SQI Diagnostics Inc.

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

December 31, 2012

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This Management's Discussion and Analysis ("MD&A") covers the unaudited financial statements for the three months ended December 31, 2012 and 2011 and should be read in conjunction with the Company's condensed interim consolidated financial statements. The December 31, 2012 financial statements and additional information about the Company, including the annual audited financial statements and MD&A for the year ended September 30, 2012 and the most recent Annual Information form ("AIF") can be found on SEDAR as www.sedar.com.

All amounts are expressed in Canadian dollars unless otherwise indicated.

This discussion and analysis was prepared by management using information available as at February 14, 2012.

This document contains forward-looking statements that relate to future events or future performance and reflect our expectations and assumptions regarding our growth, results of operations, performance and business prospects and opportunities. Such forward-looking statements reflect our current beliefs and are based on information currently available to us. In some cases, forward-looking statements can be identified by terminology such as "our goal", "may", "would", "could", "will", "should", "expect", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other similar expressions concerning matters that are not historical facts. The forward-looking statements in this document include, among others, statements regarding our future operating results, economic performance, product development efforts, and statements in respect of:

- *our expected future losses and accumulated deficit levels;*
- *our requirement for, and our ability to obtain, future funding on favourable terms or at all;*
- *market competition and technological advances of competitive products;*
- *our expectations regarding the acceptance of our products by the market;*
- *our expectations regarding the progress and the successful and timely completion of the various stages of the regulatory clearance process;*
- *our strategy to develop new products and to enhance the capabilities of existing products;*
- *our strategy with respect to research and development;*
- *our dependence on expanding our customer base;*
- *our plans to market, sell and distribute our products;*
- *our plans in respect of strategic partnerships for research and development;*
- *our ability to obtain a sufficient supply of the components needed for our products;*
- *our plans to retain and recruit personnel;*
- *our plans to correct defects or errors in our systems; and*
- *our strategy with respect to the protection of our intellectual property.*

A number of factors could cause actual events, performance or results, including those in respect of the foregoing items, to differ materially from the events, performance and results discussed in the forward-looking statements. Factors that could cause actual events, performance or results to differ materially from those set forth in the forward-looking statements include, but are not limited to:

- *the extent of our future losses;*
- *our ability to obtain the capital required to fund development and operations;*
- *development or commercialization of similar products by our competitors;*
- *our ability to develop and market our products;*
- *our ability to comply with applicable governmental and securities regulations and standards;*
- *our ability to develop and commercialize our technologies;*
- *delays or failures in our ability to develop and implement new diagnostic products;*
- *our reliance on a few key and significant customers;*
- *our ability to attract and retain skilled and experienced personnel;*
- *the impact of changes in the business strategies and development priorities of our strategic partners;*
- *loss of suppliers or increases to the cost of the components of our systems;*
- *the impact of legislative changes to the healthcare system and regulatory process;*
- *our ability to maintain effective internal control over financial reporting;*
- *damage to our manufacturing facility or its failure to accommodate future sales growth;*
- *the impact of unknown defects or errors and product liability claims;*
- *foreign currency fluctuations;*
- *our ability to obtain patent protection and protect our intellectual property rights and not infringe on the intellectual property rights of others;*
- *the expense and potential harm to our business of intellectual property litigation;*
- *stock market volatility;*
- *the fact that further equity financing may substantially dilute the interests of our shareholders; and*
- *other risks detailed from time-to-time in our ongoing quarterly filings, annual information forms, annual reports and annual filings with applicable securities regulators, and those which are discussed under the heading "Risk Factors".*

Although the forward-looking statements contained in this management discussion and analysis are based on what we consider to be reasonable assumptions based on information currently available to us, there can be no assurance that actual events, performance or results will be consistent with these forward-looking statements, and our assumptions may prove to be incorrect. These forward-looking statements are made as of the date of this document.

OVERVIEW

SQI Diagnostics Inc. is a life sciences company that develops and commercializes proprietary technologies and products for advanced microarray diagnostics. Our goal is to become a leader in the development and commercialization of microarray and multiplexed diagnostics by offering our customers comprehensive "turnkey" solutions that increase the efficiency and ease of diagnostic testing, test development, and bioanalytical and immunogenicity testing in drug and vaccine development.

Our target customers - in the IVD segment - clinical, reference, academic and diagnostic development laboratories - and in the Diagnostic Tools and Services segment – diagnostic companies, contract research organizations (CRO), and pharmaceutical and vaccine developers - require diagnostic processing equipment and consumable tests ("systems") that are capable of processing large numbers of patient samples to detect and quantify multiple and varied types of

human antibodies, isotypes and sub-classes of antibodies as well as human proteins including protein-based drugs. Our systems and multiplexing technologies enable many tests to be completed in a single well of one of our consumable test kits at low cost and with minimal labour requirements using our "high-throughput systems". High-throughput systems have not been widely employed in autoimmune disease, allergen or immunogenicity testing and only limited use of high-throughput systems exists in infectious disease testing. To our knowledge, no fully-automated high-throughput systems exist that are capable of addressing the combined multiplex testing needs of these markets. A fully-automated system capable of providing multiple biomarker measurements in a single test array has the potential to increase a laboratory's throughput with significantly less labour, consumables and other costs, and the ability to greatly reduce the effort and time to complete certain aspects of clinical testing in a drug development program.

Our proprietary microarray tests and automated systems are designed to simplify antigen, protein and antibody testing workflow, increase throughput, reduce costs and provide excellent data quality. In many instances, our technology enables analysis that was traditionally unavailable.

Our high-throughput SQiDworks™ Diagnostic Platform (SQiDworks) is a fully-automated microarray processing and analytical instrument, which provides significant cost savings and other benefits over existing technologies. Additionally, the incremental cost savings of tests run on our fully-automated platform versus existing technologies increase as the complexity of the test increases.

Our SQiDlite™ Bench-Top Diagnostic System (SQiDlite), launched at the American Association of Pharmaceutical Scientists (AAPS) Annual Meeting and Exposition in October of 2012, offers laboratories of all sizes flexible, configurable, fully automated workflow solutions from dilutions through reporting to run protein and antibody multiplexed immunoassays. This bench-top system will be able to process multiple sizes of microarray devices from single 8-well strips up to a single 96 well microarray plate. SQiDlite integrates all test fluidics, test kit processing and analyzing functions in a user-friendly bench-top footprint.

Our Ig_PLEX and Custom PLEX™ microarrays have the ability to accurately measure multiple biomarkers, including but not limited to antibodies, their isotypes and subclasses of the isotypes in a single test. Additionally, our microarray technology uses less patient blood and has fewer steps than traditional methods, which may increase the predictive value of the test. The increased predictive value of the test may enable the healthcare provider to choose a treatment plan earlier in the course of the disease.

Our proprietary multiplex assay development process and microarray manufacturing capabilities, combined with our automated systems, are designed to significantly reduce the complexity and cost to our customers to commercialize microarray tests, or to develop in-house research use only (RUO) bioanalytical tests to capture and measure their target biomarkers.

The Company is focussing on the continued development of a pipeline of quantitative autoimmune and Custom PLEX™ tests that can be processed on our systems. The status of the Company's commercialization and development efforts are discussed below.

STATUS OF COMMERCIALIZATION AND DEVELOPMENT ACTIVITIES

Highlights of Commercialization and Development Activities for the Quarter-ended December 31, 2012
Our sales team completed twelve in person sales meetings which were the result of a significant number of prospecting and qualifying tele-meetings, trade show and scientific conference presentations.
On October 14-18, 2012 the Company launched its SQiDlite system at the AAPS Annual Meeting and Exposition.
On November 12-16, 2012 the Company presented at the European Bioanalysis Forum Open Symposium which highlighted our ability to multiplex and automate immunogenicity tests.
On January 24, 2013 the Company announced a collaboration with Algorithme Pharma to develop a multiplex proof of concept assay targeted at immunogenicity testing of heparin and heparin-based low molecular weight (LMWT) biosimilar compounds.
Verification work advanced on the Ig_PLEX Celiac DGP Panel. The Company has made significant progress on issues encountered in its initial verification testing and now expects validation to commence in the second fiscal quarter of 2013 followed shortly by completion and submission of applications for regulatory approval in both Canada and the United States.
SQI was asked to participate in the Emerging Technologies Action Program Committee (ETAPC).
Development work also advanced on the Ig_PLEX Vasculitis Panel and the Company expects to be able to commence verification and validation work for this IVD test in the first calendar half of 2013.
SQI has been invited to present its multiplexing technologies at the 14th Annual Immunogenicity for Biotherapeutics Conference in Baltimore 18-20 March 2013.

The Company has been focussing on arranging and completing many targeted sales and business development initiatives with a large number of (1) diagnostics companies with immunologic single-plex tests amenable to multiplexing, (2) pharmaceutical and vaccine companies using single-plex immunogenicity tests in drug development and (3) CROs that service the immunogenicity testing needs of pharmaceutical companies that outsource their bioanalytical and immunogenicity testing. During the quarter our sales team completed twelve in person sales meetings which were the result of a significant number of prospecting and qualifying tele-meetings, trade show and scientific conference presentations. Management continues to develop our sales funnel and is focussing on generating initial opportunities with our high probability target customers. Significant trade show and scientific conference presentations include:

- On October 14-18, 2012 the Company launched its SQiDlite system at the AAPS Annual Meeting and Exposition targeting pharmaceutical companies and CROs with bioanalytical testing needs in the various phases of drug development and clinical trials.
- On November 12-16, 2012 the Company presented at the European Bioanalysis Forum Open Symposium to provide pharmaceutical companies and CROs with the technical basis of our ability to multiplex and automate immunogenicity and other multi-biomarker tests and the economic benefits of using our technologies.
- During the three months ended December 31, 2012, SQI was asked to participate in the Emerging Technologies Action Program Committee (ETAPC). This is an industry working group comprising industry leaders and the Committee focusses on evaluating

the potential of emerging technologies for biologics quantification beyond the technologies that are presently expanding in the pharmaceutical industry or technologies that represent progressive developments and that offer a competitive advantage to its partner companies in the pharmaceutical and drug development markets.

As a result of the above efforts, on January 24, 2013 the Company announced a collaboration with Algorithme Pharma ("Algopharm") wherein the parties are sharing the cost to develop and produce data that will be used to market a multiplex assay targeted at immunogenicity testing of heparin and heparin-based low molecular weight (LMWT) biosimilar compounds. As the first step in marketing the commercial product SQI and Algopharm will present the results of the proof of concept studies at the upcoming 14th Annual Immunogenicity for Biotherapeutics Conference in Baltimore March 20th, in a presentation titled "A Novel Approach for Multiplexed Detection, Isotyping, and Quantitation of IgG, IgA, and IgM PF4/Heparin Antibodies using SQI Diagnostics' Ig_Plex™ Technology". The potential benefit to drug development companies and CROs using SQI's Custom PLEX tests is to provide quantitative results for the three isotypes of heparin-induced thrombocytopenia (HIT) antibodies multiplexed in a single test. Further, by utilizing SQI's automated systems to significantly improve workflow, customers simultaneously enjoy the benefits of multiplexing and automation, markedly reducing the time and labour required to process and analyze blood samples during immunogenicity testing. The HIT test is one of many biosimilar compounds that stand to benefit from SQI's multiplexing and automation technologies. The heparin market alone has been estimated to grow at a CAGR of 11.2 percent over the period 2011-2015 (Technavio, Global Heparin Market 2011 – 2015, November 2012). Heparin and its biosimilar compounds are currently estimated to generate revenues of approximately $1 billion per year. There are several heparin-based biosimilar compounds currently on the market and an estimated eight biosimilars in development. Heparin is used to treat a variety of conditions such as deep vein thrombosis, pulmonary embolism, and acute coronary syndrome (ACS) to prevent clotting during dialysis and to avert intravascular coagulation during open heart surgical procedures.

Platform development of SQiDlite has continued during the quarter-ended December 31, 2012. This development includes studies to position SQiDlite for IVD approvals as well as continuous improvements to assist customers in their Custom PLEX assay development and the application of new SQI technologies.

Verification work advanced during the first fiscal quarter of 2013 on the Ig_PLEX Celiac DGP Panel. The Company made significant progress on issues encountered in its initial verification/validation testing. Solutions have been implemented and management expects validation to commence in the second fiscal quarter of 2013 followed shortly by completion and submission of applications for regulatory approval in both Canada and the United States. The Company believes that, while we are behind planned validation and filing schedules, the significant process and material changes made to several assay design features, manufacturing methods as well as refining the parameters used to run this assay on our SQiD-X system that this assay will complete the commercialization process in the first half of calendar 2013. Subsequent to completion of validation the Company expects to complete the automation of the celiac assay on the SQiDlite platform as well as apply many of the manufacturing and process changes to other assays in the development pipeline. The overall design objectives of these changes achieved by the Company were to produce multiplexed IVD products with sensitivity, specificity and reproducibility equal to or better than the current predicate tests. This means that our reproducibility as measured by the assay to assay variation is less than 10%. Management believes that it can further utilize the benefits of our process changes to RUO product development and consistently produce proof of concept and commercial-ready RUO products

with variabilities of approximately 15%, which would be unique in the multiplexed immunology RUO market.

Development work also advanced on the Ig_PLEX Vasculitis Panel and the Company expects to be able to commence verification and validation work for this IVD test in the first calendar half of 2013.

The status of each component of our development program is summarized in the table below:

DEVELOPMENT STATUS - IVD						
PRODUCT	STAGE OF DEVELOPMENT					
	Candidate Panel	Proof of Concept	Assay Development	Automation	Validation	Approval/ Clearance
IgX PLEX RA (Qualitative) (1)						
IgX PLEX RA (Quantitative) (2)						
Ig_PLEX RA (Quantitative) (3) ON HOLD						
IgX PLEX Celiac (Qualitative) (1)						
IgX PLEX Celiac (Quantitative) (2)						
Ig_PLEX Celiac DGP (Quantitative) (3)						
Ig_PLEX Vasculitis						
Ig_PLEX ANA ON HOLD						
Ig_PLEX Lupus ON HOLD						
Ig_PLEX IBD/Crohn's ON HOLD						
Ig_PLEX APS ON HOLD						
Ig_PLEX TNF ON HOLD						

(1) Approved or cleared in the U.S. and Canada.
(2) Approved or cleared in Canada and Europe.
(3) Development status for clearance in the U.S.

DEVELOPMENT STATUS – Custom PLEX and Immunogenicity						
PRODUCT	STAGE OF DEVELOPMENT					
	Candidate Panel	Proof of Concept	Assay Development	Automation	Internal Verification	Ready to Commercialize
Cytokines 8 PLEX (RUO)				N/A		
Heparin Immunogenicity Assay						

CORPORATE FINANCING TRANSACTIONS

On December 4, 2012 the Company extended the expiry of 1,192,052 warrants to December 4, 2013. All other terms of the warrants remained unchanged. The fair value of the extension was estimated using the Black-Scholes pricing model with the following assumptions: share price $0.34; dividend yield 0%; risk free interest 1.07%; volatility 103%; and an expected life of 1 year. Expected volatility is based on historical volatility. As a result of the extension $4,000 was recorded in warrant capital with a corresponding reduction in contributed surplus.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

The Company's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

The significant accounting policies that management believes are the most critical in fully understanding and evaluating the reported financial results include the following:

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 December 31, 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.

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.

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.

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.

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.

SELECTED FINANCIAL INFORMATION

First Quarter Commentary

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

	December 31, 2012 (000s)	September 30, 2012 (000s)	June 30, 2012 (000s)	March 31, 2012 (000s)
Revenue	$ 3	$ -	$ -	$ 8
Net Loss	$ 1,563	$ 1,727	$ 1,584	$ 1,350
Net Loss Per Share	$ (0.04)	$ (0.04)	$ (0.04)	$ (0.04)
Weighted Average Shares	39,826	39,822	37,877	36,280
	December 31, 2011 (000s)	**September 30, 2011 (000s)**	**June 30, 2011 (000s)**	**March 31, 2011 (000s)**
Revenue	$ 4	$ 5	$ 9	$ 4
Net Loss	$ 1,650	$ 3,896	$ 2,648	$ 1,890
Net Loss Per Share	$ (0.05)	$ (0.11)	$ (0.08)	$ (0.06)
Weighted Average Shares	35,637	33,946	33,936	33,852

Revenue for the quarter-ended December 31, 2012 was $3,000 compared to $4,000 for the quarter-ended December 31, 2011. Revenue for the three months ended December 31, 2012 was as a result of an initiative with one of our hardware vendors of our platform systems components. Revenues for the three months ended December 31, 2011 resulted from sales of the Company's QuantiSpot RA test.

For the quarter-ended December 31, 2012, the Company recorded a net loss of $1,563,000 ($0.04 net loss per share) compared to a net loss of $1,650,000 ($0.05 net loss per share) for the quarter-ended December 31, 2011. Per share values are based on the weighted average shares outstanding in the period. For the quarter-ended December 31, 2012 there was an average 39,826,000 shares outstanding.

The net loss was lower for the three months ended December 31, 2012 compared to the three months ended December 31, 2011. The Company's business realignment reduced both personnel and R&D expenditures. The realignment began in December of 2011. The Company also reduced costs in general and administrative and professional fees.

R&D expenditures, excluding amortization and stock based compensation, for the quarter-ended December 31, 2012 were $784,000 compared to $959,000 for the quarter-ended December 31, 2011. With fewer projects in active development the Company reduced expenditures on salaries, lab

consumables, scientific consultants, partnering and validation costs. During the quarter the Company focussed its R&D efforts on resolving issues encountered in its initial verification testing of the Celiac DGP assay and now expects validation to commence in the second fiscal quarter of 2013 followed shortly by completion and submission of applications for regulatory approval in both Canada and the United States. In the first quarter of fiscal 2012, prior to the business realignment, the Company had six projects in active development.

Corporate and general expenses include 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. Salaries and wages were $181,000 for the quarter-ended December 31, 2012 compared to $177,000 for the quarter-ended December 31, 2011. The slight increase in corporate salaries expense is due to higher payroll tax and benefit rates.

Corporate and general expenses also include general and administrative expenses which comprise occupancy costs, insurance costs, foreign exchange expenses, and other general operating costs. General and administrative expenses were $143,000 for the three months ended December 31, 2012 compared to $128,000 for the three months ended December 31, 2011. General and administrative expenses in the quarter-ended December 31, 2011 were offset by a $29,000 realized foreign currency gain as the Canadian Dollar increased in value versus the US Dollar during calendar 2011. The Company's cost cutting efforts reduced or maintained the spending levels on other general and administrative costs.

Professional consulting (legal, accounting, Board of Directors compensation, recruiting, administrative contractor, and investor relations) costs in the three months ended December 31, 2012 were $66,000 compared to $87,000 for the three months ended December 31, 2011. The decrease in professional and consulting costs in the three months ended December 31, 2012 was primarily related to reduced recruiting and professional fees as a result of the Company's cost cutting efforts.

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, excluding stock based compensation, totalled $109,000 for the three months ended December 31, 2012 compared to $89,000 for the three months ended December 31, 2011. The increase in sales and marketing expenses for the three months ended December 31, 2012 compared to the three months ended December 31, 2011 was primarily a result of increased expenditures on conferences and marketing materials.

Non-cash stock based compensation charges totalled $125,000 for the three months ended December 31, 2012 compared to $52,000 for the three months ended December 31, 2011. The related stock option issuances are described further in the Outstanding Capital Stock section that follows.

Operational expenses were partially offset by interest income earned on short-term investments of $8,000 for the three months ended December 31, 2012 compared to $2,000 for three months ended December 31, 2011. The Company invests its cash in variable term cashable government investment certificates and short-term money market deposits.

OUTLOOK AND FUTURE PROSPECTS

The Company launched its Diagnostics Tools and Services business line in fiscal 2012and has been establishing a strong line-up of potential customers during fiscal 2013. This business is focussed on using our core IVD development technologies, software and platforms to enable diagnostic customers, laboratories and pharmaceutical companies and CROs involved in drug development with single test biomarker panels to move to multiplexed assays on the SQI technology platform.

We believe that our unique technology is attractive to prospects that desire multiplexed assays but do not have the capability to commercialize multiplexed tests. We also believe that our multiplex automated platforms (SQiDworks and SQiDlite) and our semi-automated SQiD-X, are unique in this market and if provided to customers on an OEM basis will enable a broader adoption of multiplexed tests that we could generate revenue streams from including: Diagnostic Tools and Services assay development fees; product revenue from the manufacture of OEM kits; software revenues; and platform revenues from the sale of primarily SQiDlite units, but also SQiDworks and SQiD-X units. Management believes that the success of these potential diagnostic customers may result in the proliferation of SQiD-platforms in the market and a greater potential installed base of platforms that could be used to run a variety of Ig_PLEX test kits, including our own IVD and RUO kits.

From our initial customer prospecting, joint marketing efforts with some of our hardware vendors and market development focussed on introducing our technologies to new markets at trade shows, conferences and symposia, management believes that there are a significant number of potential customers recognizing the value of the Diagnostic Tools and Services offerings.

The ideal customer targets are those that have either tried to apply competing bead-based multiplexing technologies or planar microarrays (or both) to antibody-based immunologic tests or panels requiring multiple biomarkers.

As previously mentioned in this discussion, subsequent to quarter end the Company announced a collaboration with Algorithme Pharma to develop a multiplex proof of concept heparin immunogenicity assay. A commercial assay based on the proof of concept will be targeted at drug development testing to determine patient immunogenic responses to heparin and heparin-based LMWT biosimilar compounds. Further, the commercial assay is expected to be available immediately following the Annual Immunogenicity for Biotherapeutics Conference presentation in March and on all of SQI's fully-automated analytical systems including its SQiDlite™ and SQiDworks™ systems two to three months later. The Company believes that this first Diagnostic Tools and Services collaboration will drive revenue from the targeted assay and that it will also serve as a proof point for other customers in our Diagnostic Tools and Services sales pipeline who are in the process of deciding to use SQI as a vendor for its biosimilar multiplexing capability or its ability to rapidly turn around a multiplex concept into a commercial RUO product.

Management believes that once recognized in the market for SQI's ability to deliver contract products that this will further accelerate our efforts to generate sales of additional Diagnostic Tools and Services projects and will also create sales synergies in our IVD markets. The benefits of the Diagnostic Tools and Services opportunities also include gaining access to developed revenue streams through the replacement of single-plex test sold by our customers with multiplexed tests developed under contract and then manufactured and sold on an OEM basis.

Management expects losses to continue for the fiscal 2013 year as investment continues in product development and commercialization efforts on its pipeline of autoimmune test kits and platforms, as well as investment in sales and marketing. Management expects to reduce losses in fiscal 2013 as it generates revenues and margin from a variety of Diagnostic Tools and Services customers. Upon validation and regulatory licensing (Canada, Australia and EU) and clearance in the U.S. the Company will focus on sales to reference laboratories in these jurisdictions and on placing SQiDworks systems in Canadian, Australian, US and European customers for system evaluation. Management believes some, or all, of these evaluation placements will lead to commercial acceptance and revenues from sales of consumable test kits in the 2013 fiscal year.

During the quarter the Company announced that it had established a special committee to review strategic alternatives to maximize growth and shareholder value. The purpose of this initiative is to seek opportunities with larger, more established diagnostics companies that would accelerate our ability to bring products to market or to strengthen our balance sheet through a variety of possible investment and capitalization scenarios. The possible scenarios envisioned by management include but are not limited to distribution or co-marketing arrangements; licensing opportunities; OEM arrangements; direct investments into SQI and could also include the potential acquisition of the shares of SQI. At the time of writing of this MD&A the Company's advisers have generated interest from a number of parties. These companies are at various stages of the process up to and including the exchange of non-disclosure agreements, distribution of confidential offering materials from SQI to interested parties and the completion of initial management presentations. At this point in the process the Company has not solicited nor received any propositions from any of the strategic parties currently identified. The Company's advisers are continuing to solicit initial interest from additional parties as we move those engaged on some level through the process. Management will continue to provide material information on the process on a timely basis.

SQI's operational objectives are straightforward: generate revenue from products in the regulatory jurisdictions for which we have acquired regulatory approvals or licenses; generate revenue from services, products and software from customers in its Diagnostics Tools and Services business, continue successful commercialization and continuous improvement of a menu of autoimmune test kits; and, expand partnerships and other strategic relationships to enhance our product offerings and 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.

Sources and Uses of Cash

Operational activities for the year ended December 31, 2012 were financed by cash on hand.

At December 31, 2012, current assets were $2,203,000 compared to $4,208,000 at September 30, 2012. Working capital as at December 31, 2012 was $1,784,000 compared to $3,190,000 at September 30, 2012.

Cash used in investing activities for the quarter-ended December 31, 2012 was $134,000 compared to $106,000 for the quarter-ended December 31, 2011. The increase in investing activities during the quarter-ended December 31, 2012 are a result of expenditures on the development and continued enhancements of the SQiDlite platform.

Management believes that the cash on hand will support our operations and commercialization plans for at least 5 months.

RISK FACTORS

An investment in our common shares involves a number of risks. In addition to the other information contained in this Management Discussion and Analysis, including our consolidated financial statements and related notes and the Annual Information Form dated January 10, 2013, you should give careful consideration to the following risk factors. Any of the matters highlighted in these risk factors could have a material adverse effect on our business, results of operations and financial condition, causing an investor to lose all, or part of, its, his or her investment.

The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are not aware of or focussed upon, or that we currently deem to be immaterial, may also impair our business operations and cause the trading price of our common shares to decline.

Risks Related to Our Business and Strategy

We have incurred losses since inception, and we expect to continue to incur losses for the foreseeable future.

Our future capital needs are uncertain and we may need to raise additional funds in the future, which may not be available on a timely basis or on commercially reasonably terms.

Market competition and technological advances of similar diagnostics products could reduce the attractiveness of our products or render them obsolete.

If our products fail to achieve and sustain sufficient market acceptance, our revenue will be adversely affected.

We are subject to complex regulatory compliance requirements and the failure to obtain, or the withdrawal of, regulatory clearance or approval for our products could adversely affect our ability to market our products and/or require us to incur significant costs to comply with such requirements.

We may not be able to develop new products or enhance the capabilities of our existing diagnostics products to keep pace with rapidly changing technology and customer requirements.

Research and development of diagnostic products requires significant testing and investment and may not result in commercially viable products within the timeline anticipated, if at all.

Our future success depends upon our ability to expand our customer base and introduce new products and services.

We have limited experience in marketing, selling and distributing our products, and we need to expand our internal and external sales and marketing force and distribution capabilities to successfully commercialize and sell our products.

We rely on strategic partnerships for research and development and commercialization of our products.

We depend upon key suppliers for some of the components and materials used in our platform technologies and our microarrays, and the loss of any of these suppliers could harm our business.

Future legislative or regulatory changes to the healthcare system, including reimbursement, may adversely affect our business.

We rely on certain key personnel and our ability to successfully grow our business would be adversely affected by their departure from our company.

If we cannot provide quality technical support, we could lose customers and our operating results could suffer.

We may experience development or manufacturing problems or delays that could limit the growth of our revenue or increase our losses.

Our products could have unknown defects or errors, which may give rise to claims against us and adversely affect market adoption of our systems.

Our future financial results may be adversely affected by foreign exchange fluctuations.

Risks Related to Intellectual Property

Our ability to protect our intellectual property and proprietary technology through patents and other means is uncertain.

Risks Related to Our Common Shares

We expect that our share price will fluctuate significantly, and you may not be able to resell your common shares at or above the current price.

We have never paid dividends on our common shares, and we do not anticipate paying any cash dividends in the foreseeable future.

Please refer to our annual information form dated January 10, 2013 for a complete discussion of risks and uncertainties.

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.

During the current reporting period the Company did not earn significant revenues from its test kits or SQiDworks platform. Management believes that it may generate revenues from a variety of Diagnostic Tools and Services customers in fiscal 2013 and the sale of approved IVD products; 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.

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 Capital Stock

As at December 31, 2012, there were 39,826,000 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, 2012:

Number of Warrants	Purchase Price	Weighted average time to maturity
1,140	$5.00	0.61 years
1,199	$4.00	0.92 years
5,784	$2.50	1.16 years
86	$2.00	0.82 years
311	$1.75	1.11 years
8,520		

The Company had the following stock options outstanding under the Plan at December 31, 2012:

Number of Options	Range of Exercise Prices	Weighted average time to maturity
328	$0.35 - 1.31	4.65 years
1,255	$1.32 - 2.28	2.30 years
327	$2.29 - 3.26	2.64 years
1,910		

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

DISCLOSURE CONTROLS AND PROCEDURES, AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The accompanying financial statements have been prepared by management in accordance with International Financial Reporting Standards. 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 IFRS;

(c) evaluated the design and effectiveness of the Company's DC&Ps as of December 31, 2012;

(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, 2012; 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.