's labs and at multiple third party labs, the data derived are then presented to the FDA in the form of a 510(k) Pre-market Notification. It is typical for the external validation studies to take several months to complete and upon receipt of a completed 510(k) submission the FDA may take up to 180 days to render a decision on the application, not including any "time-outs" which the Company may take to prepare responses to various inquiries from the FDA. The Company believes the experience gained in obtaining the clearance of the SQiDworks-IgXPLEX RA system will enable it to complete and file applications for clearance of subsequently developed pipeline IgXPLEX assays more efficiently. This in turn may result in shorter review periods at the FDA than was experienced with the SQiDworks-IgXPLEX RA system. The timing of such clearances is dependent on several factors some of which are not controlled by the Company.

The IgXPLEX multiplexed test panels used to detect and quantify a panel of biomarkers to aid in the diagnosis of lupus, vasculitis, and Crohn's disease, are currently in the Company's discovery and development pipeline along with the IgXPLEX TNF panel to detect the drug, anti-TNF, that is used in the management of multiple autoimmune diseases. The IgXPLEX TNF panel is used to measure the quantity of therapeutic agents in the body and the information from this test could be used by clinicians in the management of several autoimmune diseases, including but not limited to rheumatoid arthritis, vasculitis and irritable bowel disease.

The Company is expecting one, or all of its pipeline of new multiplexed test panels in the autoimmune disease market under development (Vasculitis, Lupus, IBD (Crohn's)), and the second generation and expanded IgXPLEX RA and Celiac tests, and the SQiDworks platform, together each a system, to be commercially ready to file applications with the applicable regulatory jurisdictions in calendar 2011. Management believes that the IgXPLEX TNF test kits will be available for commercial sale for diagnostic use in Canada and research use in the US prior to the end of the 2011 calendar year.

During the current reporting period the Company did not earn material revenues from its test kits or SQiDworks platform. Management believes that material revenues from the sale of its test kits may be achieved in the 2011 calendar year; this is subject to certain risks including without limitation, the continued success of the development program and regulatory approvals of the products. The continuation of the Company's research, development and commercialization activities along with investment in marketing and sales is dependent upon the Company's ability to successfully manage its growth, investment in continued pipeline development and its cash requirements. Management believes that it has sufficient cash reserves to support the development, validation and commercialization of Vasculitis, Lupus, IBD (Crohn's), and the second generation and expanded IgXPLEX RA and Celiac tests and SQiDworks in North America.

We are exposed to market risks related to changes in interest rates and foreign currency exchange rates, which could affect the value of our current assets and liabilities. We do not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates relative to our cash investment, due to the prime interest rate based nature of the investment. We have not entered into any forward currency contracts or

other financial derivatives to hedge foreign exchange risk. We are subject to foreign exchange rate changes that could have a material effect on future operating results or cash flows.

Management will continue to review the Company's financial needs and to seek additional capital financing as required from sources that may include equity financing, debt financing, collaborative projects and licensing arrangements. However, there can be no assurance that such additional funding will be available or if available, whether acceptable terms will be offered.

Outstanding Share Capital

As at December 31, 2010, there were 33,766,000 common shares issued and outstanding.

The following tables describe the securities that have been issued that are convertible under certain conditions into common shares:

The Company had the following warrants outstanding at December 31, 2010:

Number of Warrants	Purchase Price	Expiry Date
107,000	$ 1.25	January 22, 2011
1,199,000	$ 4.00	December 4, 2011
237,000	$ 1.90	December 23, 2011
1,140,000	$ 5.00	August 12, 2012
57,000	$ 2.50	August 12, 2012
2,740,000		

The Company had the following stock options outstanding under the Plan at December 31, 2010:

Number of Options (000s)	Exercise Price	Expiry Date
33,000	$ 1.20	June 29, 2011
67,000	$ 1.20	August 29, 2011
172,000	$ 1.74	August 7, 2012
50,000	$ 1.50	October 23, 2012
758,000	$ 1.60	February 15, 2013
255,000	$ 1.75	August 26, 2013
80,000	$ 1.30	May 21, 2014
25,000	$ 3.26	November 03, 2014
57,000	$ 2.25	February 22, 2015
60,000	$ 2.10	May 27, 2015
175,000	$ 2.50	August 16, 2015
100,000	$ 2.90	October 4, 2015
1,832,000		

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Future Prospects

In its current state of evolution, management believes that the Company has assembled the necessary intellectual, financial, and human capital to advance its current pipeline of autoimmune test panels and the SQiDworks system through the completion of clinical validation studies and regulatory filings in Canada, the U.S. and Europe. The Company believes that completion of its lead product IgXPLEX RA and its clearance in the United States plus the filing for clearance in the United States of IgXPLEX Celiac, the licensing in Canada of QuantiSpot RA, IgXPLEX RA and IgXPLEX Celiac, and authorization to CE Mark it in Europe of QuantiSpot RA justifies the current intensified investment in development and commercialization of its pipeline of an additional group of at least eight autoimmune microarray diagnostic panels over the next eighteen months, with four novel and two second generation tests currently in the Company's discovery or assay development processes. It further believes that successful completion of these pipeline tests may lead to the development and commercialization of other test panels addressing unmet medical needs in the detection of known analytes used in the diagnosis or therapies for autoimmune, infectious disease and allergy management.

SQI's operational objectives are straightforward: generate revenue from products in the regulatory jurisdictions for which we have acquired regulatory approvals or licenses; continued successful commercialization and continuous improvement of a menu of autoimmune test kits; and, expansion of partnerships and other strategic relationships to enhance our product offerings or revenues. Success in these steps will allow the Company to further validate its multiplexing model, value proposition and to roll-out and sell its products to customers in its target markets.

The Company plans to execute on the following components of its operational strategy:

- Generate, maintain and grow customer sales in North America;
- Explore near-term revenue opportunities in Europe;
- Complete commercialization and regulatory filings (where appropriate) for, vasculitis, lupus, IBD, anti-TNF and second generation product extensions for RA and Celiac panels;
- Work with our partners to enhance our product offerings;
- Provide world-class customer support and service to ensure satisfaction; and,
- Publish scientific papers to broaden our product value proposition.

The Company will continue to invest in research and development activities related to its core platform technologies of microarray-based assays and detection devices.

DISCLOSURE CONTROLS AND PROCEDURES, AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. For quarterly reporting periods, the Company's financial statements are approved by the Audit Committee and the Board of Directors. For annual reporting periods, the Company's financial statements are approved by the Board of Directors upon recommendation by the Audit Committee. The integrity and objectivity of these financial statements are the responsibility of management. In addition, management is responsible for all other information in this report and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

In support of this responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

In particular, the CEO and CFO are responsible for establishing and maintaining disclosure controls and procedures ("DC&Ps") and internal controls over financial reporting ("ICFRs") for the Company, and have:

(a) designed such DC&Ps, or caused them to be designed under supervision, to provide reasonable assurance that material information is made known during the period in which the annual and quarterly filings are being prepared;

(b) designed such ICFRs, or caused them to be designed under supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP;

(c) evaluated the design and effectiveness of the Company's DC&Ps as of the quarter ended December 31, 2010;

(d) have concluded that a material design weakness in the ICFRs may exist in terms of the inadequate segregation of certain duties, which is typical of development stage companies; mitigating factors, including dual-payment authorization policies and transparent internal financial transaction reporting processes, serve to minimize the risk that such design weakness could result in a material misstatement of results for the quarter ended December 31, 2010; and

(e) have concluded that, other than the item described above in sub-point (d), there are no additional material design weaknesses in the DC&Ps or ICFRs, and that the effectiveness of the DC&Ps is sufficient to expect the prevention or detection of material misstatements of results.

The financial statements include amounts that are based on the best estimates and judgments of management. The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board of Directors exercises this responsibility principally through the Audit Committee. The Audit Committee consists of three directors, all of whom are independent and not involved in the daily operations of the Company. The Audit Committee meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the financial statements prior to their presentation to the Board of Directors for approval.