SQI DIAGNOSTICS INC.

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

March 31, 2014

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This Management's Discussion and Analysis ("MD&A") covers the unaudited financial statements for the three and six months ended March 31, 2014 and 2013 and should be read in conjunction with the Company's condensed interim consolidated financial statements. The March 31, 2014 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 May 9, 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 was founded in 1999 on the straightforward idea that the number of blood tests performed to diagnose a patient's disease state was large and growing and that reducing the effort to complete these multiple tests would create a significant benefit. Since then, SQI has invested significant resources to develop products and automated systems that enable our customers to produce many test results simultaneously, saving them time and money ("multiplexing").

SQI Diagnostics Inc. is now a leading innovator in the multiplexed microarray diagnostics and life sciences tools arena. Our multiplex tests and automated platforms together form a powerful tool for the design, development and execution of (1) blood testing in clinical trials for pharmaceutical and biotechnology companies developing novel drugs, as well as for (2) regulatory cleared *in vitro* diagnostic (IVD) immunology testing done in reference laboratories.

As such, 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, biotechnology companies, vaccine companies along with the Contract Research Organizations (CROs) that serve them. These companies are required to understand many responses to their in-development drugs and these responses are expressed through the production of a wide range of proteins and antibodies in animals and humans during a drug's development. Detecting, measuring and understanding these responses can impact the design, evaluation and selection of drug candidates and the course of development of a drug. Common types of testing to measure responses are categorized as follows: immunogenicity; anti-drug antibody ("ADA"); inflammatory; biomarker and epitope

mapping. The use of these common tests has grown dramatically over the last decade enabled by testing innovation and the rise of data management and informatics.

The quantification of these biologic markers (antigens, antibodies, cytokines, and other proteins) is traditionally very laborious. Not only is the testing itself manually intensive, because each drug or vaccine candidate is unique and proprietary, but also because each custom immunogenicity test must be designed, developed and validated before they can be performed. Each of these development processes is traditionally very labour intensive as well.

Custom microarray tests and automated diagnostic platforms from SQI have the potential to change the way pharmaceutical companies design and conduct their testing of these biologically important markers. Shortening the time and expense to conduct such testing could 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.

We provide our customers comprehensive "turnkey" services including the rapid design, development and validation of custom multiplex tests kits. The customer then contracts SQI to manufacture these custom kits for purchase and use in the customer's pre-clinical and clinical drug trials. In some cases SQI also provides sample analysis at SQI, as a service.

As we begin to commercialize our products, customers are choosing multiplex tests from SQI because they combine multiple tests that they use in a particular application with a single test providing all of their required results while maintaining or exceeding the technical performance to which they are currently accustomed. Our technology meets or exceeds all FDA and European Medicines Agency (EMA) guidance for immunogenicity and biosimilar test guidelines.

2) SQI is also advancing a pipeline of **multiplexed IVD products** targeting protein and antibody biomarkers relevant to autoimmune and other immunology diseases. These tests are developed, validated and manufactured by the Company for direct marketing and sales to reference labs.

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. 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 have the potential to increase a laboratory's throughput with significantly less labour, consumables and other costs.

Platforms

SQI has developed a range of analytical platforms that meet the varying needs of our customers in both our DTS and IVD markets:

- Our high-throughput sqidworks™ Diagnostic Platform (sqidworks) is a fully-automated microarray processing and analytical instrument, primarily suited for high-volume reference laboratories.

- Our mid-range sqidlite™ Bench-Top Diagnostic System (sqidlite), offers laboratories of all sizes flexible, configurable, fully automated workflow solutions for processing protein and antibody multiplexed immunoassays in both our DTS and IVD markets. Sqidlite

integrates all test fluidics, test kit processing and analyzing functions in a user-friendly bench-top footprint.

- 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 early adopters; earlier stage, lower volume customers; and, customers who intend to complete custom assay development work at their sites.

COMMERCIALIZATION AND DEVELOPMENT ACTIVITIES – 2014 FISCAL YEAR TO DATE

During the first half of fiscal 2014, the Company continued to focus its business development activities on expanding its customer base, progressing current customers who are commissioning and evaluating prototype tests to ultimately purchasing production scale volumes, and expanding the number of products being purchased or evaluated by each customer.

New customer generation efforts were largely focused on 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.

A summary of the commercialization and development activities undertaken by SQI during the first half of fiscal 2014 is described below. The names of certain customers or potential customers have been omitted owing to confidentiality agreements with these entities; instead they are referred to as "Global Pharma 1", "Global Pharma 2", etc.

Global Pharma 1:

- 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 second quarter of fiscal 2014, the Company successfully expanded its product development relationship with Global Pharma 1 entering into an agreement to develop a 21-plex protein microarray for use in identifying specific immunogenic regions (also known as "epitope mapping") within one of its drug candidates. The agreement includes both payment for services and for the consumables used during development and sample testing.

Global Pharma 2:

- During the year ended September 30, 2013 the Company entered into a master services agreement with 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. The Company continues to work with this customer to identify follow-on opportunities for the ADA product offering. Major development milestones have been achieved to date on this project and the Company believes that it exceeded performance expectations for the prototype.
- Global Pharma 2 is also currently evaluating the Company's 8-plex cytokine assay. Management believes that a successful evaluation could result in a commercial contract with Global Pharma 2 for the Company's cytokine product.

Isis Pharmaceuticals:

- During in the first quarter of fiscal 2014, the Company entered into an agreement to develop an 8-plex multiplexed ADA assay for Isis Pharma. The Company completed the prototype project and presented assay data to Isis and believes that it has met or exceeded the customer's expectations. The Company is currently in the process of finalizing a commercial contract with Isis's CRO to implement the SQI-developed test in clinical testing, which could result in material revenues to the Company in fiscal 2014.

Global Pharma 3:

- During the first quarter of fiscal 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 is being 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. The Company has made significant progress on the assay development and provided data to Global Pharma 3 on important assay development milestones, such as limit of detection and matrix effect.
- During the second quarter of fiscal 2014, the terms of a contract were negotiated with this customer to complete additional work related to the initial contract.
- Additional revenue-generating testing of pre-clinical samples has been negotiated with this customer and for which management believes will be contracted for in the current quarter and that 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.

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.

During the quarter, the Company made significant progress in advancing its pipeline of IVD assays, highlighted by the receipt of a license from Health Canada permitting the Company to market its multiplexed Ig_plex® Celiac DGP Panel. This panel will provide clinicians with a valuable and rapid tool to quantify the levels of multiple key biomarkers associated with celiac disease. The multiplexed assay provides semi-quantitative determination of the IgG and IgA immunoglobulin classes of DGP (deaminated gliadin peptide) and tTG (anti-tissue transglutaminase) antibodies in a single test requiring only one human sample. The overall agreement between commercially available predicate methods for detecting the four analytes compared with the Ig_plex Celiac DGP Panel from SQI which detected the four distinct analytes simultaneously was very high.

Furthermore, this panel quantifies both peptide biomarkers and antibody biomarkers simultaneously, highlighting the ability of SQI's platform to detect, measure and subtype a range a protein types within a single multiplexed test. The Company is also filing for regulatory approvals for the Ig_plex Celiac DGP Panel in additional jurisdictions including the U.S. The Company is in the process of expanding its sales force in order to commercialize this product in Canada and, pending clearance, in the US.

The development status the Companies IVD portfolio of products 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) (2)						
Ig_plex Vasculitis						
Ig_plex RA (Quantitative)						
Ig_plex Lupus						
Ig_plex IBD/Crohn's						

(1) Approved or cleared in the U.S. and Canada.
(2) Approved or cleared in Canada and Europe.
* Validation completed subsequent to quarter end

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. The proceeds from the issuance of units are allocated between capital stock and warrant capital based on their relative fair values, with $971,000 being allocated to warrant capital. The fair value of the warrants was estimated using the Black-Scholes pricing model with the following assumptions: share price $0.52; dividend yield 0%; risk free interest 1.25%; volatility 133%; and an expected life of 2 years. Expected volatility is based on historical volatility.

In connection with the private placement, the Company paid a finder's fee of $104,000 and issued 296,500 compensation warrants exercisable for 24 months from the closing of the private placement. Each compensation warrant is exercisable into one common share and one warrant at a price of $0.50. Each underlying warrant included in the compensation warrant is exercisable into one common share at a price of $0.65 for a two year period from the date of the private placement. The fair value of the compensation warrants was estimated at $95,000 using the Black-Scholes pricing model with the following assumptions: share price $0.52; dividend yield 0%; risk free interest 1.25%; volatility 133%; and an expected life of 2 years. Expected volatility is based on historical volatility. Broker warrants and related financings were not measured at the fair value of the services received as the fair value of such services was not reliably measurable. The total share issuance costs were $210,000.

On April 10, 2014 the Company completed a public offering of 8,400,000 units of the Company at a price of $0.50 per unit for gross proceeds of $4,200,000.

Each unit is comprised of one common share of the Company and one Common Share purchase warrant. Each warrant is exercisable at a price of $0.65 and entitles the holder thereof to acquire on Common Share until April 10, 2016.

The Units were issued pursuant to an agency agreement the Company entered into with Euro Pacific Canada Inc. (the "Agent"). H.C. Wainwright & Co., LLC and Kingsdale Capital Markets Inc. formed part of the selling group, and H.C. Wainwright & Co., LLC acted as lead U.S. placement agent. The Company paid the Agent a fee equal to 7% of the gross proceeds raised ($0.035 per unit) and issued 588,000 compensation warrants exercisable until April 10, 2016. 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 until April 10, 2016.

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 twelve 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 and $54,000 was transferred to contributed surplus upon expiry.

On May 8, 2014 the Company received approval from the TSX Venture exchange to extend the expiry of 3,508,171 warrants with an exercise price of $2.50 issued in connection with a private placement which was completed on June 20, 2014. The warrants which have expiry dates ranging from May 10, 2014 to June 19, 2014 have been extended for one year. All other provisions of the warrants remain unchanged.

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 March 31, 2014, the Company was developing three customer-targeted proof-of-concept multiplexed immunogenicity assays, a multiplexed assay targeted at immunogenicity testing of heparin and heparin-based low molecular weight biosimilar compounds (HIT Assay), Ig_plex diagnostic 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 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. The effective date for IFRS 9, which is to be applied retrospectively, has not yet been determined. The Company is assessing the impact of this new standard on its consolidated financial statements.

SELECTED FINANCIAL INFORMATION

Second Quarter Commentary

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

	March 31, 2014 (000s)	December 31, 2013 (000s)	September 30, 2013 (000s)	June 30, 2013 (000s)
Revenue	$ 18	$ 2	$ -	$ -
Net Loss	$ 964	$ 1,501	$ 1,553	$ 1,740
Net Loss Per Share	$ (0.02)	$ (0.03)	$ (0.03)	$ (0.04)
Weighted Average Shares	47,080	44,970	44,952	43,206

	March 31, 2013 (000s)	December 31, 2012 (000s)	September 30, 2012 (000s)	June 30, 2012 (000s)
Revenue	$ -	$ 3	$ -	$ -
Net Loss	$ 1,351	$ 1,563	$ 1,727	$ 1,584
Net Loss Per Share	$ (0.03)	$ (0.04)	$ (0.04)	$ (0.04)
Weighted Average Shares	39,826	39,826	39,822	37,877

During the second quarter of fiscal 2014 SQI recorded its first revenue resulting from product sales in our DTS business, reflecting the completion of a paid evaluation by Global Pharma 3. Revenue for the quarter-ended March 31, 2014 was $18,000 compared to $NIL for the quarter-ended March 31, 2013. Revenue for the six months ended March 31, 2014 was $20,000 compared to $NIL for the same period last year.

For the quarter-ended March 31, 2014, the Company recorded a net loss of $964,000 ($0.02 net loss per share) compared to a net loss of $1,351,000 ($0.03 net loss per share) for the quarter-ended March 31, 2013. The net loss for the six months ended March 31, 2014 was $2,465,000 ($0.05 net loss per share) compared to a net loss of $2,914,000 ($0.07 per share) for the same period last year. Per share values are based on the weighted average shares outstanding in the period. For the quarter-ended March 31, 2014 there was an average of 47,080,000 shares outstanding (six months ended March 31, 2014 - 46,013,000).

The net loss was lower for the three and six months ended March 31, 2014 compared to the three and six months ended March 31, 2013. The Company implemented cost cutting measures in the second quarter of fiscal 2014 and finalized validation and verification work on the Celiac DGP panel in January of 2014, reducing development costs.

R&D expenditures, excluding amortization and stock based compensation, for the three months ended March 31, 2014 were $338,000 compared to $549,000 for the same period last year. R&D expenditures, excluding amortization and stock based compensation, for the six months ended March 31, 2014 were $1,178,000 compared to $1,333,000 for the same period last year. During

the first fiscal quarter of 2014 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. With the costly validation approaching completion in Q1 2014 and submission finalized in Q2, R&D costs were much lower in the three and six months ended March 31, 2014 as compared to same period last year. The Company also focused its R&D efforts on projects for its Global Pharma customers as discussed earlier in this document; development costs for these projects are significantly lower than IVD development costs. In addition the Company temporarily reduced several R&D positions in Q2 fiscal 2014.

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 $106,000 for the quarter-ended March 31, 2014 compared to $179,000 for the quarter-ended March 31, 2013. Salaries and wages were $247,000 for the six months ended March 31, 2014 compared to $360,000 for the six months ended March 31, 2013. The decrease is a result of the reduction of one executive level position which occurred in June of 2013 and other salary reductions made in the second fiscal quarter of 2014.

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 $131,000 for the three months ended March 31, 2014 compared to $151,000 for the three months ended March 31, 2013. General and administrative expenses were $233,000 for the six months ended March 31, 2014 compared to $294,000 for the six months ended March 31, 2013. The decrease in general and administrative costs is due to general cost containment efforts.

Professional consulting (legal, accounting, Board of Directors compensation, recruiting, administrative contractor, and investor relations) costs in the three months ended March 31, 2014 were $108,000 compared to $61,000 for the three months ended March 31, 2013. Professional consulting costs for the six months ended March 31, 2014 were $163,000 compared to $127,000 for the same period last year. The increase in professional and consulting costs in the three and six months ended March 31, 2014 was primarily related to increased investor relations costs as the Company focused on increasing investor and customer awareness.

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 $71,000 for the three months ended March 31, 2014 compared to $102,000 for the three months ended March 31, 2013. Sales and marketing expenses, excluding stock based compensation, totalled $221,000 for the six months ended March 31, 2014 compared to $211,000 for the six months ended March 31, 2013. Sales and marketing costs for the six months ended March 31, 2014 are consistent with the expenses for the same period last year. The decrease in the costs for the quarter ended March 31, 2014 as compared the quarter ended March 31, 2013 is due to the timing of conferences and marketing activities.

Non-cash stock based compensation charges totalled $66,000 for the three months ended March 31, 2014 (six months – $118,000) compared to $146,000 for the three months ended March 31, 2013 (six months – $271,000). 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 March 31, 2014 (six months –$4,000) compared to $3,000 for three months ended March 31, 2013 (six months – $11,000). The Company invests its cash in variable term cashable government investment certificates and short-term money market deposits.

OUTLOOK AND FUTURE PROSPECTS

For the second half of fiscal 2014 and beyond, the Company will continue to focus on selling prototype products and services in our DTS business to new customers and converting these evaluation projects to higher volume kit sales in these customers' clinical programs; expanding opportunities and in developing new product opportunities within current customers. We anticipate that the successful evaluation projects completed in late 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.

New customer generation efforts are focused on marketing at immunogenicity, immunology and vaccine focused 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.

The Company also made significant progress in its IVD business targeting high-volume reference laboratories. During the quarter we obtained Health Canada clearance for our quantitative Celiac DGP assay, which we are now preparing to market in Canada while concurrently seeking its regulatory clearance in additional markets.

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 US FDA clearance of its IVD Celiac test, expected to be completed in fiscal 2014, could result in revenue from that product in fiscal 2014, further reducing overall losses.

Sources and Uses of Cash

Operational activities for the six months ended March 31, 2014 were financed by cash on hand.

At March 31, 2014, current assets were $1,151,000 compared to $1,724,000 at September 30, 2013. As at March 31, 2014 the Company has a $525,000 working capital surplus compared to a surplus of $1,270,000 at September 30, 2013.

Cash used in investing activities for the quarter ended March 31, 2014 was $17,000 (six months - $102,000) compared to $99,000 for the quarter ended March 31, 2013 (six months - $233,000). Investing activities focussed on enhancing and maintaining the Company's patent and trademark portfolio and continued development of the sqidlite and sqid-X platforms. The Company has delayed capital purchase until the completion of the financing mentioned below and is critically evaluating all patent and trademark expenditures.

During the quarter 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. Subsequent to quarter end the Company completed a public offering of 8,4000,000 units for gross proceeds of $4,200,000.

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 May 9, 2014, there were 56,336,058 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 May 9 2014:

Number of Warrants	Purchase Price	Weighted average time to maturity
1,140	$5.00	1.26 years
1,199	$4.00	0.57 years
5,784	$2.50	1.20 years
210	$1.75	0.03years
5,126	$1.10	0.98 years
513	$0.75	0.98 years
11,366	$0.65	1.87 years
885	$0.50	1.85 years
17,234		

The Company had the following stock options outstanding under the Plan at May 9, 2014:

Number of Options	Range of Exercise Prices	Weighted average time to maturity
1,473	$0.35 - 1.31	3.63 years
527	$1.32 - 2.28	2.58 years
327	$2.29 - 3.26	1.29 years
2,327		

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 March 31, 2014;

(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 March 31, 2014; 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.