

SQI Diagnostics Inc.

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

June 30, 2008

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This discussion and analysis covers the financial statements for the three and nine month periods ending June 30, 2008, prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). The fiscal year end of SQI Diagnostics Inc. ("SQI" or "Company") is September 30th.

All amounts are expressed in Canadian dollars unless otherwise indicated.

This discussion and analysis was performed by management using information available as at August 27, 2008. Certain portions of this document including management's assessment of the Company's future plans and operations contain forward-looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Company's control, including the impact of general imprecision of reserve estimates, taxation policies, competition from other producers, stock market volatility and the ability to access sufficient capital from internal or external sources. The Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that the Company will derive therefrom. Additional information relating to the Company is available by accessing the SEDAR website at www.sedar.com.

OVERVIEW

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

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

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

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

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

Commercial Development Current Status

The Company initiated its verification studies in the period and this has led it to approve the initiation of the multi-site validation studies of its lead multiplexed test for the detection and quantification of the commonly requested markers used in the diagnosis of rheumatoid arthritis. The Company has used information from discussions with the United States Food and Drug Administration (FDA) to determine the final design of the validation study requirements. The Company is in the process of conducting a multi-site trial for its QuantiSpot™ RA assay and SQiDworks™ automated platform that could produce approvable data. Subsequent to the current reporting period the Company completed internal verification studies of its QuantiSpot RA panel and SQiDWorks Platform producing data sufficient to approve initiation of the multi-site validation studies. Completion of validation is targeted for the last fiscal quarter. The Company plans to use the data from these validation studies in the Company's various regulatory filings to allow for the marketing and sale of the platform and QuantiSpot RA panel in North America and Europe.

Operational Achievements

During the period ending June 30, 2008, the Company achieved the following steps in preparation for the intended multi-site validation studies and product commercialization:

- SQiDworks platforms were commissioned and certified ready to conduct validation data studies at our external validation partners;
- Final operator training and platform certifications were completed at multi-site validation labs to prepare for initiation of validation studies;
- Independent studies were completed at Cleveland Clinic Laboratory (CCL) comparing the QuantiSpot RA™ assay and SQiDworks platform to existing predicate technology. The results of this limited study showed greater than 95% method concurrence when comparing the QuantiSpot RA anti-CCP biomarker performance to CCL's current installed technology. Anti-CCP is currently the bench-mark component of rheumatoid arthritis biomarker testing used in the Company's four-plex QuantiSpot RA panel. Concordance of IgA, IgG and IgM exceeded 88%;
- The final audit for ISO 13485 certification was successfully completed and the Company attained ISO 13485 registration; and,
- Platform systems and software testing were completed through to verification.

Subsequent to the period end, the Company approved initiation of its multi-site validation studies at CCL and Mount Sinai Hospital.

Corporate Financing Transactions

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

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

The Company completed a private placement of 2,439,500 shares at a price of \$1.50 per share for net proceeds of \$3,349,700. This financing transaction was completed on June 04, 2008. In connection with the financing the Company issued Broker Warrants entitling the holder to purchase 194,200 common shares. The Broker Warrants have an exercise price of CDN\$1.50 and will be exercisable in whole or in part within 24 months of the closing date of the Offering.

The Company also entered into a financing arrangement with the Royal Bank of Canada to borrow up to \$730,000 in a non-revolving term credit facility. The note bears interest at the prime rate plus 4%. Interest and principal are due by November 30, 2008, or upon receipt of the SR&ED investment tax credit refund, whichever is sooner. The Company has pledged its SR&ED receivables as primary security against this facility and entered into a general security agreement covering essentially all of its assets. The proceeds of this arrangement are to be used to fund general working capital.

Operational Risks

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

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

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

SELECTED FINANCIAL INFORMATION

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

	3 Month Periods Ending			
	September 30, 2007	December 31, 2007	March 31, 2008	June 30, 2008
Revenue	\$ 17,190	\$ 44,493	\$ 19,145	\$ 7,175
Net Loss	\$ 946,214	\$ 1,013,922	\$ 521,274	\$ 1,323,979
Net Income Per Share	\$ (0.05)	\$ (0.05)	\$ (0.03)	\$ (0.06)
Weighted Average Shares	19,689,460	19,737,507	19,750,200	20,458,300
	September 30, 2006	December 31, 2006	March 31, 2007	June 30, 2007
Revenue	\$ 23,400	\$ 21,735	\$ 31,140	\$ 22,230
Net Loss	\$ 104,928	\$ 712,412	\$ 739,450	\$ 1,171,998
Net Income Per Share	\$ (0.01)	\$ (0.05)	\$ (0.05)	\$ (0.07)
Weighted Average Shares	14,719,319	14,719,319	14,719,319	15,950,957

RESULTS OF OPERATIONS

For the quarter ending June 30, 2008 the Company recorded a net loss of \$1,323,804 (\$0.06 per share) compared to a loss of \$1,171,998 (\$0.07 per share) in the quarter ending June 30, 2007. For the nine months ending June 30, 2008, the Company recorded a net loss of \$2,859,000, (\$0.14 per common share). This compares to a net loss of \$2,623,860 for the comparative nine month period ending June 30, 2007 (\$0.18 per share). Per share values are based on the weighted average shares outstanding in the period. For the quarter ending June 30, 2008 there was an average of 20,458,300 shares outstanding and 14,719,319 shares outstanding at March 31, 2007.

Losses for the current quarter were increased compared to the quarter ending June 30, 2007 owing primarily to increased labour and laboratory costs, and external testing expenses related to research and development activity on the Company's SQiDworks platform and its lead QuantiSpot autoimmune assays for the detection and quantification of biomarkers for Rheumatoid Arthritis and APS. The increased loss in the nine month period ending June 30, 2008 compared to the same period in the previous year were owing primarily to increased research and development costs as above, and other non-cash items including increased stock-based compensation costs and amortization of capital added primarily to advance commercialization of the SQiDworks™ platform and to manufacture QuantiSpot™ assay microarray test kits for internal verification studies.

Professional and consulting fees in the quarter ending June 30, 2008 of \$135,963 were less than the same period in 2007 owing primarily to costs of the Company's going public transaction completed in 2007. These costs were non-recurring and resulted in lower overall Professional and Consulting costs in the nine month period ending June 30, 2008 compared to the same nine month period in 2007. Revenue for the quarter ending June 30, 2008 of \$7,175 was lower than the same period in 2007 (\$23,220) owing to both the successful completion of discovery phase work for an infectious disease assay being done collaboratively with Silliker Inc. and reduced contract research carried out for a third party thus enabling the Company to focus on its core SQiDworks platform and QuantiSpot RA commercialization. Revenue for the nine month period ending June 30, 2008 was \$70,813 compared to \$76,095 for the nine month period ending June 30, 2007. Revenue not generated from non-core contract research during the quarter ending June 30, 2008 was made up through the completion of a Discovery Phase core research project and payment of

a milestone payment from Silliker Inc. completed in the quarter ending March 31, 2008. As a result, comparative nine month revenues were similar for the nine month periods ending June 30, 2008 and June 30, 2007.

Research and development (R&D) expenses include R&D salaries, benefits, all laboratory costs and R&D related professional services and contracts. R&D costs are offset (reduced) in the period by SR&ED tax credits, when it is reasonably expected that the credits claimed will result in a cash refund. The Company qualified for cash refunds of investment tax credits related to expenditures during the periods in which it was a Canadian controlled private corporation ("CCPC"); the Company is no longer a CCPC. R&D expenses were \$828,032 for the quarter ending June 30, 2008 and were \$685,442 for the quarter ending June 30, 2007. The greatest contributors to the increase in gross R&D expense in the quarter ending June 30, 2008 compared to the same period last year was the increase in R&D salary and benefit expenses, lab costs attributed to the production of QuantiSpot test kits for verification studies and to fees paid to our validation partners to prepare for validation studies on the Companies QuantiSpot RA assay and SQiDworks Platform. For the nine month period ending June 30, 2008 R&D costs were \$1,611,834 compared to \$1,481,002 in the nine month period ending March 31, 2007. The increase in costs for the current nine month period compared to the previous year can be attributed to the increased cost described for the current quarter.

Corporate expenses include, primarily: all administrative salaries and related expenses (including benefits and payroll taxes); general and administrative expenses; advertising and promotion expenses; travel expenses; interest expense (income); and, professional and consulting fees. Corporate expenses totaled \$266,656 for the quarter ending June 30, 2008 compared to \$422,569 for quarter ending June 30, 2007. For the nine month periods ending June 30, 2008 and 2007 corporate expenses were \$266,656 and \$576,663 respectively. Corporate expenses were higher in the quarter and nine month periods ending June 30, 2007 compared to the same period in the current year primarily owing higher professional costs related to professional and other costs to completing the Company's going public transaction.

Operational expenses were partially offset by interest income earned on short-term investments of \$33,245 for the quarter ending June 30, 2008 compared to an interest expense of \$7,833 for the quarter ending June 30, 2007. The increase in interest income from the quarter ending June 30, 2008 compared to the net expense for the quarter ending June 30, 2007 relates primarily to returns on higher cash balances held in 2008 and short-term interest expenses for the same quarter in 2007. The Company invests its cash in variable-term cashable government investment certificates.

Non-cash stock based compensation charges totaled \$82,200 for the quarter ending June 30, 2008 compared to \$11,499 for the quarter ending June 30, 2007. For the nine months ending June 30, 2008 and 2007, non-cash stock based compensation charges totaled \$187,392 and \$78,089 respectively. The related stock option issuances are described further below in the Outstanding Share Capital section.

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

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

Operational activities for the period ending June 30, 2008 were financed by cash on hand. Cash reserves were increased in the period through the completion of the private placement closed June 04, 2008 wherein the Company sold 2,439,500 shares at a price of \$1.50 per share for net proceeds of \$3,349,700. The Company also closed a non-revolving term facility for proceeds of \$730,000. The Company has used its SR&ED credits as security against this facility. The proceeds of this arrangement are to be used to fund general working capital.

At June 30, 2008, current assets were \$5,099,933 as compared to \$3,674,792 at September 30, 2007. Working capital as at June 30, 2008 was \$4,773,127 compared to \$3,408,917 at September 30, 2007.

Management believes that with the cash on hand at June 30, 2008, with no significant capital investments and with no unforeseen increases to its current operating expenditures, the current financial resources would be sufficient to fund Company operations for at least the next 12 months.

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

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

Financial Instruments and Financing Risks

While the Company currently does not market any diagnostic tests or platforms, its SQiDworks automated analytical platform and its lead QuantiSpot RA test kit used to detect and quantify a panel of biomarkers to aid in the diagnosis of rheumatoid arthritis, and QuantiSpot APS, a diagnostics test kit used to detect and quantify a panel of biomarkers to aid in the diagnosis of APS, are being prepared for third party clinical validation studies. QuantiSpot tests are designed to run only on the SQiDworks platform. In order to get the platform and QuantiSpot consumable tests approved for sale in the United States, the Food & Drug Administration ("FDA") typically requires the conduct of clinical validation studies to compare the performance of a new test to predicate tests currently approved for sale in the US. Upon successful completion of the validation studies the data derived is then presented to the FDA in the form of a 510(k) Pre-market Notification. It is typical for the external validation studies to take several months to complete and upon receipt of a completed 510(k) submission the FDA may take up to four months to render a decision on the application. As at June 30, 2008, the Company has completed extensive internal testing of its QuantiSpot RA test panel using the SQiDworks platform and has completed extensive development testing of its QuantiSpot APS panel.

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

the expected response on its 510(k) pre-market notification from the FDA for these tests.

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

Outstanding Share Capital

As at June 30, 2008, there were 22,217,478 common shares issued and outstanding. On June 4, 2008 the Company issued 2,439,500 shares in a Private Placement for \$1.50 per share or gross proceeds of \$3,659,250. The Company also issued 194,200 broker warrants with an exercise price of \$1.50 that are exercisable in whole or in part within 24 months of the closing date. The following table describes securities that have been issued that are convertible under certain conditions into common shares:

The Company had the following warrants outstanding at June 30, 2008:

Number of Warrants	Purchase Price	Expiry Date
83,335	\$ 0.438	April 26, 2009
50,001	\$ 0.132	April 26, 2009
20,834	\$ 1.200	April 26, 2009
89,147	\$ 2.502	April 26, 2009
1,076,867	\$ 0.600	April 26, 2009
344,004	\$ 1.200	April 26, 2009
285,404	\$ 1.600	June 29, 2009
1,783,776	\$ 2.400	June 29, 2009
194,200	\$1.500	June 03, 2010
3,927,568		

The Company had the following stock options outstanding under its Employee Stock Option Plan at June 30, 2008:

Number of Options	Exercise Price	Expiry Date
133,336	\$0.13	16-Dec-08
8,334	\$1.68	01-Jul-09
833,350	\$0.06	15-Apr-10
141,670	\$1.20	15-Apr-10
172,226	\$1.20	29-Jun-11
83,335	\$1.20	29-Aug-11
197,500	\$1.74	07-Aug-12
50,000	\$1.50	23-Oct-12
757,500	\$1.60	26-Feb-13
2,377,250		

The Company also had 133,333 options outstanding at June 30, 2008 that were not issued under the Plan. All of these options were exercisable at June 30, 2008 and have an exercise price of \$0.90 and expire on October 14, 2009.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Adoption of New Accounting Policies

On December 1, 2006, the CICA issued new accounting standard: Capital Disclosures (Handbook Section 1535). This new standards became effective for the Company on October 1, 2007. Handbook Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by the new Handbook section in Note 16 to the interim consolidated financial statements.

Effective October 01 2007, the Company adopted the recommendations of CICA Handbook Section 3862, Financial Instruments - Disclosure ("Section 3862"). Section 3862 provides standards for disclosures about financial instruments, including disclosures about fair value and the credit, liquidity and market risks associated with the financial instruments. Disclosure requirements pertaining to Section 3862 are contained in Note 18 of the interim consolidated financial statements.

Effective July 01 2008, the Company adopted the recommendations of CICA Handbook Section 3863, Financial Instruments - Presentation ("Section 3863"). Section 3863 provides standards for presentation of financial instruments and non-financial derivatives. Adoption of this standard had no impact on the Corporations' financial instrument related presentation disclosures and is further detailed in Note17 interim consolidated financial statements.

FUTURE PROSPECTS

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

Europe is significantly large and the Company's value proposition to its customers will provide for significant revenues from the sale of commercial assays and test platforms in each of its target markets.

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

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

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

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

DISCLOSURE CONTROLS AND PROCEDURES, AND INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

- (a) designed such DC&Ps, or caused them to be designed under supervision, to provide reasonable assurance that material information is made known during the period in which the annual and quarterly filings are being prepared;

(b) designed such ICFRs, or caused them to be designed under supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP;

(c) evaluated the design and effectiveness of the Company's DC&Ps as of the quarter ending June 30, 2008;

(d) have concluded that a material design weakness in the ICFRs may exist in terms of the inadequate segregation of certain duties, which is typical of development stage companies; mitigating factors, including dual-payment authorization policies and transparent internal financial transaction reporting processes, serve to minimize the risk that such design weakness could result in a material misstatement of results for the quarter ending June 30, 2008; and

(e) have concluded that, other than the item described above in sub-point (d), there are no additional material design weaknesses in the DC&Ps or ICFRs, and that the effectiveness of the DC&Ps is sufficient to expect the prevention or detection of material misstatements of results.

The financial statements include amounts that are based on the best estimates and judgments of management. The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board of Directors exercises this responsibility principally through the Audit Committee. The Audit Committee consists of three directors, all of whom are independent and not involved in the daily operations of the Company. The Audit Committee meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the financial statements prior to their presentation to the Board of Directors for approval.