SQI Diagnostics Inc.

Condensed Interim Consolidated Financial Statements

(Unaudited)

(Expressed in Canadian dollars)

For the Three Months Ended December 31, 2018 and 2017

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)

		As at December 31, 2018		As at September 30, 2018
Assets				
Current				
Cash	**$**	**1,038**	$	2,401
Accounts receivable		**526**		865
Prepaids and other assets		**166**		170
Inventory (Note 3)		**294**		192
Lease receivable (Note 4)		**142**		130
		2,166		3,758
Lease receivable (Note 4)		**-**		36
Property and equipment (Note 5)		**1,358**		1,431
Patents and trademarks (Note 6)		**583**		610
	$	**4,107**	$	5,835
Liabilities				
Current				
Accounts payable and accrued liabilities	**$**	**755**	$	896
Deferred revenue		**14**		18
Lease obligation (Note 7)		**167**		153
		936		1,067
Lease obligation (Note 7)		**31**		71
Secured debentures (Note 8)		**2,852**		2,781
		3,819		3,919
Shareholders' Equity				
Capital stock (Note 9)		**60,816**		60,816
Warrants (Note 10)		**12,949**		12,861
Contributed surplus		**15,104**		15,062
Deficit		**(88,581)**		(86,823)
		288		1,916
	$	**4,107**	$	5,835

Going concern (Note 2)

"Clive Beddoe"
Director **(Signed)**

"Andrew Morris"
Director **(Signed)**

See accompanying notes

SQI Diagnostics Inc.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Amounts are in thousands of Canadian dollars except per share amounts)

	Three Months Ended	
	December 31, 2018	December 31, 2017
Revenue		
Services revenue	**$ 46**	$ 91
Product sales	**246**	285
	292	376
Expenses		
Cost of products sold	**109**	258
Corporate and general (Note 13)	**374**	425
Sales and marketing (Note 14)	**333**	277
Research and development (Note 15)	**1,082**	1,067
Interest and accretion expense (Note 8)	**152**	137
	2,050	2,164
Net loss and comprehensive loss	**$ (1,758)**	$ (1,788)
Loss per share		
Basic and diluted	**$ (0.01)**	$ (0.02)
Weighted average number of common shares outstanding (thousands of shares)		
Weighted average number of shares	**158,407**	107,926

See accompanying notes

SQI Diagnostics Inc.
Condensed Interim Consolidated Statements of Changes in Equity
(Unaudited)
(Amounts are in thousands of Canadian dollars)

	Issued Capital Stock						
	Number of Shares (thousands of shares)	**Amount**	**Warrants**	**Contributed Surplus**	**Deficit**	**Total Equity**
Balance as at September 30, 2017	103,875	$ 56,369	$ 12,265	$ 11,716	$ (79,386)	$ 964
Issued in connection with private placement (Note 9b)	31,061	4,659	-	-	-	4,659
Allocated to warrants – private placement (Note 9b)	-	(2,048)	2,048	-	-	-
Share issuance costs (Note 9b)	-	(98)	(37)	-	-	(135)
Stock-based compensation (Note 12)	-	-	-	49	-	49
Net loss and comprehensive loss	-	-	-	-	(1,788)	(1,788)
Balance as at December 31, 2017	134,875	$ 58,882	$ 14,276	$ 11,765	$ (81,174)	$ 3,749
Balance as at September 30, 2018	**158,407**	**$ 60,816**	**$ 12,861**	**$ 15,062**	**$ (86,823)**	**$ 1,916**
Revaluation of extended warrants (Note 10)	**-**	**-**	**88**	**(88)**	**-**	**-**
Stock-based compensation (Note 12)	**-**	**-**	**-**	**130**	**-**	**130**
Net loss and comprehensive loss	**-**	**-**	**-**	**-**	**(1,758)**	**(1,758)**
Balance as at December 31, 2018	**158,407**	**$ 60,816**	**$ 12,949**	**$ 15,104**	**$ (88,581)**	**$ 288**

SQI Diagnostics Inc.
Condensed Interim Consolidated Statement of Cash Flows
(Unaudited)
December 31, 2018 and 2017
(Amounts are in Canadian dollars; tabular amounts in thousands)

	Three Months Ended	
	December 31, 2018	December 31, 2017
Cash flows used in operating activities		
Net loss	**$ (1,758)**	$ (1,788)
Add items not affecting cash		
Amortization - patents and trademarks	**37**	39
- property and equipment	**96**	66
Stock-based compensation	**130**	49
Accretion on debenture	**71**	57
	(1,424)	(1,577)
Changes in non-cash working capital items		
Accounts receivable, prepaids, and other assets	**343**	(160)
Lease receivable	**24**	(249)
Inventory	**(102)**	113
Accounts payable and accrued liabilities	**(141)**	283
Deferred revenue	**(4)**	-
	(1,304)	(1,590)
Cash flows used in investing activities		
Purchase of property and equipment	**(23)**	(19)
Additions to patents and trademarks	**(10)**	(14)
Sale of property and equipment	**-**	
	(33)	(33)
Cash flows from financing activities		
Proceeds from issuance of shares net of share issuance costs	**-**	4,524
Lease obligation	**(26)**	-
	(26)	4,524
Net change in cash during the period	**(1,363)**	2,901
Cash at beginning of the period	**2,401**	1,466
Cash at end of the period	**$ 1,038**	$ 4,367
Non-cash investing activities		
Equipment transferred from inventory and segregated for use by the company	**-**	97

1. NATURE OF OPERATIONS

SQI Diagnostics Inc., (the "Company"), is incorporated under the *Canada Business Corporations Act*, is listed on the TSX Venture Exchange under the symbol SQD and trades on the OTCQB 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 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, 2018 and 2017. The financial statements should be read in conjunction with the Company's Audited Consolidated Financial Statements for the years ended September 30, 2018 and 2017.

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors on February 27, 2019.

Basis of Presentation and Going Concern

The condensed interim consolidated financial statements have been prepared using the historical cost basis, except for certain financial instruments that are measured at fair value, as explained in the accounting policies.

These condensed interim consolidated financial statements have been prepared on a going concern basis that presumes the realization of assets and the discharge of liabilities in the normal course of business.

Since inception, the Company has focused on product research, development and more recently on commercialization activities. The Company has a history of net losses and negative cash flows from operations, which are expected to continue in 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.

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, these material uncertainties cast significant doubt regarding the Company's ability to continue as a going concern.

2. BASIS OF PRESENTATION (continued)

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.

Basis of Consolidation

The condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, SQI Diagnostics Systems Inc.

Inter-company balances and transactions are eliminated upon consolidation.

3 INVENTORY

Inventory consists of finished goods and component parts that are to be used in the future production of SQI's diagnostics platforms and Ig_plex consumable assays.

4. LEASES RECEIVABLE

The Company has entered into two lease agreements acting as the lessor with certain customers relating to its diagnostics platforms with a sales value of $255,000 and related cost of product sold of $216,000. In both these arrangements, the lessee has an option to purchase the platform at a price that is expected to be significantly lower than the fair value at the date the option becomes exercisable, making it reasonably certain at the inception of the lease, that the option will be exercised. In addition, at the inception of the lease the present value of the minimum lease payments amount to substantially all of the fair value of the leased asset, and risks and rewards incidental to legal ownership are transferred, although title is not transferred until the option is exercised. These leases are recognized as finance type leases and recorded as leases receivable at an amount equal to the net investment in the lease.

The first lease has a term of 24 months, with monthly payments of $2,600 USD commencing January 8, 2018. The implicit interest rate is 8% with a buyout option of $1 at the end of the lease term. The second lease term has a term of 24 months, with monthly payments of $6,300 USD commencing January 22, 2018. The implicit interest rate is 8% with a buyout option of $1 at the end of the lease term.

December 31, 2018:	
Sum of minimum lease payments	$ 146
Unearned finance income	4
Present value of lease payments	$ 142

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

5. PROPERTY AND EQUIPMENT

Cost	Computer Hardware	Computer Software	Laboratory Fixtures and Equipment	Office Equipment	Leasehold Improvements	Total
September 30, 2017	$ 359	$ 216	$ 4,598	$ 176	$ 265	$ 5,614
Additions	26	30	518	5	-	579
Transfers from inventory	-	-	318	-	-	318
September 30, 2018	$ 385	$ 246	$ 5,434	$ 181	$ 265	$ 6,511
Additions	**3**	**3**	**17**	**-**	**-**	**23**
December 31, 2018	**$ 388**	**$ 249**	**$ 5,451**	**$ 181**	**$ 265**	**$ 6,534**

Accumulated Amortization	Computer Hardware	Computer Software	Laboratory Fixtures and Equipment	Office Equipment	Leasehold Improvements	Total
September 30, 2017	$ 327	$ 204	$ 3,815	$ 171	$ 256	$ 4,773
Amortization expense	25	13	262	3	4	307
September 30, 2018	$ 352	$ 217	$ 4,077	$ 174	$ 260	$ 5,080
Amortization expense	**6**	**5**	**83**	**1**	**1**	**96**
December 31, 2018	**$ 358**	**$ 222**	**$ 4,160**	**$ 175**	**$ 261**	**$ 5,176**

Net Book Value						
September 30, 2018	$ 33	$ 29	$ 1,357	$ 7	$ 5	$ 1,431
December 31, 2018	**$ 30**	**$ 27**	**$ 1,291**	**$ 6**	**$ 4**	**$ 1,358**

During the year ended September 30, 2018 the Company acquired manufacturing equipment to scale up the production of its microarrays. The equipment was acquired under a finance type lease. The equipment has a cost of $472,000 and will be amortized over its useful life of 10 years (net book value at December 31, 2018 - $430,000). $324,000 of this asset was leased and legal title does not transfer to the Company until all lease payments are made.

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

6. PATENTS AND TRADEMARKS

Cost		
September 30, 2017	$	2,179
Additions		42
September 30, 2018	$	2,221
Additions		**10**
December 31, 2018	**$**	**2,231**
Accumulated Amortization		
September 30, 2017	$	1,458
Amortization expense		153
September 30, 2018	$	1,611
Amortization expense		**37**
December 31, 2018	**$**	**1,648**
Net Book Value		
September 30, 2018	$	610
December 31, 2018	**$**	**583**

7. LEASE OBLIGATION

The finance lease is for manufacturing equipment, the initial amount of the lease is $260,000 USD. Repayable with a lump sum payment of $60,000 USD on January 24, 2018 and subsequent monthly payments of $11,400 USD commencing in June, 2018 and ending in February, 2020. Monthly lease payments include principal and interest amounts, with the implicit rate of the lease being 16%.

December 31, 2018:		
Sum of minimum lease payments	$	218
Interest expense		20
Present value of lease payments	$	198

December 31, 2019:		
Sum of minimum lease payments	$	32
Interest expense		1
Present value of lease payments	$	31

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

8. SECURED DEBENTURES

On January 30, 2015 and February 20, 2015 the Company issued secured debentures (the "Debentures") with a principal amount of $1,950,000 and $1,286,000, respectively. The debentures bear interest at a rate of 10% and are redeemable 60 months from the date of issuance. Approximately 60% of the Debentures were subscribed to by individuals who subsequently became board members and are thus considered related parties. The Debentures are secured by a general security agreement over all the present and future assets of the Company including intangibles. The Company also issued an aggregate of 3,236,000 common share purchase warrants. Each warrant is exercisable at a price of $0.60 and entitles the holder thereof to acquire one common share for 60 months from the date of issuance.

The Debentures may be redeemed in whole or in part, at face value and 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 debentures, and prior to the maturity date of such debentures, 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 (20) consecutive trading days.

The Debentures were separated into their liability and equity components using the effective interest rate method. The fair value of the liability component at the time of issue was calculated as the discounted cash flows for the debentures assuming an 18.6% effective interest rate, which was the estimated rate for the debentures without the warrants. The fair value of the warrants was determined at the time of issue as the difference between the face value of the debentures and the fair value of the liability component.

In connection with financing, the Company paid a finder's fee of $194,000 and issued 323,600 compensation warrants. Each compensation warrant is exercisable at a price of $0.60 and entitles the holder thereof to acquire one common share for 60 months from the date of issuance. The fair value of the compensation warrants was estimated at $120,000 using the Black-Scholes pricing model with the following assumptions: share price $0.50; dividend yield 0%; risk free interest 0.53%; volatility 107%; and an expected life of 5 years. Expected volatility is based on historical volatility. Compensation warrants and related financings were not measured at the fair value of the services received as the fair value of such services was not reliably measurable. The total issuance costs including compensation warrants were $345,000.

The carrying value of the Debentures are accreted to their face value of $3,236,000 using the effective interest rate of 23.4%

	December 31, 2018	**September 30, 2018**
Secured debentures	**$ 3,236**	$ 3,236
Equity component of secured debenture	**(858)**	(858)
Issuance costs	**(345)**	(345)
	2,033	2,033
Accretion in carrying amount of notes	**819**	748
Balance end of year	**$ 2,852**	$ 2,781

9. CAPITAL STOCK

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

(b) On December 20, 2017, the Company completed a non-brokered private placement of an aggregate of 31,061,300 units of the Company at $0.15 per unit for gross proceeds of $4,659,000. Each unit comprises one common share of the Company and one common share purchase warrant. Each warrant is exercisable at a price of $0.20 and entitles the holder thereof to acquire one common share for a period of five years from the date of issuance, subject to accelerated expiry in certain circumstances. The proceeds from the issuance of units are allocated between capital stock and warrant capital based on their relative fair values, with $2,048,000 being allocated to warrant capital. The fair value of the warrants was estimated using the Black-Scholes pricing model with the following assumptions: share price $0.14; dividend yield 0%; risk free interest 1.75%; volatility 117%; and an expected life of 5 years. Expected volatility is based on historical volatility.

In connection with the private placement, the Company paid a finder's fee of $75,000 and issued 463,260 compensation warrants exercisable for 36 months from the closing of the private placement. Each compensation warrant is exercisable into one common share at a price of $0.20. The fair value of the compensation warrants was estimated at $40,000 using the Black-Scholes pricing model with the following assumptions: share price $0.14; dividend yield 0%; risk free interest 1.75%; volatility 112%; and an expected life of 3 years. Expected volatility is based on historical volatility. Broker warrants and related financings were not measured at the fair value of the services received as the fair value of such services was not reliably measurable. The total share issuance costs were $175,000 and $77,000 was allocated to warrant capital.

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

10. WARRANTS

The Company had the following warrants outstanding at December 31, 2018:

Number of Warrants	Exercise Price	Maturity
16,695	$0.64	January 26, 2019 – July 16, 2020
3,560	$0.59	January 30, 2020 and February 20, 2020
7,631	$0.52	December 15 and 21, 2020
22,970	$0.21	March 10, 2022
463	$0.20	December 20, 2020
54,532	$0.20	December 20, 2022 – August 24, 2023
105,851		

On December 6, 2018, the Company received approval to extend the expiry of 7,630,945 warrants that were issued in connection with a private placement in December of 2015. 7,480, 945 warrants that were to expire on December 15, 2018 have been extended to December 15, 2020, and 150,000 warrants that were to expire on December 22, 2018 have been extended to December 22, 2020. All other terms of the warrants remain unchanged. Accordingly, $88,000 was recorded in warrant capital with a corresponding reduction in contributed surplus in the quarter.

Subsequent to quarter end 2,965,000 warrants issued in connection with a private placement in January of 2014 with an exercise price of $0.64 and an expiry date of January 26, 2019 expired unexercised.

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

11. 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, 2018		December 30, 2017	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Beginning Balance	**9,287**	**$ 0.23**	4,545	$ 0.33
Granted	**-**	**$ -**	357	$ 0.16
Cancelled/Expired	**(100)**	**$ 0.60**	(179)	$ 0.36
Forfeited	**(30)**	**$ 0.21**	(35)	$ 0.20
Ending Balance	**9,157**	**$ 0.22**	4,688	$ 0.32
Exercisable	**4,495**	**$ 0.25**	2,723	$ 0.39

The Company had the following stock options outstanding under the Plan at December 31, 2018:

Number of Options	**Range of Exercise Prices**	**Weighted average time to maturity**
6,718	$ 0.14 - 0.25	4.02 years
2,096	$ 0.26 – 0.39	2.17 years
343	$ 0.40 – 0.60	1.68 years
9,157		

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

12. STOCK-BASED COMPENSATION

The fair value of the options granted during the quarter ended December 31, 2018 was $NIL (three months ended December 31, 2017 - $46,000), which will be recognized over vesting periods of 18 to 36 months. The total compensation expense credited to contributed surplus for the quarter ended December 31, 2018 was $130,000 (three months ended December 31, 2017 - $49,000).

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 inputs and assumptions at the measurement date:

	Three Months Ended	
	December 31, 2018	December 31, 2017
Dividend Yield	-	0%
Expected Volatility (historical data basis)	-	121%
Risk-free Interest Rate	-	1.65%
Share price and exercise price	**$** -	$ 0.16
Expected Life (years)	-	5.00
Weighted average grant date fair value	**$** -	$ 0.13

The Company estimates forfeiture rates based on historic experience with any change in estimate thereof reflected in the year they occur. The Company assumes a forfeiture rate of 20% to 40% based on the vesting period of the option.

13. CORPORATE AND GENERAL EXPENSE

	Three Months Ended	
	December 31, 2018	December 31, 2017
Salaries and wages	**$ 111**	$ 111
General and administrative	**98**	117
Professional and consulting	**115**	177
Stock-based compensation	**50**	20
Total corporate and general expense by nature	**$ 374**	$ 425

14. SALES AND MARKETING EXPENSE

	Three Months Ended	
	December 31, 2018	December 31, 2017
Contractor fees	**$ 254**	$ 222
Travel and marketing	**71**	53
Stock-based compensation	**8**	2
Total sales and marking expense by nature	**$ 333**	$ 277

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

15. RESEARCH AND DEVELOPMENT COSTS

	Three Months Ended			
	December 31, 2018		December 31, 2017	
Salaries and wages	**$**	**756**	$	603
Laboratory costs and supplies		**121**		313
Professional fees		**-**		19
Amortization – patents and trademarks (Note 7)		**37**		39
Amortization – property and equipment (Note 8)		**96**		66
Stock-based compensation		**72**		27
Total research and development expense by nature	**$**	**1,082**	$	1,067

16. COMMITMENTS

The Company has entered into a five year premises lease agreement. The table below reflects the commitments the Company has at December 31, 2018:

December 31, 2019	**$**	**276**
December 31, 2020		**313**
December 31, 2021		**321**
December 31, 2022		**330**
December 31, 2023		**348**
Beyond		**58**
Total operating lease commitment	**$**	**1,646**

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 and secured debentures. 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, accounts receivable and lease receivables are exposed to credit risk. The maximum credit risk exposure is the carrying amount. The credit risk on cash is mitigated because the counterparties are Schedule 1 Canadian banks. The credit risk on accounts receivable is due to the concentration of accounts as a result of the few large customers that comprise the Company's international customer base. In fiscal 2018 and 2017, four customers accounted for 100% of the revenue. The Company is also exposed to counterparty risk on accounts receivable and lease receivable. Credit risk on accounts receivable is managed by ongoing review of the amount and aging of accounts receivable and lease receivable balances.

(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 is exposed to interest rate risk on its fixed and variable interest rate financial instruments. Fixed-rate instruments subject the Company to a fair value risk while the variable-rate instruments subject it to a risk of changes in cash flow. The Company's cash is exposed to cash flow interest rate risk as the Company invests cash 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. The Company's Debentures are subject to a fixed interest rate.

(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 not exposed to significant currency risk.

(d) Fair Value Risk

The carrying amount of accounts receivables, lease receivable and accounts payable and accrued liabilities, lease obligations and secured debentures approximate their fair values.

(e) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. At December 31, 2018, the Company had a working capital surplus of $1,230,000 (2018 - working capital surplus of $2,691,000). The Company's liabilities consist of accounts payables and accrued liabilities which are due within one year of the balance sheet date, lease obligation and secured debentures which require annual interest payments of $324,000 on the anniversary date and the principal amount of $3,236,000 is due five years from the date of issuance. 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.