
**SQI DIAGNOSTICS INC.**

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

**March 31, 2017**

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

*This Management's Discussion and Analysis ("MD&A") covers the condensed interim financial statements for the three and six months ended March 31, 2017 and 2016. The annual audited financial statements and MD&A for the year ended September 30, 2016 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, 2017.*

*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", "positioned" 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 requirement for, and our ability to obtain, future funding;*
- *our expected future losses and accumulated deficit levels;*
- *technological advances of competitive products and general market competition;*
- *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 in Canada and the United States;*
- *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 market, sell and successfully commercialize our products;*

- *our ability to attract and retain skilled and experienced personnel;*
- *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. was founded in 1999 to capitalize on two emerging opportunities: the large and growing number of blood tests performed to diagnose the state of a patient's disease; and the need to reduce both the effort and costs of these tests. We believed then that capitalizing on those trends would create a profitable business that could significantly benefit SQI and the life sciences industry and in 2017 began trading on the TSX Venture exchange.

Today, that belief has driven the transition of our business from a largely R&D enterprise, to a predominantly commercial one.

This is how the transformation happened:

From 1999 to 2013, we invested in our research and development to transform our core intellectual property into commercial technologies. These are multiplexed testing kits and the automated platforms the tests are run on.

Until 2013, we focussed on developing tests for the regulated diagnostic testing market. These tests are for companies that perform large numbers of tests on individual patients' blood. While this market remains attractive to us, in 2013 we shifted our focus to selling

our multiplexing technology and products directly to big pharma and to other diagnostic companies.

These are mainly global pharmaceutical companies as well as global biotechnology and diagnostic companies whose internal testing needs are large, rapidly growing and continually shifting towards running multiple tests to achieve a better diagnostic and cost effective result.

We shifted our focus for three reasons: to shorten the time to earning revenues; reduce our exposure to lengthy and expensive regulatory processes; and significantly reduce the effort needed to create commercial products.

This new strategy is working and we strongly believe that delivering to this market is how SQI should continue to execute its commercial strategy. In the past year, the rising number of sales of multiplexed kits and platforms to our global customers offers the best possible proof of this strategy's validity.

Shifting focus does not mean abandoning one market for the other. We are simply postponing our entry into the consumer market which is large and growing but more competitive and has higher regulatory hurdles.

**Catering to the growing needs of big pharma and biotech**

The use of biologic drugs – proteins that are engineered in the laboratory for pharmaceutical use – has increased significantly since the introduction of the first recombinant protein therapeutic (human insulin) 25 years ago. Today, there are an estimated 5,000 biologic drugs undergoing extensive development in North America.

Today, the annual market for custom and routine high-volume tests (called assays) used in clinical drug development is over $11 billion in the US and EU alone. In this market, our services and products are currently used to test responses to and aspects of the safety of novel and *biosimilar* drugs. Our technology is commonly referred to as "multiplexing". It allows drug development companies to condense a large number of individual tests into a single SQI test, saving them significant time and money over traditional, slower testing methods.

It is neither quick nor easy for any young company to establish its credentials with risk-averse global pharmaceuticals, and our experience has been no different. The customer acceptance process generally follows these four steps:

1. Potential customers monitor published assessments of our technology and presentations from others who have adopted our technology.

2. We then win and complete a product prototyping project to develop customized tests that our customers find of value to them.

3. We validate the performance of the developed product and automated platform at SQI.

4. Our customers perform in-depth validation of the test kits and platform performance at their laboratories.

In fiscal 2016, and during the first quarters of fiscal 2017, we proved our value propositions by completing all four of the steps outlined above with multiple customer tests. With these stamps of approval, we have sold a total of three sqid**lite**™ testing platforms to date. These sales brought us to an inflection point where we can achieve significant and growing sales of multiplexed kits and automated platforms.

We have now been through this process with several customers, not just with one product, but many of them, and not just with one sector, but with both big pharma and big diagnostic companies around the world. We are now advancing beyond this milestone to the stage of creating recurring revenue-streams that we believe will be both high in volume and high in margin.

We believe this crucial element of recurring revenue from kits sales will happen for two reasons: Once SQI products are embedded within our customer's testing programs, we expect their commitment will shift from short-term and one-off projects to long-term commercial contracts. There is also the 'stickiness' factor that can work to SQI's advantage: once testing programs and protocols are established, changing them is expensive, complicated and risky.

Over the past two years, we have repeatedly shown that SQI's technology and automated platforms are uniquely positioned to assist pharmaceutical and biotechnology companies to comply with guidance published in 2014 by the US Federal Drug Administration. Our competence has also been demonstrated through six public presentations by global pharmaceutical and biotechnology companies at important immunogenicity conferences that our customers use as bellwether events to learn about emerging technologies. Each of these presentations demonstrated how SQI's technology was used to detect a broad range of 'targets' in one test, with equivalent or superior performance including the benefits of full test automation.

Our value proposition today is consistent across all our target markets. We can now say with confidence that we significantly reduce our customer's costs to develop, run and manage their testing needs while delivering superior quality tests via "multiplexing" and automation.

**Commercial Highlights for the Quarter**

SQI achieved a significant commercial milestone in the second quarter of fiscal 2017 with the signing of a product development agreement with a leading predictive health diagnostic customer. Our six-month revenues grew compared to the same period last year as we continue to service our existing customer base. In addition, at the end of this past quarter, our DNA-based human health customer finalized the timing of its large, reference-lab-based patient validation study that is to begin in mid-May. These two noteworthy commercial milestones are working to position SQI for significant revenues to begin in the third and fourth quarter of fiscal 2017 which will have a significant impact to our bottom line.

There were four key accomplishments that helped us achieve our commercialization goals in the second quarter of fiscal 2017:

**1. We signed a significant new diagnostic customer with existing US sales**. In order to begin generating significant revenues SQI needs to complete and validate the transfer of the 7-plex tests currently being run by this customer. SQI believes the technology risk for this process to be low - SQI has developed an existing product that will serve as a template on which to complete the technology transfer. Commercially, our customer is currently running tests for thousands of patients each month in its CLIA lab in California.

A CLIA lab is any US government-certified laboratory that performs testing on human specimens whose results are used to treat, diagnose, or monitor disease and are governed by the CLIA Act of 1988. [CLIA means Clinical Laboratory Improvement Amendments.]

Our customer's product is a revolutionary cardiac event prediction test that has been shown to predict the chances of a heart attack before it happens. In our agreement, SQI will transform this customer's multi-biomarker test into an SQI-based multiplex test, with kits to be manufactured at SQI's state-of-the-art facility in Toronto. The agreement also calls for the automation of the test on SQI's sqid**lite™** system which would then be sold to the customer to run the tests at its CLIA laboratory. In addition to running the test in their own laboratory, SQI's customer also plans to sell both the test kit and SQI automation systems to its ever-expanding global customer base. These customers are renowned cardiologists, hospitals, and reference laboratories around the world.

SQI management expects that the recent and on-going sales efforts of our customer will continue to expand the number of tests run and hence our revenues from kit and platform sales in North America and throughout the world. This customer's predictive cardiac test marks a major advancement in medicine's ability to predict a heart attack before it occurs.

It is the first test to use a blood test to detect heart attack risk factors in patients. The test's predictive potential as presented and cited in leading scientific papers has been shown to predict the likelihood that patients will experience a heart attack (ACS event) within a 5-year period – allowing physicians to implement potentially life-saving prevention plans.

**2. We advanced the integration of our human diagnostics DNA customer at the large US reference lab where a large comparative study is to be launched in mid-May.** For over a year, we have been working on product development, assessment, automation and integration of the sqid**lite** platform to address this US reference lab's testing needs. We are now at the point where our customer is launching what we believe to be a final step prior to commercial launch. We believe that this will be completed in fiscal 2017 and successful completion of this study will lead to commercial production of this product and recurring sales of kits in fiscal 2017.

**3. We completed a development program for a new pharma customer reported last quarter.** We launched a new customer's product development program last quarter and completed it during the current quarter. This program is based on SQI's "off the shelf" test kit for testing 8 cytokines which are common markers tested during drug development. During the quarter, we established the performance of the SQI-developed test against a set of unknown challenge test samples. We are currently anticipating the customer's approval to begin production of the product for use in their commercial operations.

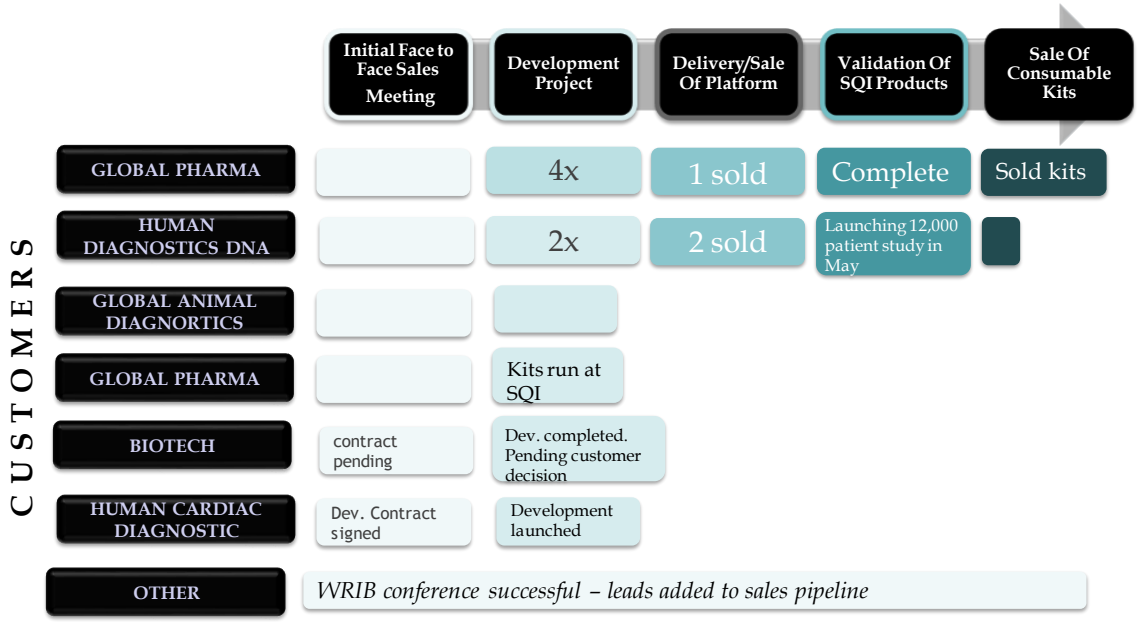
**4. We advanced additional customers along our sales pipeline.** We attended the 10th Workshop on Recent Issues in Bioanalysis (WRIB) in the quarter and added a number of what we believe to be high value pharma target customers into our pipeline.

We also brought on a very experienced sales executive to focus on the eastern US market and we believe this will significantly enhance our ability to prospect and close several new, large pharma customers in fiscal 2017.

In addition, we continue to anticipate the decision to proceed from our animal health diagnostics customer. While our communications with their management remains positive we do not have a commercial timeline to share at this time for completing the sale to this customer.

**Outlook**

The following chart depicts our current customer pipeline.




Since our first days, we have invested significantly in our technologies and automated systems so that our customers can save considerable time and money using our products. We have also expanded the range of applications for our multiplexing technologies with two market groups in mind: pharmaceutical and biotechnology drug developers, and other diagnostic companies.

This past quarter, our unrelenting commitment to the highest quality in all our tests and our strong focus on these markets have brought to us not only the customers we had hoped for, but other customers as well whose challenges are creating an entirely new level of growth opportunity for SQI.

As our customers begin buying our products in commercial quantities, we plan to expand both our manufacturing facilities and our marketing capabilities. This scale-up is currently being coordinated with our vendors and its completion will be timed to satisfy customer demand.

For the remainder of fiscal 2017 we expect to continue advancing active customers in the sales pipeline. We believe that our two diagnostic customers will advance to us selling kits into their commercial production at significant volumes and that we will sell and install additional sqid**lite**™ systems to support their higher testing volumes. We continue

to seek out and develop other customer opportunities in the diagnostic sector and expect to add one more diagnostic customer during the year.

We further expect that we will see recurring kit sales in our pharmaceutical market. We plan to deliver on existing customer requirements and to complete the development of products for our new customers which will lead to the on-going sales of kits.

**SQI Value Proposition: many more tests; 95% less blood**

We produce and market best-in-class platforms, which use our precisely customized consumable kits exclusively to create multiple recurring revenue streams that will be both high in volume and high in margin.

This value proposition is consistent across all our target markets. We significantly reduce both human labour and cost while delivering superior quality tests via “multiplexing” and automation.

This, in turn, creates a widening circle of benefits: it significantly reduces the effort to validate many different tests, and reduces the consumption of limited and very valuable blood samples. This enables our customers to run many different tests using 95% less blood.

Our unique multiplexing capabilities not only serve the testing market, they help grow it. Pharmaceutical, biotechnology and diagnostic companies can now expand their testing in a major way by delivering more tests and creating more data at a lower cost. In addition, our automated systems are used to run SQI tests “hands-free”, providing complete data analysis, which is seamlessly reported to our customers’ data management systems. Our scientists are developing many different highly technical products within timeframes and at levels of performance that have repeatedly exceeded our customers’ expectations. This, too, will accelerate the expansion of the testing market as a whole.

Once SQI’s technology and products have been embedded within the drug development protocols of our customers, we fully expect that their commitment will be long term and our base revenue streams secure, since changing FDA-approved protocols is both expensive and complicated.

We also strongly believe that, as our customers become familiar with their installed SQI platforms and the many benefits that come from them, we will be able to aggressively leverage these relationships for new and enhanced market-development opportunities.

**CORPORATE FINANCING TRANSACTIONS**

On March 10, 2017, the Company completed a non-brokered private placement of an aggregate of 22,970,000 units of the Company at $0.16 per unit for gross proceeds of $3,675,000. Each unit comprises one common share of the Company and one common share purchase warrant. Each warrant is exercisable at a price of $0.21 and entitles the holder thereof to acquire one common share for a period of five years from the date of issuance, subject to accelerated expiry in certain circumstances. The proceeds from the issuance of units are allocated between capital stock and warrant capital based on their relative fair values, with $1,631,000 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 $0.16; dividend yield 0%; risk free interest 1.15%; volatility 120%; and an expected life of 5 years. Expected volatility is based on historical volatility. The total share issuance costs were $55,000.

On January 13, 2017, the Company extended the expiry of 2,965,000 warrants that were issued in connection with a private placement in January 2014. The warrants were amended on January 14, 2016 to extend the term of such Warrants until January 26, 2017. The warrants were further amended, to extend the term of such Warrants until January 26, 2019. All other provisions of the warrants remain the same. Accordingly, $129,000 was recorded in warrant capital with a corresponding reduction in contributed surplus in 2016.

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. On October 25, 2016, these warrants, having reached the maximum term allowable under TSX Venture rules, expired unexercised. Accordingly, $1,410,000 was transferred from warrant capital to contributed surplus in the current quarter.

On March 14, 2016, the Company extended the expiry of 8,400,000 warrants that were issued in connection with a public offering in April 2014. Each warrant entitles the holder thereof to purchase one common share of the Company at any time until the close of business on April 10, 2016 at an exercise price of $0.65 per common shares. The warrants were amended to extend the term of such Warrants until April 10, 2019, subject to certain accelerated expiry conditions. All other provisions of the warrants remain the same. Accordingly, $1,484,000 was recorded in warrant capital with a corresponding reduction in contributed surplus in fiscal 2016.

On January 14, 2016, the Company extended the expiry of 2,965,000 warrants that were issued in connection with a private placement in January 2014. Each warrant entitles the holder thereof to purchase one common share of the Company at any time until the close of business on January 26, 2016 at an exercise price of $0.65 per common shares. The warrants were amended to extend the term of such warrants until January 26, 2017. All other provisions of the warrants remain the same. Accordingly, $239,000 was recorded

in warrant capital with a corresponding reduction in contributed surplus in fiscal 2016. In addition, 296,500 warrants with an expiry of January 26, 2016 expired unexercised and $95,000 was transferred to contributed surplus in fiscal 2016.

**Second Quarter Commentary**

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

| | March 31, 2017 (000s) | December 31, 2016 (000s) | September 30, 2016 (000s) | June 30, 2016 (000s) |
|---|---|---|---|---|
| Revenue | $ 251 | $ 415 | $ 709 | $ 235 |
| Net Loss | $ 1,289 | $ 1,497 | $ 1,248 | $ 1,446 |
| Net Loss Per Share | $ (0.01) | $ (0.02) | $ (0.02) | $ (0.02) |
| Weighted Average Shares | 86,520 | 80,905 | 75,126 | 69,347 |
| | **March 31, 2016 (000s)** | **December 31, 2015 (000s)** | **September 30, 2015 (000s)** | **June 30, 2015 (000s)** |
| Revenue | $ 280 | $ 197 | $ 178 | $ 180 |
| Net Loss | $ 987 | $ 1,358 | $ 1,548 | $ 1,571 |
| Net Loss Per Share | $ (0.01) | $ (0.02) | $ (0.03) | $ (0.03) |
| Weighted Average Shares | 69,347 | 63,115 | 60,847 | 56,381 |

During the six months ended March 31, 2017, the Company recorded revenue from the sale of a sqid**lite**™ platform as well the sale of custom kits. The Company continued to earn revenue from development projects in both its drug development and diagnostic sector. Revenue for the three months ended March 31, 2017 was $251,000 compared to $280,000 for the same period last year. Revenue for the six months ended March 31, 2017 was $666,000 compared to $477,000 for the same period last year.

For the quarter, the Company recorded a net loss of $1,289,000 ($0.01 net loss per share) as compared to the net loss of $987,000 ($0.01 net loss per share) for the quarter-ended March 31, 2016. For the six months ended March 31, 2017, the Company recorded a net loss of $2,783,000 ($0.03 net loss per share) which is greater than the net loss of $2,345,000 ($0.04 net loss per share) for the six months ended March 31, 2016. Per share values are based on the weighted average shares outstanding in the relevant period. For the quarter-ended March 31, 2017, there was an average of 86,520,000 shares outstanding.

The increase in net loss for the three and six months ended March 31, 2017 as compared to the three and six months ended March 31, 2016 is a result of higher product commercialization and development costs and the increased marketing costs associated with the shift to a more sales-focussed company.

R&D expenditures, excluding amortization and stock based compensation, for the three months ended March 31, 2017 were $633,000 compared to $452,000 for the same period last year. R&D expenditures, excluding amortization and stock based compensation, for the six months ended March 31, 2017 were $1,425,000 compared to $1,165,000 for the same period last year. The increase in R&D expenditures for the three and six month periods is a result of incentive payments made to employees in the R&D group and expenditures on development work for two new projects started in fiscal 2017. Research and development expenditures focused on xPlex product development as well as an internal development project that, if successful, will significantly reduce our overall consumable kit costs. R&D expenditures were reduced in 2016 by SR&ED investment tax credits of $360,000 which represented tax credits claimed for the 2014 and 2015 tax years. R&D expenditures in 2017 were offset by SR&ED investment tax credits of $229,000 related to the 2016 tax year.

Corporate and general expenses include salaries and related expenses (including benefits and payroll taxes); general and administrative expenses; and professional consulting (legal, accounting, Board of Directors compensation, recruiting, administrative contractor, and investor relations) costs.

Corporate and general expenses excluding stock-based compensation, totaled $349,000 for the three months ended March 31, 2017 as compared to $392,000 for the three months ended March 31, 2016. Corporate and general expenses excluding stock based compensation, totaled $650,000 for the six months ended March 31, 2017 as compared to $787,000 for the six months ended March 31, 2016. Corporate and general expenses are lower over the comparable periods due to reduced administrative personnel costs and lower legal and investor relations costs. Management expects an increase in investor relations costs during the remainder of fiscal 2017 to align with our commercial progress and increased activities related to increasing investor 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, totaled $214,000 for the three months ended March 31, 2017 compared to $174,000 for the three months ended March 31, 2016. Sales and marketing expenses, excluding stock based compensation, totaled $523,000 for the six months ended March 31, 2017 compared to $327,000 for the six months ended March 31, 2016. Sales and marketing expenses were higher for the three and six months ended March 31, 2017 compared to the same period in the previous year, primarily due the addition of sales and customer service personnel and to the payment of bonuses to employees.

Non-cash stock based compensation charges totaled $60,000 for the three months ended March 31, 2017 compared to $(14,000) for the three months ended March 31, 2016. Non-cash stock based compensation charges totaled $138,000 for the six months ended March 31, 2016 compared to $34,000 for the six months ended March 31, 2016. The related stock option issuances are detailed later in this document.

**Sources and Uses of Cash**

Management expects losses to continue through fiscal 2017 as investment continues in product development and commercialization efforts for its pipeline of custom Ig_plex consumable kits, new xPlex products and platforms, and sales and marketing initiatives. In fiscal 2017, management expects to achieve break even as the year progresses and as the Company generates revenues from a variety of customers in our pharma and diagnostic markets.

The Company has sufficient liquidity to meet its current obligations as they come due. The continuation of the Company's research, development and commercialization activities is dependent upon the Company's ability to generate product or service revenues or to finance its operations through further equity and or debt financings The Company is currently projecting to achieve cash flow breakeven later in fiscal 2017. Capital expenditures to increase manufacturing capacity and the purchase of platforms in anticipation of customer demand will impact the Company's cash resources.

Operating activities for the six months ended March 31, 2017, were financed by cash on hand and from financing initiatives closed during the year. In March of 2017 the Company completed a non-brokered private placement of Units for gross proceeds of $3.7 million.

At March 31, 2017, current assets were $5,195,000 compared to $4,244,000 at September 30, 2016. As at March 31, 2017, the Company had a $4,671,000 working capital surplus compared to a surplus of $3,420,000 at September 30, 2016.

Cash used in investing activities for the quarter-ended March 31, 2017 was $60,000 (six months - $116,000) compared to $56,000 for the three months ended March 31, 2016 (six months - $164,000). The Company continues to critically evaluate all capital asset purchases and is continually evaluating all patent and trademark expenditures. Investing activities were focused on maintaining the Company's patent and trademark portfolio, strategic laboratory equipment purchases and upgrading computer equipment.

**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 for the year ended September 30, 2016, investors 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 their 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**

*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.*

*We have incurred losses since inception.*

*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 withdrawal of or failure to maintain regulatory certification of our quality system will adversely affect our ability to market our diagnostic 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 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.*

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

During the current reporting period, the Company earned service revenues and revenues from the sale of its diagnostic platforms and we believe that a great deal of progress has been achieved in proving our value to several large global pharmaceutical and diagnostic customers. We continue to advance our relationships with these and other customers to the stage where we expect recurring sales of testing platforms and consumables to

'market-ready' customers. However, additional platform placements and commercial sales are required to reach break-even. The continuation of the Company's research, development and commercialization activities along with investment in marketing and sales depends on the Company's ability to successfully manage its growth, investment in continued pipeline development and its cash requirements.

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

We have not entered into any forward currency contracts or other financial derivatives to hedge foreign exchange risk. We are subject to foreign exchange rate changes that could have a material effect on future operating results or cash flows.

Management will continue to review the Company's financial needs and to seek additional capital 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 can be obtained.

**Outstanding Capital Stock**

As at May 9, 2017, there were 103,874,836 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, 2017:

| Number of Warrants | Exercise Price | Maturity |
|---|---|---|
| 5,126 | $1.10 | May 2018 |
| 16,695 | $0.64 | July 2018 - April 2019 |
| 3,560 | $0.59 | January and February 2020 |
| 7,631 | $0.52 | December 2018 |
| 22,970 | $0.21 | March 2020 |
| 55,982 | | |

The Company had the following stock options outstanding under the Plan at May 9, 2017:

| Number of Options | Range of Exercise Prices |
|---|---|
| 3,469 | $0.16 – 0.39 |
| 717 | $0.40 – 0.69 |
| 395 | $0.70 – 1.80 |
| 4,581 | |

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

**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 are included in the financial statements for the year ended September 30, 2016. Refer to the audited consolidated financial statements for the year ended September 30, 2016 for discussion on accounting policies and estimates that are most important in assessing, understanding and evaluating the Company's consolidated financial statements. Changes in these estimates and assumptions could have a material impact on the Company's consolidated financial statements.

**RECENT ACCOUNTING PRONOUNCEMENTS**

**IFRS 9 Financial Instruments**

IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. IFRS 9 also incorporates requirements for financial liabilities, most of which were carried forward unchanged from IAS 39. Certain changes were made to the fair value option for financial liabilities to address the issue of own credit risk. IFRS 9 removes the volatility in profit or loss caused by changes to the credit risk of liabilities elected to be measured at fair value. Requirements related to hedge accounting, representing a new hedge accounting model, have been added to IFRS 9. The new model represents a substantial overhaul of hedge accounting, which will allow entities to better reflect their risk management activities in financial statements. The most significant improvements apply to those that hedge non-financial risk, so these improvements are expected to be of particular interest to non-financial institutions. In addition, a single,

forward-looking expected loss impairment model is introduced, which will require more timely recognition of expected credit losses. The effective date for IFRS 9, which is to be applied retrospectively, is for annual periods beginning on or after January 1, 2018. The Company is assessing the impact of this new standard on its consolidated financial statements.

**IFRS 15 Revenue Recognition**

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. IFRS 15 replaces the detailed guidance on revenue recognition requirements that currently exists under IFRS. IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers, unless the contracts are within the scope of other IFRS guidance. The standard also provides a model for the measurement and recognition of gains and losses on the sale of certain non-financial assets that are not an output of the Company's ordinary activities.

Additional disclosure is required under the standard, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods, and key judgments and estimates. The standard is effective for annual periods beginning on or after January 1, 2018; early application is permitted either following a full retrospective approach or a modified retrospective approach. The modified retrospective approach allows the standard to be applied to existing contracts beginning the initial period of adoption and restatements to the comparative periods are not required. The Company is required to disclose the impact by financial line item as a result of the adoption of the new standard. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

**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, 2017;

(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, 2017; 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.

## Glossary of Terms:

**Multiplex(ing):** to obtain multiple results from one single biological sample to save time, cost and development of multiple tests

**IVD:** In vitro diagnostics; specifically assays which meet the rigorous standards of regulated bodies (FDA HC)

**CRO:** Contract Research Organization; organizations who typically conduct testing for large pharmaceutical companies and development laboratories.

**Biomarker:** Biological molecules, the presence or absence of which can be used to detect or monitor a state of disease or can be used to test the efficacy or safety of a drug in development

**ADA:** Anti drug antibodies, an immune response to administered therapeutics which are an interest for both drug efficacy and safety

**Epitope mapping:** Testing used to identify specific immunogenic regions in a drug candidate

**PK:** Pharmacokinetics – the rate at which a drug is metabolized in a patient; used to better design dosing regimens, among other things

**FDA:** U.S. Food and Drug Administration

**EMA:** European Medicines Agency

**sqidlite™ :** Our bench-top diagnostic system – fully automated bench top microarray processing system

**sqidworks:** Our diagnostic platform is a high-throughput fully automated microarray processing and analytical instrument

**sqid-X:** sqid-**X**™ System – semi-automated bench-top platform that incorporates all of SQI's technology with the exception of automated fluidics handling

**DDTS:** Drug Development Tools and Services

**R&D:** Research and development