SQI DIAGNOSTICS INC.

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

December 31, 2013

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

This Management's Discussion and Analysis ("MD&A") covers the unaudited financial statements for the three months ended December 31, 2013 and 2012 and should be read in conjunction with the Company's condensed interim consolidated financial statements. The December 31, 2013 financial statements and additional information about the Company, including the annual audited financial statements and MD&A for the year ended September 30, 2013 and the most recent Annual Information form ("AIF") can be found on SEDAR at 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 13, 2014.

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 ability to expand our customer base;*
- *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 an innovator in multiplexed microarray diagnostics and life sciences tools. Our goal is to become a leader in the development and commercialization of microarray and multiplexed blood tests to enable simultaneous measurement of important molecules like proteins, antibodies and inflammatory markers. We do this by offering our customers comprehensive "turnkey" solutions that allow them to replace current, multiple tests, that are very labour intensive and expensive with our multiplex tests and diagnostic platforms. Customers value multiplex tests from SQI because they combine multiple tests that they use in a particular application with a single, multiplex test providing all of their required results while maintaining or exceeding the performance they currently expect. SQI's multiplex tests increase the efficiency and ease of bioanalytical, immunogenicity and diagnostic testing. Our advanced diagnostic platforms and software are used to greatly reduce the time and effort consumed in test development. This reduces the overall cost of delivery for both SQI and our customers. Our multiplex tests and diagnostic platform together form a very powerful tool for the design, commercialization and execution of blood testing in clinical trials for drug development markets as well as for *in vitro* diagnostic (IVD) immunology testing done in reference labs.

The Company is engaged in two principal and integrated lines of business:

1. **Diagnostic Tools and Services (DTS)** is focused primarily on drug development customers including Pharmaceutical companies and Contract Research Organizations (CROs) and includes test design, development and validation services resulting in custom multiplex tests. The services provided then result in the manufacture and sale of the custom kits for use in the customer's pre-clinical and clinical drug trials. In some

cases SQI would also provide sample analysis at SQI, as a service for lower volume samples.

2. **Multiplexed IVD products** targeting protein and antibody biomarkers in autoimmune and other immunology markets that are developed, validated and manufactured by the Company for direct marketing and sales to reference labs.

Our proprietary microarray tests and automated diagnostic platforms have the potential to change the way pharmaceutical companies design and conduct antigen, protein and antibody testing. In using SQI's custom Ig_plex™ tests and sqid-analyzers, pharmaceutical companies enjoy many of the benefits and processes incorporated into our FDA-cleared IVD tests and analyzers. This provides them or their Contract Research Organizations ("CROs") the confidence to test responses to their biosimilar and innovator drugs in one multiplexed test, decreasing the number of studies required and potentially shortening development times to regulatory filing. Shortening the time to regulatory filing would enable pharmaceutical companies to advance their pipeline of new drug candidates more quickly, extending the time period under patent protection, and reducing their overall costs; critical issues for these companies.

Our technology meets or exceeds all FDA and European Medicines Agency (EMA) guidance for immunogenicity and biosimilar test guidelines. These applications for our technology open up new and growing markets for SQI, as regulatory focus on immunogenicity testing of biopharmaceutical drug offerings increases.

Our target customers require diagnostic processing equipment and consumable tests (together "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 semi-automated or fully-automated high-throughput systems. Our systems, capable of providing multiple biomarker measurements in each single test array, have the potential to increase a laboratory's throughput with significantly less labour, consumables and other costs. Our greatest value proposition is the ability to greatly reduce the effort and time to complete certain aspects of clinical testing in a drug development program or IVD testing in a reference laboratory.

Platforms

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 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. The incremental cost savings of tests run on our fully-automated platform versus existing technologies increase as the complexity of the test increases.

Our sqid-X™ System is a semi-automated bench-top platform that incorporates all of SQI's technology with the exception of automated fluidics handling and is targeted at earlier stage, lower volume customers and those who intend to complete custom Ig_plex assay development work at their sites.

Assays

Our Ig_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, all while using less patient serum than established tests. Additionally, our microarray technology requires fewer steps than traditional methods. These key features 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. Pharmaceutical customers also benefit from our antibody isotyping and subclass multiplexing by receiving more robust data on immunogenic responses to their in-development drugs than previously available. These same customers also stand to benefit through the cost and time savings from multiplexing which could reduce their time to market improving, their bottom line results.

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 leveraging its existing technologies and its IVD pedigree to develop custom Ig_plex tests that can be processed on our systems and address the needs of the large pharmaceutical drug development market. The status of the Company's commercialization and development efforts are discussed below.

COMMERCIALIZATION AND DEVELOPMENT ACTIVITIES – 2014 FISCAL YEAR TO DATE

During fiscal 2013 the Company arranged and completed many targeted sales and business development initiatives with a large number of pharmaceutical and vaccine companies currently using single-plex immunogenicity tests in drug development and CROs that service the immunogenicity testing needs of pharmaceutical companies that outsource their bioanalytical and immunogenicity testing. The Company continues to develop numerous commercial relationships and to deliver on product development milestones. The names of certain customers or potential customers have been omitted owing to confidentiality agreements with these entities.

Commercialization and Development Activities Since October 1, 2013
In the first quarter of 2014, the Company entered into a commercial product development and Master Services Agreement with Global Pharma 3, an Irvine California-based global pharmaceutical company. Under the terms of the first contract, SQI will be paid to build a 6-plex anti-drug antibody (ADA) assay to detect and measure immunogenic responses to a drug in the customer's extensive drug pipeline. In January of 2014 a further contract was established with this customer to test a small sub-set of the customer's pre-clinical samples. The Company has made significant progress on the assay development and provided data to Global Pharma 3 on certain assay parameters such as limit of detection and matrix effect. Additional revenue-generating testing of pre-clinical samples has been ordered by this customer which management believes illustrates the customer's confidence in the Company's rapid turnaround of the prototype assay. Management expects revenue to continue to build from this project and believes that achieving remaining development milestones will result in transfer of the assay to the customer's CRO for higher volume testing.
Also in the first quarter of fiscal 2014, the Company entered into an agreement to develop a multiplexed ADA assay for Isis Pharma. The Company has presented assay data to Isis and believes that it has met or exceeded the customer's expectations. In light of this, the potential adoption by Isis's CRO of the SQI-developed test in clinical testing could result in material revenues to the Company.

During the year ended September 30, 2013 the Company entered into an agreement with Global Pharma 1 for the development and evaluation of a proof-of-concept anti-drug-antibody ("ADA") assay to detect and quantify the immune response in four animal species to a new class of drug. Management is currently working with this customer through its final internal process enabling the customer to adopt the SQI technology for future clinical trials.
During the year ended September 30, 2013 the Company entered into a master services agreement with another global pharmaceutical company (Global Pharma 2). The agreement governed the development and evaluation of a 21 biomarker ADA assay to measure the immune responses in clinical trials to the customer's in-development biologic drug. Major development milestones have been achieved to date on this project and the Company believes that it is well positioned to win on-going revenue and to deliver test kits and a platform(s) for use in testing clinical samples in the first half of calendar 2014.
During the year ended September 30, 2013 Global Pharma 2 also expressed interest in evaluating the Company's 8-plex cytokine assay. The Company made significant progress on the commercial demonstration and delivered a sqid-X platform to the customer's site to enable evaluation of the Ig_plex Cytokine assay in the first half of fiscal 2014. Management believes that successful evaluation will result in a commercial contract with Global Pharma 2 for the Company's cytokine product.
The Company began validation studies on the Ig_plex Celiac DGP assay. Very positive results were achieved and the Company is preparing for regulatory filing in both Canada and the United States in the second quarter of fiscal 2014.

The Company's current focus is to deliver on the customer-targeted proof-of-concept assays to generate near-term revenues. The Company is delivering on this goal and has demonstrated to its first target customers, Global Pharma 1, Global Pharma 2, Isis Pharma, and Global Pharma 3 that it can deliver the custom Ig_plex assays specific to their drug targets within agreed upon timelines. The Company believes that this success will lead to revenue from these and other customers in its sales pipeline. The Company will advance its pipeline of IVD assays; however, the Company will prioritize projects in favour of those with near-term revenue prospects.

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)						
IgX PLEX Celiac (Qualitative) (1)						
IgX PLEX Celiac (Quantitative) (2)						
Ig_plex Celiac DGP (Quantitative)*						
Ig_plex Vasculitis						
Ig_plex RA (Quantitative) ON HOLD						
Ig_plex Lupus ON HOLD (3)						
Ig_plex IBD/Crohn's ON HOLD						

(1) Approved or cleared in the U.S. and Canada.
(2) Approved or cleared in Canada and Europe.
(3) re-starting H2 2014

* Validation completed subsequent to quarter end

DEVELOPMENT STATUS – Custom Ig_plex and Immunogenicity						
PRODUCT	**STAGE OF DEVELOPMENT**					
	Candidate Panel	**Proof-of-Concept**	**Assay Development**	**Automation**	**Validation**	**Ready to Commercialize**
Cytokines 8 plex (RUO)						
Heparin Immunogenicity Assay						
Global Pharma 1						
Global Pharma 2						
Isis Pharmaceuticals*						
Global Pharma 3*						

CORPORATE FINANCING TRANSACTIONS

On January 27, 2014 the Company completed a non-brokered private placement of 2,965,000 units of the Company at $0.50 per unit for gross proceeds of $1,483,000.

Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at a price of $0.65 for a period of two years from the date of issuance.

In connection with the private placement, the Company paid a finder's fee equal to 7% of the gross proceeds and issued 296,500 compensation warrants exercisable for a period of two years from the Closing of the Private Placement. Each warrant is exercisable into one common share and one warrant at a price of $0.50. Each underlying warrant is exercisable into one common share at a price of $0.65 for a two year period.

As a result of the financing and additional cost reductions the Company now has funds sufficient to meet our anticipated cash requirements for approximately the next four months. The Company will continue to review its forecast expenditures, capital needs and financing options.

On December 4, 2012 the Company extended the expiry of 1,199,052 warrants exercisable at a price of $4.00 per share 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. On December 4, 2013, the Company received approval to extend the expiry of these warrants for an additional 12 months to December 4, 2014. 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 $0.70; dividend yield 0%; risk free interest 1.1%; volatility 154%; and an expected life of 1 year. Expected volatility is based on historical volatility. As a result of the extension $170,000 was recorded in warrant capital with a corresponding reduction in contributed surplus.

On October 10, 2013, the Company extended the expiry of 2,276,000 warrants by 36 months to October 25, 2016. The warrants were issued in October 2011 in connection with a private placement. 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 $0.76; dividend yield 0%; risk free interest 1.2%; volatility 96%; and an expected life of 3 year. Expected volatility is based on historical volatility. As a result of the extension $616,000 was recorded in warrant capital with a corresponding reduction in contributed surplus. In addition, 86,040 warrants with an expiry of October 26, 2013 expired unexercised.

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 ten 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, 2013, the Company was developing two customer-targeted proof-of-concept multiplexed immunogenicity assays, the multiplexed assay targeted at immunogenicity testing of heparin and heparin-based low molecular weight biosimilar compounds (HIT Assay), 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) and the second generation, fully quantitative Ig_plex RA assay. 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 employees, officers and directors. 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. 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, 2013 (000s)	September 30, 2013 (000s)	June 30, 2013 (000s)	March 31, 2013 (000s)
Revenue	$ 2	$ -	$ -	$ -
Net Loss	$ 1,501	$ 1,553	$ 1,740	$ 1,351
Net Loss Per Share	$ (0.03)	$ (0.03)	$ (0.04)	$ (0.03)
Weighted Average Shares	44,970	44,952	43,206	39,826

	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

Revenue for the quarter-ended December 31, 2013 was $2,000 compared to $3,000 for the quarter-ended December 31, 2012. Revenue in both periods was a result of product sales in our DTS business.

For the quarter-ended December 31, 2013, the Company recorded a net loss of $1,501,000 ($0.03 net loss per share) compared to a net loss of $1,563,000 ($0.04 net loss per share) for the quarter-ended December 31, 2012. Per share values are based on the weighted average shares outstanding in the period. For the quarter-ended December 31, 2013 there was an average of 44,970,000 shares outstanding.

The net loss was lower for the three months ended December 31, 2013 compared to the three months ended December 31, 2012. The Company continues to focus on managing costs while advancing its product development pipeline and executing its commercialization strategy.

R&D expenditures, excluding amortization and stock based compensation, for the quarter-ended December 31, 2013 were $816,000 compared to $784,000 for the quarter-ended December 31, 2012. During the quarter the Company focused its R&D efforts on the validation testing of the Celiac DGP assay and completed and submitted the applications for regulatory approval in both Canada and the United States in early calendar 2014. Validation work in the first quarter of fiscal 2014 included the costs of studies at third party sites. There was no similar costs in the first fiscal quarter of 2013.

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 $141,000 for the quarter-ended

December 31, 2013 compared to $181,000 for the quarter-ended December 31, 2012. The decrease is a result of the reduction of one executive level position.

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 $102,000 for the three months ended December 31, 2013 compared to $143,000 for the three months ended December 31, 2012. The decrease in general and administrative costs is due to general cost containment efforts. In addition, travel costs which had previously been allocated to general and administrative costs have been split between sales and marketing and general and administrative based on the nature of the travel.

Professional consulting (legal, accounting, Board of Directors compensation, recruiting, administrative contractor, and investor relations) costs in the three months ended December 31, 2013 were $55,000 compared to $66,000 for the three months ended December 31, 2012. The decrease in professional and consulting costs in the three months ended December 31, 2013 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 $150,000 for the three months ended December 31, 2013 compared to $109,000 for the three months ended December 31, 2012. The increase in sales and marketing expenses for the three months ended December 31, 2013 compared to the three months ended December 31, 2012 was primarily a result of increased expenditures on conferences and marketing efforts. In addition, travel costs for selling activities have been allocated to sales and marketing whereas previously all travel costs had been allocated to general and administrative costs.

Non-cash stock based compensation charges totalled $52,000 for the three months ended December 31, 2012 compared to $125,000 for the three months ended December 31, 2012. 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 $2,000 for the three months ended December 31, 2013 compared to $8,000 for three months ended December 31, 2012. The Company invests its cash in variable term cashable government investment certificates and short-term money market deposits.

OUTLOOK AND FUTURE PROSPECTS

The Company established a large portfolio of potential Diagnostic Tools and Services Customers during fiscal 2013 and continues to build on this in fiscal 2014. Business development activities in the first half of fiscal 2014 are focused on converting prototype projects to revenue-generating projects, expanding opportunities with current customers and additional sales activities. New customer generation efforts are focused on immunogenicity and immunology conferences targeting drug development and direct selling to customers who have expressed interest in our technology, as well as an effort to generate unique leads from the universe of drug development customers, primarily in the US market. The Company expects to add additional sales and customer support staff as we convert existing targets to revenue-generating customers. We anticipate that the successful evaluation projects completed in fiscal 2013 and early 2014 will proceed to the next expected commercial phase, where SQI will produce and sell test kits for either its fully automated sqidlite or semi-automated sqid-X platform. One case could result in the purchase of the custom product for use on an SQI platform in a portion of the customer's human clinical trials and, in the other case, we believe that this customer has initiated the internal

processes to acquire a sqidlite platform and will likely purchase the custom developed kits to process samples generated by their clinical testing studies.

The DTS business is focused on applying our core IVD technologies, software and platforms to enable 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 products bring significant advantages to these customers, including superior test performance, reduced costs to run the tests and a variety of technical benefits related to multiplexing of antibodies specific to the drugs in development. Management believes that SQI is the only company that can multiplex the antibody response, in a single test and, we also provide a fully automated machine to process the high volumes of tests produced during clinical trials.

A presentation and poster presented by Bristol-Myers Squibb at the Bioassays and Bioanalytical Method Development Conference in Berkeley, CA highlighted performance data comparing a custom immunogenicity assay built by SQI for a Bristol-Myers Squibb drug using SQI's Ig_plex technology. The data compared this assay to a standard ELISA assay as well as another competitive technology demonstrating SQI's superior performance. While technical in nature, the SQI tests were reported to be at least twice as sensitive as current ELISA tests and eight times more sensitive than a commonly used "bridging" test. Further, the SQI test was shown to be much more tolerant to the presence of the drug in the patient, a common issue encountered when using most tests in this field.

We 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 will enable a broader adoption of multiplexed tests from which we could generate revenue streams including: Diagnostic Tools and Services assay development fees; product revenue from the manufacture of custom and standard biomarker kits; software revenues; and platform revenues from the sale of primarily sqidlite units, and also sqidworks and sqid-X units.

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.

Management believes that the successful delivery of the custom Ig_plex assays to Global Pharma 1 and 2 as well as the new projects with Isis Pharmaceuticals and Global Pharma 3 will result in additional commercial traction with these customers as well as accelerate our efforts to generate sales with additional Diagnostic Tools and Services customers.

Management expects losses to continue for fiscal 2014 as investment continues in product development and commercialization efforts for its pipeline of IVD and custom Ig_plex test kits and platforms, as well as investment in sales and marketing. Management expects to reduce losses later in fiscal 2014 as it generates revenues and margin from a variety of Diagnostic Tools and Services' customers. Successful clearance of its IVD Celiac test, expected to be completed in fiscal 2014, could result in revenue and cash generation in fiscal 2014, further reducing overall losses.

SQI's operational objectives for 2014 are: to generate revenue from custom Ig_plex products and services from our current proof-of-concept initiatives and contracts with our Global Pharma customer and prospects; continue to establish and grow our custom Ig_plex sales pipeline based on current successes; continue 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 quarter ended December 31, 2013 were financed by cash on hand.

At December 31, 2013, current assets were $632,000 compared to $1,724,000 at September 30, 2013. As at September 30, 2013 the Company has a $92,000 working capital deficit compared to a surplus of $1,270,000 at September 30, 2013.

Cash used in investing activities for the quarter ended December 31, 2013 was $85,000 compared to $134,000 for the quarter ended December 31, 2012. Investing activities focussed on enhancing and maintaining the Company's patent and trademark portfolio and continued development of the sqidlite and sqid-X platforms.

Subsequent to the quarter end the Company completed a non-brokered private placement of 2,965,000 units of the Company at $0.50 per unit for gross proceeds of $1,483,000.

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 27, 2014, 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.

Outstanding Capital Stock

As at February 13, 2014, there were 47,936,058 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 February 13, 2014:

Number of Warrants	Purchase Price	Weighted average time to maturity
1,140	$5.00	1.49 years
1,199	$4.00	0.81 years
5,784	$2.50	0.83 years
210	$1.75	0.26 years
5,126	$1.10	1.10 years
513	$0.75	0.75 years
2,965	$0.65	1.95 years
297	$0.50	1.95 years
17,234		

The Company had the following stock options outstanding under the Plan at February 13, 2014:

Number of Options	Range of Exercise Prices	Weighted average time to maturity
1,373	$0.35 - 1.31	3.78 years
555	$1.32 - 2.28	2.78 years
327	$2.29 - 3.26	1.52 years
2,255		

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 or his designate 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, 2013;

(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, 2013; 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.