



SQI Diagnostics Inc.

Condensed Interim Consolidated Financial Statements

(Unaudited)

(Expressed in Canadian dollars)

For the Three and Six Months Ended March 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 March 31, 2018	As at September 30, 2017
Assets		
Current		
Cash	\$ 2,273	\$ 1,466
Accounts receivable	342	132
Prepays and other assets	228	330
Investment tax credit recoverable	209	-
Inventory (Note 4)	299	486
Leases receivable (Note 5)	124	-
	3,475	2,414
Property and equipment (Note 6)	1,305	841
Patents and trademarks (Note 7)	667	721
Leases receivable (Note 5)	101	-
	\$ 5,548	\$ 3,976
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 429	\$ 495
Deferred revenue	36	-
Lease obligation (Note 8)	127	-
	592	495
Long Term		
Lease obligation (Note 8)	129	
Secured debentures (Note 9)	2,640	2,517
	3,361	3,012
Shareholders' Equity		
Capital stock (Note 10)	58,882	56,369
Warrants (Note 11)	14,276	12,265
Contributed surplus	11,834	11,716
Deficit	(82,805)	(79,386)
	2,187	964
	\$ 5,548	\$ 3,976

Going concern (Note 2)
Contingencies (Note 15)

Approved by the Board

"Clive Beddoe"
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)

	Three Months Ended		Six Months Ended	
	March 31, 2018	March 31, 2017	March 31, 2018	March 31, 2017
Revenue				
Services revenue	\$ 88	\$ 202	\$ 179	\$ 412
Product sales	88	49	373	254
	176	251	552	666
Expenses				
Cost of products sold	47	11	305	176
Corporate and general (Note 14)	425	361	850	717
Sales and marketing (Note 15)	280	216	557	527
Research and development (Note 16)	916	821	1,983	1,777
Interest and accretion expense (Note 9)	139	131	276	255
	1,807	1,540	3,971	3,452
Net loss and comprehensive loss	(1,631)	(1,289)	(3,419)	(2,786)
Loss per share				
Basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.03)
Weighted average number of common shares outstanding (thousands of shares)	134,936	86,520	121,283	83,681
Weighted average number of shares				

SQI Diagnostics Inc.

Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited)

(Amounts are in thousands of Canadian dollars)

	Issued Capital Stock		Warrants	Contributed Surplus	Deficit	Total Equity
	Number of Shares (thousands of shares)	Amount				
Balance as at September 30, 2016	80,905	\$ 54,380	\$ 11,915	\$ 10,170	\$ (73,457)	\$ 3,008
Issued in connection with private placement (Note 10b)	22,970	3,675				3,675
Allocated to warrants – private placement (Note 10b)		(1,631)	1,631			-
Share issuance costs – private placement (Note 10b)		(55)				(55)
Revaluation of extended warrants (Note 11)			129	(129)		-
Warrants expired (Note 11)			(1,410)	1,410		-
Stock-based compensation (Note 13)				138		138
Net loss and comprehensive loss					(2,786)	(2,786)
Balance as at March 31, 2017	103,875	\$ 56,369	\$ 12,265	\$ 11,589	\$ (76,243)	\$ 3,980
Balance as at September 30, 2017	103,875	\$ 56,369	\$ 12,265	\$ 11,716	\$ (79,386)	\$ 964
Issued in connection with private placement (Note 10c)	31,061	4,659				4,659
Allocated to warrants – private placement (Note 10c)		(2,048)	2,048			-
Share issuance costs (Note 10c)		(98)	(37)			(135)
Stock-based compensation (Note 13)				118		118
Net loss and comprehensive loss					(3,419)	(3,419)
Balance as at March 31, 2018	134,936	\$ 58,882	\$ 14,276	\$ 11,834	\$ (82,805)	\$ 2,187

See accompanying notes

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

	Three Months Ended		Six Months Ended	
	March 31, 2018	March 31, 2017	March 31, 2018	March 31, 2017
Cash flows used in operating activities				
Net loss	\$ (1,631)	\$ (1,289)	\$ (3,419)	\$ (2,786)
Add items not affecting cash				
Amortization - patents and trademarks	39	40	78	81
- property and equipment	76	103	142	205
Stock-based compensation	69	60	118	138
Accretion on debenture	66	53	123	100
	(1,381)	(1,033)	(2,958)	(2,262)
Changes in non-cash working capital items				
Accounts receivable, Prepaids and other assets	52	(72)	(108)	204
Lease receivable	24	-	(225)	-
Investment tax credit recoverable	(209)	(229)	(209)	(229)
Inventory	(23)	-	90	(88)
Accounts payable and accrued liabilities	(349)	(519)	(66)	(245)
Deferred revenue	36	-	36	(55)
	(1,850)	(1,853)	(3,440)	(2,675)
Cash flows used in investing activities				
Purchase of property and equipment	(234)	(34)	(253)	(48)
Additions to patents and trademarks	(10)	(26)	(24)	(68)
	(244)	(60)	(277)	(116)
Cash flows from financing activities				
Proceeds from issuance of shares and exercise of warrants and options, net of share issuance costs	-	3,620	4,524	3,620
	-	3,620	4,524	3,620
Net change in cash during the period	(2,094)	1,707	807	829
Cash at beginning of period	4,367	2,043	1,466	2,921
Cash at end of period	\$ 2,273	\$ 3,750	\$ 2,273	\$ 3,750
Non-cash investing activities				
Equipment transferred from inventory and segregated for use by the company	-	-	97	-
Equipment acquired under capital lease	256	-	256	-

SQI Diagnostics Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

March 31, 2018 and 2017

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

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, 2017 and 2016, except for lease accounting which is described in Note 3. The financial statements should be read in conjunction with the Company's Audited Consolidated Financial Statements for the years ended September 30, 2017 and 2016.

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.

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.

SQI Diagnostics Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

March 31, 2018 and 2017

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

2. BASIS OF PRESENTATION (continued)

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 May 9, 2018.

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. SIGNIFICANT ACCOUNTING POLICIES

Leases

Leases for which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases, and the Company is the lessee. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the income statement.

Leases for which the Company transfers substantially all the risks and rewards of ownership are classified as finance leases, and the Company is a lessor. Upon initial recognition, a receivable is recorded for the leased asset, at an amount equal to the net investment in the lease. Where the net investment in the lease is the minimum lease payments receivable by the Company and any unguaranteed residual value accruing to the Company, all discounted at the interest rate implicit in the lease. Subsequent to initial recognition, the lease payments received are apportioned between reduction of the receivable and finance income based on the effective interest rate method using the rate implicit in the lease. The sales revenue recognized at the commencement of the lease term is the fair value of the asset, or, if lower, the present value of the minimum lease payments accruing to the lessor, computed at a market rate of interest. The cost of sale recognized at the commencement of the lease term is the cost, or carrying amount if different, of the leased property less the present value of the unguaranteed residual value.

4. 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.

SQI Diagnostics Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

March 31, 2018 and 2017

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

5. LEASES RECEIVABLE

The Company has entered into two lease agreements acting as the lessor with certain customers relating to its diagnostics platforms. 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.

(i) Lease receivable #1

The lease term is 24 months, with monthly payments of \$2,600 USD commencing January 8th 2018. The implicit interest rate is 8% with a buyout option of \$1 at the end of the lease term.

March 31, 2018:

Sum of minimum lease payments (CAD)	\$	71
Unearned finance income (CAD)		<u>5</u>
Present value of lease payments (CAD)	\$	<u>66</u>

March 31, 2019:

Sum of minimum lease payments (CAD)	\$	30
Unearned finance income (CAD)		<u>1</u>
Present value of lease payments (CAD)	\$	<u>29</u>

(ii) Lease receivable #2

The lease term is 24 months, with monthly payments of \$6,300 USD commencing January 8th 2018. The implicit interest rate is 8% with a buyout option of \$1 at the end of the lease term.

March 31, 2018:

Sum of minimum lease payments (CAD)	\$	170
Unearned finance income (CAD)		<u>12</u>
Present value of lease payments (CAD)	\$	<u>158</u>

March 31, 2019:

Sum of minimum lease payments (CAD)	\$	73
Unearned finance income (CAD)		<u>3</u>
Present value of lease payments (CAD)	\$	<u>70</u>

SQI Diagnostics Inc.**Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)****March 31, 2018 and 2017**

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

6. PROPERTY AND EQUIPMENT

Cost	Computer Hardware	Computer Software	Laboratory Fixtures and Equipment	Office Equipment	Leasehold Improvements	Total
September 30, 2016	\$ 345	\$ 212	\$ 4,771	\$ 176	\$ 265	\$ 5,769
Additions	14	4	79	-	-	97
Dispositions	-	-	(239)	-	-	(239)
Transfers to inventory	-	-	(13)	-	-	(13)
September 30, 2017	\$ 359	\$ 216	\$ 4,598	\$ 176	\$ 265	\$ 5,614
Additions	6	5	497	1	-	509
Transfers from inventory	-	-	97	-	-	97
March 31, 2018	\$ 365	\$ 221	\$ 5,192	\$ 177	\$ 265	\$ 6,220

Accumulated Amortization	Computer Hardware	Computer Software	Laboratory Fixtures and Equipment	Office Equipment	Leasehold Improvements	Total
September 30, 2016	\$ 302	\$ 192	\$ 3,721	\$ 166	\$ 245	\$ 4,626
Amortization expense	25	12	287	5	11	340
Dispositions	-	-	(189)	-	-	(189)
Transfers to inventory	-	-	(4)	-	-	(4)
September 30, 2017	\$ 327	\$ 204	\$ 3,815	\$ 171	\$ 256	\$ 4,773
Amortization expense	12	5	122	1	2	142
March 31, 2018	\$ 339	\$ 209	\$ 3,937	\$ 172	\$ 258	\$ 4,915

Net Book Value						
September 30, 2017	\$ 32	\$ 12	\$ 783	\$ 5	\$ 9	\$ 841
March 31, 2018	\$ 26	\$ 12	\$ 1,255	\$ 5	\$ 7	\$ 1,305

During the quarter 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 March 31, 2018 - \$460,000). Legal title to the asset does not transfer to the Company until all lease payments are made.

SQI Diagnostics Inc.**Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)****March 31, 2018 and 2017**

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

7. PATENTS AND TRADEMARKS

Cost	
September 30, 2016	\$ 2,046
Additions	133
September 30, 2017	\$ 2,179
Additions	24
March 31, 2018	\$ 2,203
Accumulated Amortization	
September 30, 2016	\$ 1,299
Amortization expense	159
September 30, 2017	\$ 1,458
Amortization expense	78
March 31, 2018	\$ 1,536
Net Book Value	
September 30, 2017	\$ 721
March 31, 2018	\$ 667

8. Lease Obligation

The finance lease is for manufacturing equipment, the initial amount of the lease is \$300,200 USD. Repayable with a lump sum payment of \$60,000 USD on January 24, 2018 and subsequent monthly payments of \$11,400 USD commencing on May 7, 2018 and ending on January 6, 2020. Monthly lease payments include principal and interest amounts, with the implicit rate of the lease being 16%

Total future minimum lease payments, in CAD:

as at March 31, 2018	\$ 297
as at March 31, 2019	\$ 142

Present value of future minimum lease payments, in CAD:

as at March 31, 2018	\$ 254
as at March 31, 2019	\$ 133

SQI Diagnostics Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

March 31, 2018 and 2017

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

9. 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%

	March 31, 2018	September 30, 2017
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	607	484
Balance end of period	\$ 2,640	\$ 2,517

SQI Diagnostics Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

March 31, 2018 and 2017

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

10. CAPITAL STOCK

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

SQI Diagnostics Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

March 31, 2018 and 2017

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

11. WARRANTS

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

Number of Warrants	Exercise Price	Maturity
5,126	\$1.10	May 1, 2018
16,695	\$0.64	July 16, 2018 – April 10, 2019
3,560	\$0.59	January 30, 2020 and February 20, 2020
7,631	\$0.52	December 15 and 21, 2018
22,970	\$0.21	March 10, 2022
31,061	\$0.20	December 20, 2022
463	\$0.20	December 20, 2020
87,506		

On October 25, 2016, 2,276,000 warrants issued in October 2011 in connection with a private placement with an exercise price of \$2.50 expired unexercised. Accordingly, \$1,410,000 was transferred from warrant capital to contributed surplus in fiscal 2017.

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

Pursuant to the terms of the warrant agreement and as a result of the August 2016 rights offering the exercise price of 16,695,000 warrants were adjusted from \$0.65 to \$0.64. After the adjustment each whole warrant is exchangeable into 1.015625 common shares.

Pursuant to the terms of the warrant agreement and as a result of the August 2016 rights offering the exercise price of 3,560,000 warrants were adjusted from \$0.60 to \$0.59. After the adjustment each whole warrant is exchangeable into 1.015625 common shares.

SQI Diagnostics Inc.**Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)****March 31, 2018 and 2017**

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

12. 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:

	Six Months Ended			
	March 31, 2018		March 31, 2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning Balance	4,545	\$ 0.33	3,731	\$ 0.52
Granted	4,803	\$ 0.20	1,145	\$ 0.16
Cancelled/Expired	(703)	\$ 0.55	(295)	\$ 1.88
Forfeited	(71)	\$ 0.20	-	-
Ending Balance	8,574	\$ 0.24	4,581	\$ 0.34
Exercisable	3,105	\$ 0.37	2,269	\$ 0.64

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

Number of Options	Range of Exercise Prices	Weighted average time to maturity
7,992	\$ 0.16 - 0.39	3.66 years
532	\$ 0.40 – 0.69	1.56 years
50	\$ 0.70 – 0.75	0.09 years
8,574		

SQI Diagnostics Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

March 31, 2018 and 2017

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

13. STOCK-BASED COMPENSATION

The fair value of the options granted during the six months ended March 31, 2018 was \$782,000 (six months ended March 31, 2017 - \$147,000), which will be recognized over vesting periods of 18 to 36 months. The total compensation expense credited to contributed surplus for the six months ended March 31, 2018 was \$118,000 (six months ended March 31, 2017- \$138,000).

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:

	Six Months Ended	
	March 31, 2018	March 31, 2017
Dividend Yield	0%	0%
Expected Volatility (historical data basis)	121%	120%
Risk-free Interest Rate	1.93%	1.18%
Share price and exercise price	\$ 0.20	\$ 0.16
Expected Life (years)	5.00	5.00
Weighted average grant date fair value	\$ 0.16	\$ 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 10% to 30% based on the vesting period of the option.

14. CORPORATE AND GENERAL EXPENSE

	Three Months Ended		Six Months Ended	
	March 31, 2018	March 31, 2017	March 31, 2018	March 31, 2017
Salaries and wages	\$ 152	\$ 128	\$ 263	\$ 237
General and administrative	131	122	248	243
Professional and consulting	99	99	276	170
Stock-based compensation	43	12	63	67
Corporate and general expense by nature	\$ 425	\$ 361	\$ 850	\$ 717

15. SALES AND MARKETING EXPENSE

	Three Months Ended		Six Months Ended	
	March 31, 2018	March 31, 2017	March 31, 2018	March 31, 2017
Contractor fees	\$ 233	\$ 155	\$ 455	\$ 401
Travel and marketing	40	59	93	122
Stock-based compensation	7	2	9	4
Sales and marketing expense by nature	\$ 280	\$ 216	\$ 557	\$ 527

SQI Diagnostics Inc.**Notes to Condensed Interim Consolidated Financial Statements
(Unaudited)****March 31, 2018 and 2017**

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

16. RESEARCH AND DEVELOPMENT COSTS

	Three Months Ended		Six Months Ended	
	March 31, 2018	March 31, 2017	March 31, 2018	March 31, 2017
Salaries and wages	\$ 718	\$ 728	\$ 1,321	\$ 1,387
Laboratory costs and supplies	216	103	529	236
Investment tax credit recoverable	(200)	(229)	(200)	(229)
Professional fees	48	31	67	31
Amortization – patents and trademarks	39	40	78	81
Amortization – property and equipment	76	103	142	205
Stock-based compensation	19	45	46	66
Research and development expense by nature	\$ 916	\$ 821	\$ 1,983	\$ 1,777

17. 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 provisions have been recorded in the accounts where required.

18. 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.

19. 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 accounts receivable are exposed to credit risk. 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. The Company is also exposed to counterparty risk on accounts receivable. The maximum credit risk exposure is limited to the reported amounts of these financial assets. Credit risk on accounts receivable is managed by ongoing review of the amount and aging of accounts receivable balances.

Allowance for doubtful accounts and past due receivables are reviewed by management at each balance sheet date. The Company updates its estimate of the allowance for doubtful accounts based on the evaluation of the recoverability of receivable balances from each customer taking into account historic collection trends of past due accounts. Receivables are written off once determined not to be collectible.

(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, and accounts payable and accrued liabilities 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 March 31, 2018, the Company had a working capital surplus of \$2,883,000 (September 30, 2017 - \$1,919,000). The Company's liabilities consist of accounts payables and accrued liabilities which are due within one year of the balance sheet date 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.