



SQI Diagnostics Inc.

Condensed Interim Consolidated Financial Statements

(Unaudited)

(Expressed in Canadian dollars)

For the Three Months Ended December 31, 2014 and 2013

Notice to Reader

The accompanying unaudited financial statements have been prepared by management and the Company's independent auditors have not performed a review of these financial statements.

SQI Diagnostics Inc.
Condensed Interim Consolidated Balance Sheets
(Unaudited)
(Amounts are in thousands of Canadian dollars)

	Note	As at December 31, 2014	As at September 30, 2014
Assets			
Current			
Cash		\$ 346	\$ 1,735
Prepays, deposits and amounts receivable	5	287	290
Inventory	6	111	33
		744	2,058
Property and equipment	7	1,734	1,799
Patents and trademarks	8	753	734
		\$ 3,231	\$ 4,591
Liabilities			
Current			
Accounts payable and accrued liabilities		\$ 402	\$ 433
Shareholders' Equity			
Capital stock	12	47,942	47,942
Warrant capital	13	7,698	8,805
Contributed surplus		10,875	9,732
Deficit		(63,686)	(62,321)
		2,829	4,158
		\$ 3,231	\$ 4,591

Contingencies (Note 16)
Subsequent Event (Note 19)

Approved by the Board

"Peter Winkley"
Director (Signed)

"Andrew Morris"
Director (Signed)

SQI Diagnostics Inc.**Condensed Interim Consolidated Statements of Loss and Comprehensive Loss****Unaudited**

(Amounts are in thousands of Canadian dollars except per share amounts)

	Note	Three Months Ended	
		December 31, 2014	December 31, 2013
Revenue			
Product sales		\$ 15	\$ 2
		15	2
Expenses			
Corporate and general	9	378	309
Sales and marketing	10	173	168
Research and development costs	11	832	1,028
		1,383	1,505
Operating loss		(1,368)	(1,503)
Interest Income		3	2
		3	2
Net loss and comprehensive loss		\$ (1,365)	\$ (1,501)
Loss per share			
Basic and diluted		\$ (0.02)	\$ (0.03)
Weighted average number of common shares outstanding (thousands of shares)			
Weighted average number of shares		56,336	44,970

SQI Diagnostics Inc.**Condensed Interim Consolidated Statements of Changes in Equity****(Unaudited)**

(Amounts are in thousands of Canadian dollars except for number of shares, which are in thousands)

		Issued Capital Stock						
	Note	Number of Shares	Amount	Warrant Capital	Contributed Surplus	Deficit	Total Equity	
Balance as at September 30, 2013		44,952	\$ 45,558	\$ 5,349	\$ 10,306	\$ (56,861)	\$ 4,352	
Options exercised	14	19	11		(4)		7	
Revaluation of extended warrants	13			786	(786)		-	
Warrants expired	13			(54)	54		-	
Stock-based compensation	15				52		52	
Net loss						(1,501)	(1,501)	
Balance as at December 31, 2013		44,971	\$ 45,569	\$ 6,081	\$ 9,622	\$ (58,362)	\$ 2,910	
Balance as at September 30, 2014		56,336	\$ 47,942	\$ 8,805	\$ 9,732	\$ (62,321)	\$ 4,158	
Warrants expired	13			(1,107)	1,107		-	
Stock-based compensation	15				36		36	
Net loss						(1,365)	(1,365)	
Balance as at December 31, 2014		56,336	\$ 47,942	\$ 7,698	\$ 10,875	\$ (63,686)	\$ 2,829	

See accompanying notes

SQI Diagnostics Inc.
Condensed Interim Consolidated Statements of Cash Flows
(unaudited)
(Amounts are in thousands of Canadian dollars)

	Three Months Ended	
	December 31, 2014	December 31, 2013
Cash flows used in operating activities		
Net loss	\$ (1,365)	\$ (1,501)
Add items not affecting cash		
Amortization - patents and trademarks	32	29
- property and equipment	112	136
Stock-based compensation	36	52
	(1,185)	(1,284)
Changes in non-cash working capital items		
Prepays, deposits and amounts receivable	3	(11)
Inventory	(78)	9
Accounts payable and accrued liabilities	(31)	270
	(1,291)	(1,016)
Cash flows used in investing activities		
Purchase of property and equipment	(47)	(13)
Additions to patents and trademarks	(51)	(72)
	(98)	(85)
Cash flows from financing activities		
Proceeds from issuance of shares and exercise of warrants and options, net of share issuance costs	-	7
	-	7
Net change in cash during the period	(1,389)	(1,094)
Cash at beginning of period	1,735	1,415
Cash at end of period	\$ 346	\$ 321

SQI Diagnostics Inc.
Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)
December 31, 2014 and 2013
(Amounts are in Canadian dollars; tabular amounts in thousands)

1. NATURE OF OPERATIONS

SQI Diagnostics Inc., (the "Company"), is incorporated in Canada and is listed on the TSX Venture Exchange under the symbol SQD and trades on the OTCQX under the symbol SQIDF. The Company's head office and development centre is located at 36 Meteor Drive Toronto, Ontario. The Company is a life sciences company that develops and commercializes proprietary technologies and products for advanced multiplexing diagnostics. The Company's goal is to become a leader in the development and commercialization of multiplexed blood tests to enable simultaneous measurement of important molecules like proteins, antibodies and inflammatory biomarkers.

2. BASIS OF PRESENTATION

Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). Our accounting policies have been applied consistently within our condensed interim consolidated financial statements and using the same accounting policies and methods as were used for the Company's Consolidated Financial Statements and the notes thereto for the years ended September 30, 2014 and 2013.

The significant accounting policies are discussed below.

Basis of Presentation and Going Concern

The condensed interim consolidated financial statements have been prepared in accordance IFRS accounting principles applicable to a going concern using the historical cost basis, except for certain financial instruments that are measured at fair value, as explained in the accounting policies below.

Since inception, the Company has focused on product research, development and more recently on commercialization activities. To date, the Company has earned limited revenues from its Diagnostics Tools and Services business or its IgX PLEX RA™ and IgX PLEX Celiac™ test kits run on installed sqidworks™ platforms. The Company has a history of net losses and negative cash flows from operations, which are expected to continue in at least the near term.

The Company's ability to continue as a going concern and execute on its research, development and commercialization activities is dependent upon the Company's ability to successfully generate product or service revenues, or to finance its cash requirements through further equity and/or debt financings. The Company has a pipeline of custom Ig_plex™ and autoimmune diagnostic products in various stages of development and commercialization. The Company plans to generate revenues from its pipeline of Diagnostic Tools and Services customers and the proof-of concept assays currently in development as well as its IgX PLEX RA™ and IgX PLEX Celiac™ products as it grows its installed base of customers. The Diagnostic Tools and Services business is intended to enable new segments of customers to expand the use of the Company's sqidworks and sqidlite platforms by converting their single-plex immunoassay and other protein-based tests to the Company's multiplexed microarrays.

SQI Diagnostics Inc.
Notes to Condensed Interim Consolidated Financial Statements
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2. BASIS OF PRESENTATION

Basis of Presentation and Going Concern (continued)

Based on the foregoing, the Company will continue to pursue commercial sales, strategic partnering activities and funding opportunities, however, no assurances can be given that it will be successful in generating revenues, or raising additional investment capital to generate sufficient cash flows to continue as a going concern. As a result, significant risk remains regarding the Company's ability to continue as a going concern.

These condensed interim consolidated financial statements do not reflect the adjustments that might be necessary to the carrying amount of reported assets, liabilities, revenue, and expenses and the statement of financial position classification used if the Company was unable to continue operations in accordance with this assumption. Such adjustments could be material.

The condensed interim consolidated financial statements are expressed in Canadian dollars which is the functional currency of the Company and its wholly owned subsidiary. All amounts are reported in thousands of dollars except for per share data.

These consolidated financial statements were authorized for issuance by the Board of Directors on February 25, 2015.

Basis of Consolidation

The condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiary.

Earnings and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of operations from the effective date of acquisition and up to the effective date of disposal as appropriate. The Company owns 100% of its subsidiary.

When necessary, adjustments are made to the financial statements of the subsidiary to bring its accounting policies into line with those used by the Company.

Inter-company balances and transactions are eliminated upon consolidation.

SQI Diagnostics Inc.
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3. SIGNIFICANT ACCOUNTING POLICIES

Inventory

Inventory is valued at the lower of cost and net realizable value, with cost determined on a first-in, first-out basis.

Property and Equipment

Property and equipment are recorded at cost less accumulated amortization and accumulated impairment losses, if any. Property and equipment are initially recorded at cost. Where an item of property and equipment comprises major components with different useful lives, the components are accounted for as separate items of property and equipment. Amortization is provided on the straight-line basis over the items' estimated useful lives as follows:

Computer hardware	-	3 years
Computer software	-	3 years
Laboratory fixtures and equipment	-	3 and 10 years
Office equipment	-	10 years
Leasehold improvements	-	10 years

Intangible Assets

Patents and trademarks comprise costs, including professional fees, incurred in connection with the creation and filing of patents and registration of trademarks related to the Company's core technology and trademarks. The costs relating to initial patent and trademark fees are deferred and amortized over 10 years on a straight-line basis. Patents and trademarks are recorded net of impairment losses, if any. Research costs are charged to operations in the period in which they are incurred. Development costs are expensed as incurred or deferred if they meet the criteria for deferral under IFRS and are expected to provide future benefits with reasonable certainty. Deferral criteria have not been met, and accordingly, all development costs have been expensed in the year.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Long-lived Assets

Long-lived assets comprise property and equipment and intangible assets with finite lives (patents and trademarks). The Company reviews the carrying value of its long-lived assets with finite lives annually to determine whether there is any indication that those assets have suffered impairment. If any such indication exists the asset is tested for impairment. The recoverable amount of the asset is estimated in order to determine the extent of impairment. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risk specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying value, the carrying value of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying value of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying value does not exceed the carrying value that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Revenue Recognition

Product sales are recognized upon the shipment of products to customers, if a signed contract exists, the sales price is fixed and determinable, collection of the resulting receivables is reasonably assured and any uncertainties with regard to customer acceptance are insignificant. Sales are recorded net of discounts and sales returns.

The Company also provides services from time to time. Service revenue is recognized when services are completed, amounts are invoiced to customers and collectability is reasonably assured.

Interest income is recognised on a time proportion basis over the remaining term of the respective asset.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock-Based Compensation and Other Stock-Based Payments

The Company offers a share option plan for its directors, officers, and employees. The fair value of stock-based payment awards granted is recognized as an expense with a corresponding increase in contributed surplus. The Company grants stock options with multiple vesting periods, with each vesting period being treated as a separate tranche and considered a separate grant for the calculation of fair value. Fair value is calculated using the Black-Scholes option pricing model and the resulting fair value is amortized over the vesting period of the respective tranches. In addition, stock-based compensation expense recognized reflects estimates of award forfeitures with any change in estimate there of reflected in the period of the change. Consideration received upon the exercise of stock options is credited to capital stock at which time the related contributed surplus is transferred to capital stock.

In situations where non-employee stock-based compensation is issued and some or all of the goods or services received by the entity as consideration cannot be measured reliably, they are measured at the fair value of the stock-based payment.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at rates of exchange in effect at each transaction date. Revenue and expenses are translated at the rate of exchange at each transaction date. Gains or losses on translation are included in operations.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets for unused tax losses, investment tax credits ("ITCs") and deductible temporary differences are recorded in the financial statements, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment Tax Credits

ITCs are recorded when qualifying expenditures are incurred and there is reasonable assurance that the credits will be realized. ITCs are recorded in the statement of operations as a reduction of research and developments costs.

Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

The Company's financial instruments are measured initially at fair value and thereafter based on their classification. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics, and the Company's designation of such instruments. At initial recognition financial instruments are classified in the following categories depending on the nature and purpose for which the instruments were acquired:

(i) **Financial Assets and Liabilities at Fair Value through Profit or Loss**

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term.

Financial instruments in this category are initially and subsequently stated at fair value. Transaction costs are expensed in the statement of operations. Gains and losses arising from changes in fair value are presented in the statement of operations in the period in which they arise.

The Company's cash is classified in this category.

(ii) **Available-for-Sale Investments**

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available-for-sale investments are initially measured at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive loss. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are transferred from other comprehensive loss to the statement of operations.

The Company does not have any instruments classified in this category.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

(iii) Held to Maturity

Financial instruments held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intent and ability to hold to maturity.

These assets are measured at amortized cost using the effective interest method of amortization. Transaction costs are expensed when incurred.

The Company does not have any instruments classified in this category.

(iv) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments and that are not quoted in an active market are classified as loans receivable.

Loans and receivables are initially measured at the fair value of the amount expected to be received and subsequently carried at amortized cost, using the effective interest rate method except for short-term receivables where the recognition of interest would be immaterial. Any gains or losses on the realization of loans and receivables are included in net loss.

The Company's amounts receivable are classified in this category.

(v) Other Financial Liabilities

Other financial liabilities are initially measured at the amount required to be paid, less, when material, a discount to reduce the payable to fair value. Subsequently, other financial liabilities are measured at amortized cost using the effective interest rate method. Any gains or losses in the realization of other liabilities are included in operations. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time. Increases in the liability due to the passage of time are recognized as finance expense. Actual costs incurred upon settlement of the obligations are charged against the liability with any differences charged to income.

Accounts payable and accrued liabilities are classified as other financial liabilities.

Fair Value Measurement

The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other standard valuation techniques derived from observable market inputs.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

The Company's cash is categorized as level 1.

Impairment of Financial Assets

All financial assets except those at fair value through profit and loss are subject to review for impairment at each reporting date. Financial assets are impaired when there is objective evidence that a financial asset or group of assets is impaired. The loss is determined as the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the financial asset's original effective interest rate. The carrying value of the asset is reduced by this amount indirectly through the use of an allowance account. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Net Income (Loss) Per Share

Basic net income or loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted average number of common and potential common shares outstanding during the period. The dilutive effect of outstanding stock options and warrants on earnings per share is calculated by determining the proceeds for the exercise of such securities which are then assumed to be used to purchase common shares of the Company. The outstanding share options and warrants are not included in the diluted net loss per share as they are anti-dilutive for all years presented.

Provisions

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable costs of meeting its obligations under the contract.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Critical Accounting Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the period. Actual results could differ from those estimates.

Significant areas requiring the use of management estimates relate to the determination of the useful lives of property and equipment and patents and trademarks for amortization purposes and impairment of same, valuation of ITCs recoverable, valuation of stock options and warrants and recognition of deferred tax assets.

4. RECENT ACCOUNTING PRONOUNCEMENTS

IFRS 9 Financial Instruments

In October 2010, the IASB issued IFRS 9, Financial Instruments ("IFRS 9"). IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement, establishes principles for the financial reporting of financial assets and financial liabilities. The effective date for IFRS 9, which is to be applied retrospectively, 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.

IAS 38 Intangible Assets and IAS 16 Property Plant and Equipment

In May 2014, the IASB issued amendments to these standards to introduce a rebuttable presumption that the use of revenue-based amortization methods is inappropriate. The amendment is effective for annual periods beginning on or after January 1, 2016 with earlier adoption permitted. The Company is currently 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, 2017; 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.

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5. PREPAIDS, DEPOSITS AND AMOUNTS RECEIVABLE

	December 31, 2014	September 30, 2014
Accounts receivable	\$ 8	\$ 26
Prepays and deposits	232	229
Sales tax recoverable	47	35
	\$ 287	\$ 290

6. INVENTORY

Inventory consists of component parts that are to be used in the future production of sqidworks™ Platform and Ig_plex consumable assays.

7. PROPERTY AND EQUIPMENT

Cost	Computer Hardware	Computer Software	Laboratory Fixtures and Equipment	Office Equipment	Leasehold Improvements	Total
September 30, 2013	\$ 271	\$ 179	\$ 4,877	\$ 176	\$ 265	\$ 5,768
Additions	12	-	14	-	-	26
Dispositions	-	-	(4)	-	-	(4)
September 30, 2014	\$ 283	\$ 179	\$ 4,887	\$ 176	\$ 265	\$ 5,790
Additions	7	13	27	-	-	47
December 31, 2014	\$ 290	\$ 192	\$ 4,914	\$ 176	\$ 265	\$ 5,837

Accumulated Amortization	Computer Hardware	Computer Software	Laboratory Fixtures and Equipment	Office Equipment	Leasehold Improvements	Total
September 30, 2013	\$ 266	\$ 178	\$ 2,665	\$ 148	\$ 204	\$ 3,461
Amortization expense	5	1	505	6	14	531
Disposition	-	-	(1)	-	-	(1)
September 30, 2014	\$ 271	\$ 179	\$ 3,169	\$ 154	\$ 218	\$ 3,991
Amortization expense	2	1	105	1	3	112
December 31, 2014	\$ 273	\$ 180	\$ 3,274	\$ 155	\$ 221	\$ 4,103

Net Book Value

September 30, 2014	\$ 12	\$ -	\$ 1,718	\$ 22	\$ 47	\$ 1,799
December 31, 2014	\$ 17	\$ 12	\$ 1,640	\$ 21	\$ 44	\$ 1,734

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8. PATENTS AND TRADEMARKS

Cost	
September 30, 2013	\$ 1,718
Additions	186
Write down of patents	(134)
September 30, 2014	\$ 1,770
Additions	51
December 31, 2014	\$ 1,821
Accumulated Amortization	
September 30, 2013	\$ 943
Amortization expense	121
Write off of patents	(28)
September 30, 2014	\$ 1,036
Amortization expense	32
December 31, 2014	\$ 1,068
Net Book Value	
September 30, 2014	\$ 734
September 30, 2014	\$ 753

During the year ended September 30, 2014 the Company reviewed its patent portfolio and determined that the cost to continue to pursue certain patents outweighed the potential benefits. The Company also decided to allow patents in certain less critical jurisdictions to lapse. Accordingly these patents with a net book value of \$106,000 were written off as at September 30, 2014.

SQI Diagnostics Inc.**Notes to Condensed Interim Consolidated Financial Statements****(Unaudited)****December 31, 2014 and 2013**

(Amounts are in Canadian dollars; tabular amounts in thousands)

9. CORPORATE AND GENERAL EXPENSE

	Three Months Ended	
	December 31, 2014	December 31, 2013
Salaries and wages	\$ 111	\$ 141
General and administrative	125	102
Professional and consulting	123	55
Stock-based compensation	19	11
Total corporate and general expense by nature	\$ 378	\$ 309

10. SALES AND MARKETING EXPENSE

	Three Months Ended	
	December 31, 2014	December 31, 2013
Contractor fees	\$ 102	\$ 94
Travel and marketing	58	56
Stock-based compensation	13	18
Total sales and marketing expense by nature	\$ 173	\$ 168

11. RESEARCH AND DEVELOPMENT COSTS

	Three Months Ended	
	December 31, 2014	December 31, 2013
Salaries and wages	\$ 565	\$ 674
Laboratory costs and supplies	119	142
Professional fees	-	24
Amortization – patents and trademarks	32	29
Amortization – property and equipment	112	136
Stock-based compensation	4	23
Total research and development expense by nature	\$ 832	\$ 1,028

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12. CAPITAL STOCK

(a) The Company has authorized an unlimited number of common shares.

13. WARRANT CAPITAL

The Company had the following warrants outstanding at December 31, 2014:

Number of Warrants	Purchase Price	Weighted average time to maturity
1,140	\$5.00	0.61 years
5,784	\$2.50	0.95 years
5,126	\$1.10	0.33 years
513	\$0.75	0.33 years
11,365	\$0.65	1.22 years
885	\$0.50	1.21 years
24,813		

On December 4, 2011 the Company extended the expiry of 1,199,052 warrants by 12 months to December 4, 2012. The warrants were issued in December 2009. On December 4, 2012 the Company received approval to extend the expiry of these warrants for an additional 12 months to December 4, 2013. On December 4, 2013, the Company received approval to extend the expiry of these warrants for a final 12 months to December 4, 2014. All other terms of the warrants remained unchanged. The fair value of the extension was estimated using the Black-Scholes pricing model with the following assumptions: share price \$0.70; dividend yield 0%; risk free interest 1.1%; volatility 154%; and an expected life of 1 year. Expected volatility is based on historical volatility. As a result of the extension \$170,000 was recorded in warrant capital with a corresponding reduction in contributed surplus. On December 4, 2014 these warrants, having reached the maximum term allowable under TSX rules, expired unexercised. Accordingly, \$1,107,000 was transferred from warrant capital to contributed surplus.

On October 10, 2013, the Company extended the expiry of 2,276,000 warrants by 36 months to October 25, 2016. The warrants were issued in October 2011 in connection with a private placement. All other terms of the warrants remained unchanged. The fair value of the extension was estimated using the Black-Scholes pricing model with the following assumptions: share price \$0.76; dividend yield 0%; risk free interest 1.2%; volatility 96%; and an expected life of 3 year. Expected volatility is based on historical volatility. As a result of the extension \$616,000 was recorded in warrant capital with a corresponding reduction in contributed surplus. In addition, 86,040 warrants with an expiry of October 26, 2013 expired unexercised and \$54,000 was transferred to contributed surplus upon expiry.

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14. STOCK OPTIONS

The Company maintains a Stock Option Plan (the "Plan") for the benefit of employees, officers and directors. The maximum number of common shares reserved for issuance under the Plan, together with any other employee stock option plans, options for services and employee share purchase plans, will not exceed 10% of the issued and outstanding shares at the time of the option grant. Options granted pursuant to the Plan will have terms not to exceed five years, and are granted at an option price which will not be less than the fair market price at the time the options are granted. All options granted to individual optionees, other than consultants, generally vest in three equal installments over a period of 12 to 36 months.

The following summarizes the stock option activities under the Plan:

	Three Months Ended			
	December 31, 2014		December 31, 2013	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning Balance	2,540	\$ 1.12	2,308	\$ 1.25
Granted	115	\$ 0.46	100	\$ 0.60
Exercised	-	-	(19)	\$ 0.35
Cancelled/Expired	(33)	\$ 1.52	(76)	\$ 1.64
Forfeited	-	-	(58)	\$ 1.15
Ending Balance	2,622	\$ 1.04	2,255	\$ 1.21
Exercisable	2,213	\$ 1.16	1,579	\$ 1.49

- (i) On the exercise of stock options, \$4,000 was transferred from contributed surplus to capital stock for the three months ended December 31 2013. The average market price on the date of exercise for these options was \$0.70. No options were exercised during the three months ended December 31, 2014.

The Company had the following stock options outstanding under the Plan at December 31, 2014:

Number of Options	Range of Exercise Prices	Weighted average time to maturity
1,830	\$0.31 - 1.16	3.39 years
472	\$1.17 - 2.03	2.06 years
320	\$2.04 – 2.29	0.63 years
2,622		

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15. STOCK-BASED COMPENSATION

The fair value of the options granted during the three months ended December 31, 2014 was \$22,000 (three months ended December 31, 2013 - \$44,000), which will be recognized over the vesting periods of 12 - 36 months. The total compensation expense for three months ended December 31, 2014 was \$36,000 (three months ended December 31, 2013 - \$52,000). The total amount credited to contributed surplus for the three months ended December 31, 2014 was \$36,000 (three months ended December 31, 2013- \$52,000).

The fair value of each option granted has been estimated at the date of grant or the date when it became measurable using the Black-Scholes option pricing model with the following weighted average assumptions at the measurement date:

	Three Months Ended	
	December 31, 2014	December 31, 2013
Dividend Yield	0%	0%
Expected Volatility (historical data basis)	102%	97%
Risk-free Interest Rate	1.36%	1.1%
Share price	\$ 0.38	\$ 0.60
Expected Life (years)	5.00	5.00
Weighted average grant date fair value	\$ 0.19	\$ 0.44

The Company estimates forfeiture rates based on historic experience with any change in estimate thereof reflected in the year they occur.

16. CONTINGENCIES

In the ordinary course of business, the Company may be contingently liable for litigation and claims with customers, suppliers, former employees or competitors. Management believes that adequate provisions have been recorded in the accounts where required.

17. CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern so that it can complete its lead assay commercialization efforts and receive the required regulatory approvals to sell and market its products and provide returns for shareholders and benefits for other stakeholders.

The capital structure of the Company consists of shareholders' equity. The Company is not subject to externally imposed capital requirements.

18. FINANCIAL RISK MANAGEMENT

a) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and cash equivalents are exposed to credit risk. The credit risk on cash and cash equivalents is small because the counterparties are highly rated Canadian banks. The Company's objective is to minimize credit risk by investing in highly liquid instruments with highly rated counterparties.

b) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash and cash equivalents are exposed to cash flow interest rate risk as the Company invests cash and cash equivalents at floating rates of interest in highly liquid instruments. Fluctuations in interest rates would not significantly impact interest income due to the short term nature of the Company's investments.

c) Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk due to its purchases in US dollars. A 1% change in the foreign exchange rate would result in a change of approximately \$1,000 in the reported profit and loss.

d) Fair Value Risk

The carrying amount of cash and cash equivalents, amounts receivables, and accounts payable and accrued liabilities, approximate their fair values due to the short-term maturities of these instruments.

e) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. At December 31, 2014 the Company had a working capital surplus of \$342,000 and at September 30, 2014 the Company had a working capital surplus of \$1,625,000. The Company's liabilities consist of accounts payables and accrued liabilities which are due within one year of the balance sheet date. 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.

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19. SUBSEQUENT EVENT

Subsequent to quarter end the Company completed a secured debenture offering (the "Offering"). The first tranche of the Offering was completed on January 30, 2015 for gross proceeds of \$1,950,000. The second tranche was completed on February 20, 2015 for gross proceeds of \$1,286,000. The debentures bear interest at a rate of 10% per annum on the principal amount outstanding and will be repayable 60 months from the date issued. The debentures are secured by a general security agreement over all the present and future assets of the Company including intangibles. In consideration for the debentures the Company issued an aggregate of 3,236,000 common share purchase warrants. Each warrant entitles the holder to purchase one common share of the Corporation at a price of \$0.60 and is exercisable at any time up to 60 months from the date of issue. The debentures may be redeemed in whole or in part, at par without premium or penalty, at the option of the Company if at any time following the first anniversary of the date of issuance of the debenture, and prior to the maturity date of such debenture, the volume weighted average closing price of the Company's shares on the TSXV (or any other stock exchange on which such shares are then traded) is equal to or greater than \$1.00 per share for twenty consecutive trading days.

In connection with the Offering, the Company paid a total finder's fee of \$194,000 and issued 323,600 compensation warrants. The compensation warrants will be exercisable at a price of \$0.60 at any time up to 60 months after the date of issue.