

SQI Diagnostics Inc.

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

March 31, 2008

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This discussion and analysis covers the financial statements for the three and six month periods ending March 31, 2008, prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). Our fiscal year end is September 30th.

All amounts are expressed in Canadian dollars unless otherwise indicated.

This discussion and analysis was performed by management using information available as at May 14, 2008. Certain information regarding SQI Diagnostics Inc. (or "SQI" or "Company") set forth in the document, including management's assessment of the Company's future plans and operations contain forward-looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Company's control, including the impact of general imprecision of reserve estimates, taxation policies, competition from other producers, stock market volatility and the ability to access sufficient capital from internal or external sources. The Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that the Company will derive therefrom. Additional information relating to the Company is available by accessing the SEDAR website at www.sedar.com.

OVERVIEW

SQI Diagnostics Inc. is a medical diagnostics systems and automation company focused on evolving laboratory-based biomarker testing. The Company is commercializing a novel and patented diagnostic platform that enables more rapid testing with significantly less effort and labour than current diagnostic technologies in the autoimmune, infectious, and allergy-related disease markets.

The Company's proprietary SQiDworks™ instrument and QuantiSpot™ consumable tests are together an immunoassay system expected to be capable of providing many of the diagnostic tests currently performed in reference laboratories engaged in testing human blood for a wide range of disease markers. The Company will provide to the laboratory diagnostic testing market:

- (a) Fully automated, microarray-based test platforms enabling laboratory customers to generate multiple patient results with one unit of 'test effort', and
- (b) A menu of tests to support a wide range of disease diagnoses in each of the disease segments participated in. The Company's first launch market will be autoimmune disease with its QuantiSpot RA panel for aiding in the diagnosis of rheumatoid arthritis followed shortly thereafter by its QuantiSpot TA panel for aiding in the diagnosis of antiphospholipid syndrome (APS).

From 2003 to present, the Company has been primarily involved in research, development and commercialization activities related to its core technology platform (together SQiDworks™ and QuantiSpot™). The Company has expended significant resources to create and protect its technology platform through the filing of patents, and in building an automated instrument and multiplexed assay platform. The Company has also incurred costs associated with gathering

market intelligence from prospective customers and in fostering partnership opportunities with potential novel biomarker collaborators and OEM device manufacturers.

Commercial Development Current Status

The Company is currently making preparations to initiate external clinical validation of its lead multiplexed test for the detection and quantification of commonly requested markers used in the diagnosis of rheumatoid arthritis. The Company has completed discussions with the United States Food and Drug Administration (FDA) to determine the final design of the validation requirements. Management intends to conduct a multi-site trial that could produce approvable data. During the current reporting period the Company completed development of its QuantiSpot RA panel and at the period end was preparing to initiate internal verification studies and testing. Successful completion of verification is expected in the next quarter and is expected to result in the initiation of internal and external validation testing. The Company plans to use the data from these validation studies in the Company's various regulatory filings to allow for the marketing and sale of the platform and QuantiSpot RA panel in North America and Europe. Management expects that the external validation studies for the SQiDworks platform and QuantiSpot RA test will be concluded in the summer of 2008.

Operational Achievements

During the period ending March 31, 2008, the Company achieved the following steps in preparation for the intended multi-center validation studies and product commercialization:

- The second SQiDworks was shipped to Cleveland Clinic, an external validation partner, to prepare for validation studies
- Platform verification testing was initiated and, subsequent to the end of this fiscal period, the SQiDworks platform was internally released for assay verification studies
- The performance of the SQiDworks platform running QuantiSpot RA was showcased at the premier AACC Oak Ridge Conference where the Company introduced its novel multiplexing platform and highlighted the leading performance of our novel CCP molecule used to aid in the diagnosis of rheumatoid arthritis
- Completed quality systems' audits of critical suppliers advancing the Company's regulatory position
- Completed of all the documentation required for the Company's Quality Management System and external audit to acquire our ISO 13485 certification.
- First of two external ISO 13485 audits was completed with positive results allowing the Company to advance to the final audit scheduled for Q3. Successful completion of the final audit will allow for ISO 13485 certification
- Acquired CE safety approval for the SQiDworks platform preparing for European marketing of commercial product upon validation data and self registration

Corporate Financing Transactions

On April 26, 2007 umedik Inc. amalgamated with 6701914 Canada Inc., a wholly owned subsidiary of SQI to become a wholly owned subsidiary of SQI through the reverse takeover of SQI, formerly known as Emblem Capital Inc. ("Emblem"), a company whose shares were listed for trading on TSX Venture Exchange as a Capital Pool Company (CPC) just prior to the

transaction. For more information regarding the transaction refer to the year end 2007 annual financial statements and Management's Discussion and Analysis.

Subsequent to the period ending March 31, 2008, the Company entered into a financing arrangement with the Royal Bank of Canada to borrow up to \$730,000 in a non-revolving term credit facility. The Company has pledged its SR&ED receivables as primary security against this facility and entered into a general security agreement covering essentially all of its assets. The proceeds of this arrangement are to be used to fund general working capital.

Operational Risks

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

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

Management seeks to mitigate these risks, and others, primarily through 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.

SELECTED FINANCIAL INFORMATION

The table below summarizes quarterly financial information for the periods shown. For periods prior to June 2007 the information is shown for umedik Inc., on a pro rata basis. For quarters ending prior to June 30, 2007 SQI Diagnostics Inc. was a private company. In 2007 SQI Diagnostics Inc. changed its year end from December 14 to September 30.

	3 Month Periods Ending			
	June 30, 2007	September 30, 2007	December 31, 2007	March 31, 2008
Revenue	\$ 22,230	\$ 17,190	\$ 44,493	\$ 19,145
Net Loss	\$ 1,171,998	\$ 946,214	\$ 1,013,922	\$ 521,274
Net Income Per Share	\$ (0.07)	\$ (0.05)	\$ (0.05)	\$ (0.03)
Weighted Average Shares	15,950,957	19,689,460	19,737,507	19,750,200

	3 Month Periods Ending			
	June 30, 2006	September 30, 2006	December 31, 2006	March 31, 2007
Revenue	\$ 23,059	\$ 23,400	\$ 21,735	\$ 31,140
Net Loss	\$ 708,376	\$ 104,928	\$ 712,412	\$ 739,450
Net Income Per Share	\$ (0.05)	\$ (0.01)	\$ (0.05)	\$ (0.05)
Weighted Average Shares	14,719,319	14,719,319	14,719,319	14,719,319

RESULTS OF OPERATIONS

For the quarter ending March 31, 2008, the Company recorded a net loss of \$521,274 (\$0.03 per share) compared to a loss of \$1,013,922 (\$0.05 per share) in the prior quarter ending December 31, 2007, and a loss of \$739,450 (\$0.05 per share) for the quarter ending March 31, 2007. For the six months ending March 31, 2008, the Company recorded a net loss of \$1,535,196, (\$0.08 per common share) This compares to a net loss of \$1,451,862 for the comparative six month period ending March 31, 2007 (\$0.10 per share). Per share values are based on the weighted average shares outstanding in the period. For the quarter ending March 31, 2008 there was an average of 19,750,200 shares outstanding and 14,719,319 shares outstanding at March 31, 2007.

Losses for the current quarter were decreased compared to the quarter ending March 31, 2007 owing primarily to Federal and Provincial Scientific Research and Experimental Development credits offsetting cash expenses related to research and development activity on the Company's SQiDworks platform and its lead QuantiSpot autoimmune assays for the detection and quantification of biomarkers for Rheumatoid Arthritis and APS. See Research and Development (R&D) below for greater detail regarding timing of SR&ED credits. The increased loss in the six month period ending March 31, 2008 compared to the same period in the previous year were owing primarily to increased professional expenses, stock-based compensation costs and amortization of capital added primarily to advance commercialization of the SQiDworks™ platform and to manufacture QuantiSpot™ assay microarray test kits for internal verification studies.

Consulting fees in the quarter ending March 31, 2008 of \$19,145 were related to on-going consulting work continued from previous quarters. The Company continues to reduce this consulting work and consulting fees with the revenue generated from this activity being \$31,140 in the same period in 2007. During the six month period ending March 31, 2008 the Company completed a Discovery Stage collaborative project to test the feasibility of developing an infectious disease assay to detect the presence and levels of antibodies used to diagnose infection with Botulism organisms. Upon successful completion of a demonstration microarray of three multiplexed biomarkers, the Company's development partner, Silliker Inc. paid the Company a

milestone payment related to the Discovery Phase work. Revenue for the six month period ending March 31, 2008 was \$63,638 compared to \$52,875 for the six month period ending March 31, 2007.

Research and development (R&D) expenses include R&D salaries, benefits, all laboratory costs and R&D related professional services and contracts. R&D costs are offset (reduced) in the period by SR&ED tax credits, when it is reasonably expected that the credits claimed will result in a cash refund. The Company qualifies for cash refunds of investment tax credits related to expenditures during the periods in which it was a Canadian controlled private corporation ("CCPC"). Net R&D expenses were \$85,142 for the quarter ending March 31, 2008 and were \$415,267 for the quarter ending March 31, 2007. Recognition of SR&ED claims in the amount of \$646,119 related to the period in which the Company was a CCPC, offset R&D costs in the quarter ending March 31, 2008. Gross R&D costs increased for the quarter ending March 31, 2008, before considering the SR&ED offset amount, compared to quarter ending March 31, 2007, primarily due to increased staffing and activities associated with the development and commercialization of the automated platform and two lead assays. The greatest contributors to the increase in gross R&D expense in the quarter ending March 31, 2008 compared to the same period last year was the increase in R&D salary and benefit expenses and lab costs attributed to the production of QuantiSpot test kits for verification studies. For the six month period ending 31 March, 2008 R&D costs were \$783,802 compared to \$795,560 in the six month period ending March 31, 2007.

General and administrative expenses include, primarily: all salaries and related expenses (including benefits and payroll taxes) of the Company other than salaries and related expenses paid to personnel engaged in R&D; facility costs; insurance costs; professional and consulting fees; and foreign exchange expenses. General and administrative expenses totaled \$287,943 for the quarter ending March 31, 2008 compared to \$273,071 for quarter ending March 31, 2007. For the six month periods ending March 31, 2008 and 2007 general and administrative expenses were \$509,430 and \$524,256 respectively. General and administrative expenses were higher in the quarter ending March 31, 2008 compared to the same period in the previous year primarily owing higher professional costs related to operating a public company.

Operational expenses were partially offset by interest income earned on short-term investments of \$21,554 for the quarter ending March 31, 2008 compared to \$5,183 for the quarter ending March 31, 2007. The increase in interest income from quarter ending March 31, 2008 compared to the quarter ending March 31, 2007 relates primarily to returns on higher cash balances held in 2008. For the six months ending March 31, 2008 and 2007 interest income was \$33,245 and \$26,893 respectively. The Company invests its cash in variable term cashable government investment certificates.

Non-cash stock based compensation charges totaled \$69,730 for the quarter ending March 31, 2008 compared to \$11,500 for the quarter ending March 31, 2007. For the six months ending March 31, 2008 and 2007 non-cash stock based compensation charges totaled \$105,192 and \$66,590 respectively. The related stock option issuances are described further below in the Outstanding Share Capital section.

Management expects losses to continue for at least the next fiscal year as investment continues in product research, development, and commercialization efforts, including third party validation trials and regulatory compliance. These losses are expected to increase moderately in 2008 compared to similar periods in 2007, with the anticipated launch of the Company's first product and the expected development of several additional products in 2008.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

Operational activities for the period ending December 31, 2007 were financed by cash on hand and by the proceeds of a private placement that closed on June 29, and July 3, 2007, yielding gross proceeds of \$5.7 million through the issuance of 3,567,551 units consisting of one common share and one-half common share purchase warrant. At March 31, 2008, current assets were \$2,189,712 as compared to \$3,674,792 at September 30, 2007. Working capital as at March 31, 2008 was \$1,851,202 compared to \$3,408,917 at September 30, 2007.

Subsequent to the period ending March 31, 2008, the Company entered into a financing arrangement with the Royal Bank of Canada to borrow up to \$730,000 in a non-revolving term facility. The Company has used its SR&ED credits as security against this facility. The proceeds of this arrangement are to be used to fund general working capital.

Management believes that with the cash on hand at March 31, 2008, with no significant capital investments and with no increases in its current operating expenditures, the current financial resources would be sufficient to fund Company operations through fiscal 2008.

The Company had the following lease commitments for premises and equipment at September 30, 2007 (audited):

2008	\$	69,369
2009		7,866
2010		7,866
	\$	85,101

Financial Instruments and Financing Risks

While the Company currently does not market any diagnostic tests or platforms, its SQiDworks automated analytical platform and its lead QuantiSpot RA test kit used to detect and quantify a panel of biomarkers to aid in the diagnosis of rheumatoid arthritis, and QuantiSpot APS, a diagnostics test kit used to detect and quantify a panel of biomarkers to aid in the diagnosis of APS, are being prepared for third party clinical validation studies. QuantiSpot tests are designed to run only on the SQiDworks platform. In order to get the platform and QuantiSpot consumable tests approved for sale in the United States, the Food & Drug Administration ("FDA") typically requires the conduct of clinical validation studies to compare the performance of a new test to predicate tests currently approved for sale in the US. Upon successful completion of the validation studies the data derived is then presented to the FDA in the form of a 510(k) Pre-market Notification. It is typical for the external validation studies to take several months to complete and upon receipt of a completed 510(k) submission the FDA may take up to four months to render a decision on the application. The Company has completed extensive internal testing of its QuantiSpot RA test panel using the SQiDworks platform and has completed extensive development testing of its QuantiSpot TA panel.

The Company has not earned revenues from its QuantiSpot test kits or SQiDworks platform and is therefore considered to still be in the development stage. The continuation of the Company's research and development activities is dependent upon the Company's ability to successfully finance its cash requirements through the generation of revenue from its partners and potential customers, or to complete further equity financing. Management believes that it has sufficient

cash reserves to complete validation studies related to its lead RA test and to await the expected response on its 510(k) pre-market notification from the FDA.

Management will continue to review the Company's financial needs through 2008 and to seek additional capital financing as required from sources that may include equity financing, debt financing, collaborative projects and licensing arrangements. However, there can be no assurance that such additional funding will be available or if available, whether acceptable terms will be offered.

Outstanding Share Capital

As at March 31, 2008, there were 19,750,200 common shares issued and outstanding. In addition, the following securities have been issued that are convertible under certain conditions into common shares:

The Company had the following warrants outstanding at March 31, 2008:

Number of Warrants	Purchase Price	Expiry Date
83,335	\$ 0.438	April 26, 2009
50,001	\$ 0.132	April 26, 2009
20,834	\$ 1.200	April 26, 2009
89,147	\$ 2.502	April 26, 2009
1,076,867	\$ 0.600	April 26, 2009
344,004	\$ 1.200	April 26, 2009
285,404	\$ 1.600	June 29, 2009
1,783,776	\$ 2.400	June 29, 2009
3,733,368		

The Company had the following stock options outstanding under its Employee Stock Option Plan at March 31, 2008:

Number of Options	Exercise Price	Expiry Date
133,336	\$ 0.132	December 16, 2008
141,670	\$ 1.200	April 15, 2010
833,350	\$ 0.60	April 15, 2010
283,339	\$ 1.200	June 29, 2011
166,670	\$ 1.200	August 29, 2011
197,500	\$ 1.740	August 7, 2012
50,000	\$ 1.500	October 23, 2012
757,500	\$ 1.600	February 26, 2013
2,563,365		

The Company also had 133,333 options outstanding at March 31, 2008 that were not issued under the Plan. All of these options were exercisable at March 31, 2008 and have an exercise price of \$0.90 and expire on October 14, 2009.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

FUTURE PROSPECTS

In its current state of evolution, management believes that the Company has assembled the appropriate intellectual, financial, and human capital to advance its lead test microarray panels and SQiDworks through the completion of clinical validation studies and regulatory filings in Canada, the US and Europe. The Company believes that completion and approval of its lead assay will justify the investment in development and commercialization of an additional group of at least eight other autoimmune microarray diagnostic panels in the autoimmune disease family. It further believes that successful completion of these tests will lead to the development and commercialization of other test panels addressing unmet medical needs in the detection of known analytes used in the diagnosis of infectious disease and allergy management. The successful completion of external validation studies has the potential to produce data by the end of the summer of 2008 that is presentable to the FDA in the form of a Pre Market Submission - 510(k), which can result in marketing approval for the Company's platform and lead assays in the United States. At present, the Company's value proposition is derived from the successful completion of internal validation studies and completion of its automated microarray processing platform. The Company's platform and tests are expected to replace highly manual and semi-automated test methodologies with a fully automated, multiplexed solution that could provide significant cost savings to its customers. The Company believes that the market size related to testing of patients in its primary markets in Canada, the US and Europe is significantly large and the Company's value proposition to its customers will provide for significant revenues from the sale of commercial assays and test platforms in each of its target markets.

SQI's operational objectives are straightforward: complete external validation of its lead multiplexed test for rheumatoid arthritis on the SQiDworks platform; submit approvable data to the FDA, HPB (Canada); and, self-certify for marketing in Europe with a CE mark for a Class II device. Success in these steps will allow the Company to validate its multiplexing model and sell its products to customers in its target markets by the end of 2008.

During the remainder of 2008, the Company plans to execute on the following components of its operational strategy:

- Execute clinical validation trials for RA with its leading autoimmune disease testing partners at Mount Sinai Hospital (Toronto, Ontario) and The Cleveland Clinic (Cleveland, Ohio);
- Complete the certification of its cGMP/ISO 13485 manufacturing facility and acquire appropriate regulatory approvals and licenses to produce saleable products;
- Submit all requested information to the FDA, Health Canada and European Medicines Agency for CE self approval, including updated manufacturing data and finalized submissions for 510(k) clearance for the Company's rheumatoid arthritis detection and quantification panel and when successful follow on with the required submissions for approval for our APS product;
- Initiate development and commercialization of IBS (Irritable Bowel Syndrome) related multiplexed test panels; and,
- Acquire customers and distribution partners to generate first test kit-based revenues.

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

DISCLOSURE CONTROLS AND PROCEDURES, AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

- (a) designed such DC&Ps, or caused them to be designed under supervision, to provide reasonable assurance that material information is made known during the period in which the annual and quarterly filings are being prepared;
- (b) designed such ICFRs, or caused them to be designed under supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP;
- (c) evaluated the design and effectiveness of the Company's DC&Ps as of the quarter ending March 31, 2008;
- (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 ending March 31, 2008; 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.