SQI Diagnostics Inc.

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

September 30, 2008

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

This discussion and analysis covers the financial statements for the fiscal year ending September 30, 2008 and the period from 15 December 2006 to September 30, 2007, 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 January 21, 2009. 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 systems company that develops proprietary human diagnostic technology in multiplexing, miniaturization and automation. We provide laboratories the ability to simultaneously analyze multiple biomarkers, deliver accurate and quantitative patient results in less time, significantly reduce labor, and increase profits when compared with current diagnostic instrumentation. The Company has received Canadian regulatory approval for its SQiDworks platform together with its QuantiSpot RA test kit used to detect and quantify a panel of biomarkers to aid in the diagnosis of rheumatoid arthritis. The Company is developing and commercializing other test kits in autoimmune disease market and plans to pursue commercialization of tests in infectious disease and allergen testing in the future. The Company plans to seek regulatory approvals and clearances to sell its tests globally starting with the North American markets and Europe.

The Company's proprietary SQiDworks™ instrument and QuantiSpot™ consumable tests are together an immunoassay system 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 we are targeting. The Company's first launch market is in the autoimmune disease with its QuantiSpot RA™ panel for aiding in the diagnosis of rheumatoid arthritis and the Company expects to follow shortly with the release of additional test kits in the autoimmune disease segments including but not restricted to tests to aid in the diagnosis of antiphospholipid syndrome (APS), thyroid disease, celiac disease and

Crohn's disease. Other autoimmune disease, infectious disease and allergen panels are expected to follow.

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

During the year ended September 2008, the Company completed verification studies for its SQiDworks platform and QuantiSpot RA test kit and this lead it to the completion of internal validation studies. The verification and validation studies completed during the reporting period produced data sufficient to approve initiation of the multi-site validation studies; these studies were completed subsequent to the period end. The Company has used the data from these validation and multi-site 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. The Company received a license from Health Canada subsequent to the year-end clearing it to market and sell the SQiDworks platform with the QuantiSpot RA test kit in Canada. The information below provides an overview of the Company's achievements over the year ending September 30, 2008:

- Platform instrument milestones were achieved including the completion of final platform configuration with agreement for use in multi-site validation study from partners;
- Our first two SQiDworks™ platforms were shipped to the Company's external validation partners at the Cleveland Clinic (Cleveland) and Mount Sinai Hospital (Toronto);
- Patent applications were filed in conjunction with the Company's development efforts on its Cyclic Citrullinated Peptide (CCP) marker, one of the key elements of the Company's lead RA assay. This assay has demonstrated significantly improved performance compared to other tested predicate tests and management believes that its advanced Generation 3 CCP element as incorporated in the commercial RA test panel will provide a competitive market advantage;
- Patent applications were filed related to the SQiDworks platform further differentiating and strengthening the Company's technology position;
- The performance of the SQiDworks platform running QuantiSpot RA was showcased at the premier AACC Oak Ridge Conference where the Company introduced its novel multiplexing platform and highlighted the leading performance of our novel CCP molecule used to aid in the diagnosis of rheumatoid arthritis
- Acquired CE safety approval for the SQiDworks platform preparing for European marketing of commercial product upon validation data and self registration
- 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 Company passed final ISO audits and secured its ISO 13485 registration;
- Successful internal verification studies for the SQiDworks analytical platform and QuantiSpot RA test kit enabled the subsequent launch and completion of validation studies. Validation studies were completed at SQI Diagnostics, Cleveland Clinic and Mount Sinai Services Inc.
- Prepared United States FDA and Health Canada regulatory filing documents; these were subsequently filed after the year end.
- Subsequent to the year-end the Company received Health Canada licenses for its QuantiSpot RA test kits and SQiDworks analytical platform; the licenses enable the Company to market and sell the licensed products within Canada.
- Hired Thomas E.T. O'Connor as the Company's Senior Vice President of Sales and Marketing. Mr. O'Connor's distinguished 20 year sales career at Beckman Coulter, Inc. (NYSE: BEC), a world leader of automation in clinical diagnostics, eXagen Diagnostics, innovator of genomic markers and molecular diagnostics and, most recently Luminex Corporation (NASDAQ: LMNX), a US-based company focused on developing multiplex tests in the research market
- Moved Thyroid panel into discovery phase and continued development work on QuantiSpot APS test kits.

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.

June 04, 2008, the Company completed a private placement of 2,439,500 shares at a price of $1.50 per share for cash proceeds of $3,349,700. 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 $730,000 in a non-revolving term credit facility. The note bears interest at the prime rate plus 4%. Interest and principal is due by January 31, 2009, or upon receipt of 2006 and 2007 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.

Subsequent to the year end, the Company completed a non-brokered private placement in two tranches. The first tranche, closed December 23, 2008, resulted in gross proceeds of $3,000,000 through issuance of 2,400,000 common shares at $1.25 per common share. The second tranche, closed January 21, 2009, resulted in gross proceeds of $1,664,375 through the issuance of 1,331,500 shares at $1.25 per common share. The shares issued through the private placement are subject to a four month hold period. The Company paid a finder's fee in relation to the private placement satisfied through the issuance of 236,800 warrants with an exercise price of $1.90 and expiring on

December 23, 2011; the issuance of 106,520 warrants with an exercise price of $.125 and expiring on January 21, 2011; and, payment of $133,150.

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.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

Financial statements are prepared in accordance with Canadian GAAP. These accounting principles require management to make certain estimates and assumptions. Management believes that the estimates and assumptions relied upon are reasonable, based upon information available at the time that these estimates and assumptions are made. Actual results could differ from these estimates.

The significant accounting policies that management believes are the most critical in fully understanding and evaluating the reported financial results include the following:

Patents
The costs relating to patent fees are deferred and amortized over 10 years on a straight-line basis. Patents are recorded net of accumulated amortization for September 30, 2008 of $479,403 (2007 - 397,525)

Research and Development Costs
Research costs are charged to earnings in the period in which they are incurred. Development costs are expensed as incurred or deferred if they meet the criteria for deferral under Canadian generally accepted accounting principles and are expected to provide future benefits with reasonable certainty. At September 30, 2008, the Company was completing validation studies of its diagnostic system Deferral criteria have not yet been met, and accordingly, all development costs have been expensed.

Stock-Based Compensation and Other Stock-Based Payments
The Company applies a fair value based method of accounting for all stock-based payments. Accordingly, stock-based payments are measured at the fair value of the consideration received

or the fair value of the equity instruments issued or liabilities incurred, whichever is more reliably measurable. Stock-based compensation is charged to operations over the vesting period and the offset is credited to contributed surplus. Consideration received upon the exercise of stock options is credited to share capital and the related contributed surplus is transferred to share capital.

Share Issuance Costs
Costs incurred in connection with the issuance of capital stock are netted against the proceeds received.

Income Taxes
The Company follows the liability method of accounting for income taxes. Under this method, future 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. Future 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. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

Use of Estimates
The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 year. 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 for amortization purposes, valuation of ITC's receivable, valuation of stock options and warrants and valuation allowance on future tax assets.

SELECTED FINANCIAL INFORMATION

The table below summarizes annual financial information for the fiscal year ending September 30, 2008 and the period from 15 December 20060 to 30 September, 2007.

	Year ending September 30, 2008	Period From December 15, 2006 to September 30, 2007
Revenue	$ 89,838	$ 71,550
Net loss	$ 3,785,579	$ 2,956,882
Net loss per share	$ (0.18)	$ (0.18)
Weighted average shares	20,550,294	16,619,481
Total Assets	7,270,584	6,523,804

Financial information for the year-ending September 30, 2008 presents the results of operations from October 01, 2007 to September 30, 2008. Upon amalgamation in fiscal year 2007 the reporting period year end of SQI Diagnostics Inc. changed to September 30th. Comparative

information for the period ending 2007 presents information of the results of operations for the period from December 15, 2006 to September 30, 2007.

The increasing net loss trend between the period ending September 30, 2007 and the fiscal year ending September 30, 2008 primarily results from the effectively shorter year in 2007 as well as the impact of increased development spending for the verification, validation and third party studies for the commercialization of the QuantiSpot RA test panel and SQiDworks system. In comparing the four quarters ending September 30, 2007 to the fiscal year ending September 30, 2008 the net losses are similar with a net loss for the four quarters ending September 30, 2007 of $3,570,074 compared to the fiscal year ending September 30, 2008 net loss of $3,785,579. Differences in the net loss between the comparable four quarter periods ending 30 September 2008 and 2007 were primarily related to increased research and development spending in 2008 before giving effect to SRED tax credits recognized during the period; increased stock-based compensation; expansion of manufacturing and laboratory infrastructure resulting in increased occupancy costs; and, amortization of property and equipment in the four quarters ending September 30, 2008.

Research and development ("R&D") costs, which include R&D salaries, laboratory consumables and operating expenses, clinical studies, scientific consultants and clinical partner costs were offset in the 2008 fiscal year by the recognition of Scientific Research and Development cash refunds received in the period of $929,187. Research and development expenses increased from $1,849,890 in the 2007 fiscal period to $2,032,791 million in 2008 after giving effect to cash-based SRED credits recognized in the 2008 fiscal year. The 2008 R&D expenditures were $2,961,977 before giving effect to the SRED credits recognized in 2008 (Gross R&D). Part of the increase in actual expenditures between the fiscal year ending September 30, 2008 and the fiscal period from 15 December 2006 to 30 September 2007 is owing to the shorter fiscal year. During the four quarters ending September 30, 2007 R&D expenditures were $2,163,879 compared to the 2008 fiscal year Gross R&D expenses of $2,961,977. The principle difference in Gross R&D expenses between the two periods was:

- the transition from research weighted efforts in the 2007 period to development and commercialization oriented activities in the 2008 fiscal year with a concomitantly greater level of activity and personnel additions to complete the required work;
- new expenditures for internal and third party clinical studies;
- costs related to regulatory consultants assisting the Company to plan, prepare, execute and draft regulatory filings; and,
- external ISO consultants and regulatory audits required to complete all the requirements for and the securing of ISO 13485 certification for the Company's business, development and manufacturing systems and processes.

In the fiscal period ending 2007 the Company had a peak of 28 employees, 25 involved directly in R&D compared to the 2008 fiscal year when the Company had a peak of 31 employees with 28 involved directly in R&D. R&D salaries increased from $1,306,326 for the period ending September 30, 2007 ($1,564,871 for the 12 months ending September 30, 2007) compared to $2,155,513 for the year ending September 30, 2008. R&D consumables rose in proportion to the number of R&D employees, and these expenses increased by $138,159 in the year ending September 30, 2008 above the expenses incurred in the period ending September 30, 2007.

General and administrative ("G&A") expenses include occupancy costs (rent, maintenance and utilities), office supplies as well as other general operating costs and bank charges. G&A expenses increased in the year ending September 30, 2008 compared to the period ending September 30, 2007 from $228,807 to $344,879. The primary reason for the difference was the shorter year in 2007. After removing the impact of the shorter year the primary reasons for the

increased 2008 fiscal year G&A expenses were related to an increase in leased space and thus, occupancy costs.

The table below summarizes quarterly financial information for the 3 month 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	December 31, 2007	March 31, 2008	June 30, 2008	September 30, 2008
Revenue	$ 44,493	$ 19,145	$ 7,175	$ 19,025
Net Loss	$ 1,013,922	$ 521,274	$ 1,323,979	$ 926,404
Net Loss Per Share	$ (0.05)	$ (0.03)	$ (0.06)	$ (0.05)
Weighted Average Shares	19,737,507	19,750,200	20,458,300	22,217,478

	December 31, 2006	March 31, 2007	June 30, 2007	September 30, 2007
Revenue	$ 21,735	$ 31,140	$ 22,230	$ 17,190
Net Loss	$ 712,412	$ 739,450	$ 1,171,998	$ 946,214
Net Loss Per Share	$ (0.05)	$ (0.05)	$ (0.07)	$ (0.05)
Weighted Average Shares	14,719,319	14,719,319	15,950,957	19,689,460

Revenue for the quarter ending September 30, 2008 was $19,025 compared to $17,190 for the quarter ending September 30, 2007. The Company generated revenue of $89,838 in the fiscal year ending September 30, 2008 compared to $71,550 for the period ending September 30, 2007, or, $93,285 for the 12 month period ending September 30, 2007. Differences in revenue generation between the fiscal year ending September 30, 2008 and the fiscal period from 15 December 2006 to September 30, 2007 were due primarily to the shorter time period.

For the quarter ending September 30, 2008, the Company recorded a net loss of $926,404 or $0.05 per share, comparable to the quarter ending September 30, 2007 of $946,214 or $0.05 per share. Per share values are based on the weighted average shares outstanding in the period. For the quarter ended September 30, 2008 there was an average of 22,217,478 shares outstanding.

Net losses were similar, and net income per share was equal for the quarters ending September 30, 2008 and September 30, 2007. For the quarter ended September 30, 2008 the Company recorded a net loss of $926,404 or $0.05 per share based on an average of 22,217,478 shares outstanding. This compares to a net loss of $946,214 or $0.05 per share for the quarter ending September 30, 2007 based on an average of 19,689,460 shares outstanding. The decreased loss for the quarter ending September 30, 2008 was primarily related to the recognition of a $283,068 cash-based SRED tax credit, compared to the same quarter in 2007 when no SRED credit recognition occurred; the SRED tax credit is reflected in a reduction of R&D expenses in the period it is recognized. Other factors contributing to the higher net loss, before giving effect to the SRED tax credit in the quarter ending September 30, 2008 compared to the same period in 2007 were higher R&D development, validation and commercialization spending with regard to the Company's lead assay programs for the automated platform and tests for RA and APS diagnostic panels; increased professional fees (consulting costs for management recruitment and audit) and Board of Directors' compensation new to the 2008 fiscal year.

Before the offsetting effect of the SRED tax credit, R&D expenses in the quarter ending September 30, 2008 were $704,205 compared to $682,877 for the quarter ending September 30, 2007. The increased R&D costs before SRED effects for the quarter ending September 30, 2008 was related primarily to higher R&D salary expense of $473,296 in the quarter ending September 30, 2008 compared to $447,319 the quarter ending September 30, 2007 with the net addition of 2 lab resources and a change in the composition of the lab team to a more senior group of scientists for the quarter ending September 30, 2008 compared to the quarter ending September 30, 2007. As well, a corresponding increases in lab consumables of $16,052 was recorded for the quarter ending September 30, 2008 compared to the quarter ending September 30, 2007. The increased R&D costs in the quarter ending September 30, 2008 were offset by reductions in consulting scientist expenses of $12,500 and general laboratory operating costs of $82,062, compared to the quarter ending September 30, 2007.

Corporate expenses include, primarily: all salaries and related expenses (including benefits and payroll taxes) of the Company other than salaries and related expenses paid to personnel engaged in research and development; facility costs; professional fees; insurance costs; and foreign exchange expenses. Corporate expenses totaled $379,914 for the quarter ending September 30, 2008 compared to $314,648 for the quarter ending September 30, 2007. General and administrative expenses for three quarters prior to the quarter ending September 30, 2008 were $266,656 (June 30, 2008) $287,943 (March 31, 2008) and $221,487 (31 December 2007) respectively. General and administrative expenses were higher in the quarter ending September 30, 2008 than the quarter ending September 30, 2007 owing primarily to increased foreign exchange costs. Owing to the growth in the organization the Company's variable occupancy costs (telecom, utilities, etc.) also contributed to the overall increase in corporate expenses in the year and quarter ending September 30, 2008 compared to the period and quarter ending September 30, 2007.

Professional consulting (legal, accounting, Board of Directors compensation and investor relations) costs in the quarter ending September 30, 2008 were $91,437, a small increase compared same quarter in 2007 when these costs totaled $73,559. The increase in the quarter ending September 30, 2008, being primarily related to the addition of compensation for the Company's Board of Directors and increased investors relation's costs. For the year ending September 30, 2008 professional consulting expenses totaled $383,949, an increase of $87,050 over the period from December 15, 2006 to September 30, 2007 but a decrease compared to the 12 month period ending September 30, 2007 when professional consulting expenses totaled $443,721. Professional consulting expenses were generally lower in the year ended September 30, 2008 compared to the prior 12 month period owing to initial legal, accounting and other professional costs incurred to effect the reverse merger and amalgamation with Emblem Capital Inc. (now SQI Diagnostics Inc.), effectively, the Company's going public transaction in 2007.

Operational expenses were partially offset by interest income earned on short-term investments of $26,520 for the quarter ending September 30, 2008 compared to $58,426 for the quarter ending September 30, 2007. Interest earned for the year ending September 30, 2008 was $73,344 compared to $64,539 for the period ending September 30, 2007. The Company invests its cash in variable term cashable government investment certificates.

Non-cash stock based compensation charges totaled $283,050 for the year ending September 30, 2008 compared to $52,223 for the period ending September 30, 2007. For the quarters ending September 30, 2008 and 2007 non-cash stock based compensation charges totaled $95,658 and $29,224 respectively. The related stock option issuances are described further below in the Outstanding Share Capital section.

Management expects losses to continue for the next fiscal year as investment continues in product development and commercialization efforts on its pipeline of autoimmune test kits as well as investment in sales and marketing with sales launches in Canada and the United States. Development and commercialization of at least 4 QuantiSpot test kits to the point of submitting data to the regulatory bodies is expected in calendar 2009 and this will generate increased expenses related to internal development, internal verification and validation studies and third party validation studies. It is Management's expectation that the R&D expenses reported in the period ending September 30, 2008 will continue to increase in fiscal 2009. Management expects some increases to R&D salary expenses as it adds technical resources and some senior science expertise. It will also be necessary to invest in the operational elements in customer support and engineering to support our customers and as we place SQiDworks platforms across Canada and the United States. In general management does not expect a large acceleration of administrative costs, in fiscal year 2009 as there are no near term planned expansions in the Company's physical plant or administrative overhead.

Related Party Transactions

Transactions with related parties are incurred in the normal course of business and are measured at the exchange amount. Related party transactions are described listed below, unless they have been disclosed elsewhere in the financial statements.

Included in general and administrative expense for the year ended September 30, 2008 is $33,161 (period ended September, 2007 - $19,746), related to recovery of occupancy costs, from a corporation in which an officer of the Company was also an officer. Consulting fee revenue of $89,838 for the year ended September 30, 2008 (period ended September 30, 2007 - $54,360) was earned from this corporation. At year end, $37,663 (2007 - $27,928) due from this corporation is included in amounts receivable.

Sources and Uses of Cash

Operational activities for the period ending September 30, 2008 were financed by cash on hand. Cash reserves were increased in the period through the completion of the private placement closed June 4, 2008 wherein the Company sold 2,439,500 shares at a price of $1.50 per share for cash 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 September 30, 2008, current assets were $4,362,230 compared to $3,674,792 at September 30, 2007. Working capital as at September 30, 2008 was $3,244,418 compared to $3,417,917 at September 30, 2007.

Subsequent to the year end, the Company completed a non-brokered private placement resulting in gross proceeds of $3,000,000 through issuance of 2,400,000 common shares at $1.25 per common share. The shares issued through the private placement are subject to a four month hold period.

Management believes that with the cash on hand at September 30, 2008, combined with that raised subsequent to the year end will be sufficient to fund Company operations to the middle of 2010. The successful commercial launch and generation of revenue in the 2009 fiscal year would extend period.

Financial Instruments and Financing Risks

The Company's 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 was licensed and cleared to allow it to sell and market the products in Canada subsequent to the year end. Subsequent to the year-end, the Company filed a 510(k) Pre-market Notification with the United States Food & Drug Administration ("FDA") for review to seek approval to market and sell the QuantiSpot RA test kit and SQiDworks platform in the United States. Subsequent to the filing of the SQiDworks/QuantiSpot RA 510(k) the Company has begun the usual process of communication with the FDA.

QuantiSpot tests are designed to run only on the SQiDworks platform. In order to get the SQiDworks platform and QuantiSpot consumable tests approved for sale in the United States, the 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, not including any "time-outs" during which time the Company may take to prepare responses to various inquiries from the FDA.

The QuantiSpot APS multiplexed test panel used to detect and quantify a panel of biomarkers to aid in the diagnosis of APS, as well as three additional disease test panels used in the area of autoimmune disease testing and diagnosis are currently in the Company's discovery and development pipeline. The Company is expecting one, or all of these new multiplexed test panels and the SQiDworks platform, together each a system, to be commercially ready to file applications with the applicable regulatory jurisdictions in 2009.

The Company has not earned revenues from its QuantiSpot test kits or SQiDworks platform. The Company expects to earn revenue from its platform and QuantiSpot RA product in 2009. The Company does not expect the revenues generated from initial sales of platforms and QunatiSpot RA test kits to exceed its operating expenses. The continuation of the Company's research, development and commercialization activities along with investment in marketing and sales is dependent upon the Company's ability to successfully manage its growth, investment in continued pipeline development and its cash requirements. Management believes that it has sufficient cash reserves to support product launches of QuantiSpot RA and SQiDworks in North America and to complete development work, validation studies and regulatory efforts required for its current pipeline of up to 4 new QuantiSpot test panels.

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 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 September 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. A total of 27,778 stock options were exercised for proceeds of $33,334 and 52,501 warrants for proceeds of $5,250 in the period ending September 30, 2008.

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 September 30, 2008:

Number of Warrants	Purchase Price	Expiry Date
89,147	$ 2.502	December 6, 2008
83,335	$ 0.440	April 26, 2009
50,001	$ 0.132	April 26, 2009
20,834	$ 1.200	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
1,076,867	$ 0.600	April 26, 2010
194,200	$ 1.500	June 3, 2010
3,927,568		

The Company had the following stock options outstanding under the Plan at September 30, 2008:

Number of Options	Exercise Price	Expiry Date
133,336	$ 0.132	December 16, 2008
8,334	$ 1.680	July 1, 2009
833,350	$ 0.600	April 15, 2010
141,670	$ 1.200	April 15, 2010
116,669	$ 1.200	June 29, 2011
83,335	$ 1.200	August 29, 2011
197,500	$ 1.740	August 7, 2012
50,000	$ 1.500	October 23, 2012
757,500	$ 1.600	February 15, 2013
302,500	$ 1.750	August 26, 2013
2,624,193		

The Company also had 133,333 options outstanding at September 30, 2008 that were not granted under the plan. All of these options were exercisable at September 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

Effective October 1, 2007, the Company adopted the recommendations of the CICA Handbook Section 1535, Capital Disclosures. 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 17 to the consolidated financial statements.

Effective October 1, 2007, the Company adopted the new recommendations of the CICA Handbook Section 1506, Accounting Changes. Under these new recommendations, voluntary changes in accounting policy are permitted only when they result in the financial statements providing reliable and more relevant information, require changes in accounting policy to be applied retrospectively unless doing so is impractical, require prior period errors to be corrected retrospectively or require enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. These recommendations also require the disclosure of new primary sources of generally accepted accounting principles that have been issued but not yet effective. The impact that the adoption of this section will have on the Company's financial statements will depend on the nature of future accounting changes and the required additional disclosure on Recent Accounting Pronouncements is disclosed in Note 4 to the consolidated financial statements.

Effective October 1, 2007, the Company adopted the recommendations of CICA Handbook Section 3862, Financial Instruments – Disclosure. 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 to the consolidated financial statements.

Effective October 1, 2007, the Company adopted the recommendations of CICA Handbook Section 3863, Financial Instruments – Presentation. Section 3863 provides standards for presentation of financial instruments and non-financial derivatives. Adoption of this standard had no impact on the presentation of the Company's financial instruments.

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 current pipeline of autoimmune test panels and SQiDworks system through the completion of clinical validation studies and regulatory filings in Canada, the U.S. and Europe. The Company believes that completion and approval, in Canada, of its lead assay justifies intensified investment in development and commercialization of this pipeline of the additional group of at least nine other autoimmune microarray diagnostic panels along side its QuantiSpot RA test kit approved in Canada and filed for marketing clearance in the US. It further believes that successful completion of these pipeline tests may 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. At present, the Company's value proposition is derived from the successful completion of internal validation studies, Health Canada approval, the potential value in its product pipeline and further future 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 and to provide significant cost savings to its customers. The Company believes that the

market size related to the 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 opportunities for significant revenues from the sale of commercial assays and test platforms in each of its target markets.

SQI's operational objectives are straightforward: adequate and complete response to any communication received from regulatory bodies in connection with the QuantiSpot multiplexed tests and the SQiDworks platform; continued successful commercialization of a menu of autoimmune test kits; and, focus on customer acquisition and revenue in the regulatory jurisdictions for which we have acquired approvals or licenses. Success in these steps will allow the Company to validate its multiplexing model, value proposition and to roll-out and sell its products to customers in its target markets.

During 2009, the Company plans to execute on the following components of its operational strategy:

- Generate, maintain and grow customer sales in North America;
- Complete commercialization and regulatory filings for a pipeline of autoimmune products;
- Work with our partners to enhance our product offerings;
- Provide world-class customer support and service to ensure satisfaction; and,
- Publish scientific papers to broaden our product value proposition.

The Company will continue 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 September 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 September 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.