SQI Diagnostics Inc.

Interim Consolidated Financial Statements

For the Period Ended June 30, 2010

NOTICE TO READER
The accompanying unaudited interim consolidated financial statements have been prepared by the company's management and the company's independent auditors have not performed a review of these consolidated financial statements

SQI Diagnostics Inc.

Interim Consolidated Balance Sheets

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

	Note	As at June 30, 2010 (unaudited)	As at September 30, 2009 (audited)
Assets			
Current			
Cash and cash equivalents		**$ 5,766**	$ 3,180
Amounts receivable		**135**	40
Investment tax credits recoverable		**295**	-
Inventory	4	**568**	322
Prepaids and deposits		**162**	67
Due from related party	5	**33**	40
		6,959	3,649
Due from related party	5	**65**	65
Property and equipment	6	**2,368**	2,097
Patents and trademarks		**407**	393
		$ 9,800	$ 6,205
Liabilities			
Current			
Accounts payable and accrued liabilities		**$ 670**	$ 366
Loans payable	7	**-**	3
		670	369
Shareholders' Equity			
Capital stock	9(a)	**30,361**	22,366
Warrants	10	**1,027**	461
Employee share purchase loan	9(b)	**(10)**	(10)
Contributed surplus	11	**8,416**	8,430
Deficit		**(30,665)**	(25,412)
		9,129	5,836
		$ 9,800	$ 6,205

See accompanying notes

Approved by the Board **"Peter Winkley"** (Signed) Director **"Eric Schneider"** (Signed) Director

SQI Diagnostics Inc.

Interim Consolidated Statements of Operations and Deficit
(Amounts are in thousands of dollars, except per share amounts)

	Note	**Three Month Period Ended June 30, 2010**	Three Month Period Ended June 30, 2009	**Nine Month Period Ended June 30, 2010**	Nine Month Period Ended June 30, 2009
Revenue					
Consulting Fees	8	**6**	3	**21**	20
Product Revenue		**-**	5	**-**	5
		6	8	**21**	25
Cost of Goods Sold		**-**	3	**-**	3
Gross Profit		**6**	5	**-**	22
Expenses					
Salaries and wages		**139**	117	**404**	367
General and administrative	8	**123**	84	**324**	259
Professional and consulting fees		**140**	104	**437**	198
Sales and marketing		**116**	94	**309**	387
Stock-based compensation	13	**(129)**	94	**(14)**	291
Research and development costs		**1,111**	825	**3,438**	2,490
Amortization - Patents		**29**	25	**85**	72
Amortization - Property & Equipment		**101**	105	**310**	311
		1,629	1,447	**5,293**	4,375
Operating loss before interest		**(1,623)**	(1,442)	**(5,272)**	(4,353)
Interest Income		8	100	20	118
Interest Expense		2	(13)	(2)	(59)
Net loss		**(1,613)**	(1,354)	**(5,253)**	(4,294)
Deficit at beginning of period		**(29,052)**	(22,442)	**(25,412)**	(19,502)
Deficit at end of period		**$ (30,665)**	$ (23,796)	**$ (30,665)**	$ (23,796)
Weighted average number of shares		**30,790**	26,326	**29,553**	24,871
Basic and diluted loss per share		**$ (0.05)**	$ (0.05)	**$ (0.18)**	$ (0.17)

See accompanying notes.

SQI Diagnostics Inc.

Interim Consolidated Statements of Cash Flow
(Amounts are in thousands of dollars, except per share amounts)

	Three Month Period Ended June 30, 2010	Three Month Period Ended June 30, 2009	**Nine Month Period Ended June 30, 2010**	Nine Month Period Ended June 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the period	**$ (1,613)**	$ (1,354)	**$ (5,253)**	$ (4,294)
Add items not affecting cash				
Amortization - patents	**29**	25	**85**	72
-property and equipment	**101**	105	**310**	311
Stock-based compensation	**(129)**	94	**(14)**	291
	(1,612)	**(1,131)**	**(4,873)**	**(3,620)**
Changes in non-cash working capital items				
Amounts Receivable	**(47)**	1,069	**(95)**	1,066
Due from related party	**-**	-	**7**	-
Inventory	**(153)**	-	**(458)**	(76)
Prepaids and deposits	**(75)**	38	**(95)**	(12)
Accounts payable and accrued liabilities	**98**	(106)	**304**	(7)
Investment tax credit recoverable	**(295)**	**-**	**(295)**	**-**
	(2,084)	**(128)**	**(5,293)**	**(2,649)**
Cash flows used in investing activities				
Purchase of property and equipment	**(266)**	(93)	**(369)**	(212)
Additions to patents	**(21)**	(39)	**(99)**	(144)
	(286)	**(132)**	**(468)**	**(356)**
Cash flows from financing activities				
Repayment of loans payable	**(1)**	(731)	**(3)**	(731)
Proceeds from private placement and exercise of warrants and options, net of share issuance costs	**2,093**	157	**8,561**	4,755
	2,092	**(574)**	**8,558**	**4,023**
Increase in cash during the period	**(278)**	(835)	**2,586**	1018
Cash at beginning of period	**6,044**	4,945	**3,180**	3,091
Cash at end of period	**$ 5,766**	$ 4,110	**$ 5,766**	$ 4,110
Supplemental disclosure				
Cash paid for interest	$ (2)	$ 13	$ 2	$ 59

See accompanying notes.

1. NATURE OF OPERATIONS

SQI Diagnostics Inc., (the "Company"), has its head office and development centre in Toronto, Ontario. The Company is a medical systems company that develops proprietary technology in multiplexing, miniaturization and automation. The Company provides laboratories the ability to: simultaneously analyse multiple biomarkers; deliver accurate and quantitative patient results in less time; significantly reduce labour cost; and increase profits when compared with current diagnostic instrumentation.

The Company's technology platform, SQiDworks™, and its IgXPLEX Rheumatoid Arthritis (RA) test kit have been cleared for sale in the US, Canada and EU. The Company has earned limited revenues from its IgXPLEX RA™ test kits run on installed SQiDworks platforms to date and as such is considered to be a development stage company. The Company has a pipeline of additional autoimmune diagnostic products in various stages of development and commercialization. The Company expects to generate revenues from its IgXPLEX RA products as it grows its installed base of customers as well as from products to be launched as they complete commercialization. The continuation of the Company's research, development and commercialization activities is dependent upon the Company's ability to successfully generate product revenues, or to finance its cash requirements through further financings.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, within the framework of the significant accounting policies summarized below:

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. Inter-company balances and transactions are eliminated upon consolidation.

Cash and Cash Equivalents

Cash and cash equivalents include bank deposits and highly liquid money market investments such as bankers acceptance notes, treasury bills, cashable money market funds, and cashable guaranteed investment certificates.

Inventory

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

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property and Equipment

Property and equipment are recorded at cost and are amortized on the straight-line basis over their estimated useful lives as follows:

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

Patents 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 accumulated amortization of $407,000 (September 30, 2009 - $393,000).

Research and Development Costs

Research costs are charged to earnings in the period in which they are incurred. Development costs are expensed as incurred or deferred if they meet the criteria for deferral under Canadian generally accepted accounting principles and are expected to provide future benefits with reasonable certainty.

The Company is developing IgXPLEX diagnostics assays for celiac, lupus, vasculitis, Crohn’s, antiphospholipid syndrome and thyroid diseases, as well as completing scientific discovery and assay design work for a diagnostic assay to detect and measure infliximab (previously referred to as anti-TNF) in the blood of autoimmune patients.

Deferral criteria have not been met, and accordingly, all development costs have been expensed in the period.

Impairment of Long-Lived Assets

Long-lived assets comprise property and equipment and intangible assets with finite lives (patents). The Company recognizes an impairment loss for a long-lived asset when events or changes in circumstances cause its carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. An impairment loss is measured as the excess of the carrying value of the asset over its fair value.

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 receivable 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 consulting services from time to time. Consulting fee revenue is recognized when services are completed, amounts are invoiced to customers and collectability is reasonably assured.

Stock-Based Compensation and Other Stock-Based Payments

The Company applies a fair value based method of accounting for all stock-based payments. Accordingly, stock-based payments are measured at the fair value of the consideration received or the fair value of the equity instruments issued or liabilities incurred, whichever is more reliably measurable. Stock-based compensation is charged to operations over the vesting period and the offset is credited to contributed surplus. Consideration received upon the exercise of stock options is credited to share capital at which time the related contributed surplus is transferred to share capital.

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 liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

Investment Tax Credits

Investment tax credits (ITCs) are accrued when qualifying expenditures are incurred and there is reasonable assurance that the credits will be realized. Investment tax credits earned with respect to current expenditures for qualified research and development activities are included in the statements of operations as a reduction of research and development costs. Investment tax credits associated with capital expenditures are reflected as reductions in the carrying amounts of capital assets.

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial Instruments

The Company has classified and measured its financial instruments as follows:

Financial Instrument	Classification	Measurement Basis
Cash and cash equivalents	Held-for-trading	Fair value
Amounts receivable	Loans and receivable	Amortized cost
Due from related party	Loans and receivable	Amortized cost
Accounts payable and accruals	Other financial liabilities	Amortized cost
Loans payable	Other financial liabilities	Amortized cost

Comprehensive Income

The Company has not presented a statement of comprehensive income as it has no other comprehensive income.

Loss Per Share

Basic loss per share is computed using the weighted average number of common shares outstanding during the year. Diluted loss per share is computed using the weighted average number of common and potential common shares outstanding during the year. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options and warrants using the treasury stock method.

Use of Estimates

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

Significant areas requiring the use of management estimates relate to the determination of the useful lives of property and equipment and patents and trademarks for amortization purposes, valuation of stock options and warrants and valuation allowance on future tax assets.

3. RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET APPLIED

Business Combinations

In January 2009, the CICA issued Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. In addition, the CICA issued Sections 1601, Consolidated Financial Statements, and 1602, Non-Controlling Interests, which replaces the existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements, while section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

These standards apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier application permitted. The Company does not believe there to be any potential impact on its consolidated financial statements.

International Financial Reporting Standards

The CICA plans to converge Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011, when IFRS will be fully adopted. The transition date of October 1, 2010 for the Company will require restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. While the company has begun assessing the adoption of IFRS for 2012, the financial reporting impact of the transition to IFRS has not been determined at this time.

4. INVENTORY

Inventory consists of component parts that are to be used in the future production of SQiDWorks platforms and consumable assays.

5. DUE FROM RELATED PARTY

		June 30, 2010 Value ($000s)		September 30, 2009 (audited) Value ($000s)
Amount due from an officer and director, secured, non-interest bearing, principal amount of $98,000 repayable in three equal installments on September 1, 2010, 2011 and 2012.	**$**	**98**	$	105
Less: Current portion		**(33)**		(40)
	$	**65**	$	65

6. PROPERTY AND EQUIPMENT

As June 30, 2010:

		Cost ($000s)		**Accumulated Amortization** ($000s)		**Net** ($000s)
Computer hardware	**$**	**177**	**$**	**135**	**$**	**43**
Computer software		**152**		**126**		**26**
Laboratory fixtures and equipment		**3,722**		**1,587**		**2,136**
Office equipment		**175**		**124**		**51**
Leasehold improvements		**263**		**150**		**113**
	$	**4,490**	**$**	**2,121**	**$**	**2,368**

As at September 30, 2009 (audited):

		Cost ($000s)		**Accumulated Amortization** ($000s)		**Net** ($000s)
Computer hardware	$	141	$	114	$	27
Computer software		125		106		19
Laboratory fixtures and equipment		3,255		1,349		1,906
Office equipment		147		112		36
Leasehold improvements		240		131		109
	$	**3,909**	**$**	**1,812**	**$**	**2,097**

7. LOANS PAYABLE

	June 30, 2010 ($000s)	September 30, 2009 (audited) ($000s)
Note payable to supplier, non-interest bearing, payable in monthly installments	-	3
	$ -	$ 3

8. RELATED PARTY TRANSACTIONS

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

Included in general and administrative expense for the three month period ended June 30, 2010 is $12,000 (three months period ended June 30, 2009 - $31,000) and $37,000 for the nine month period ended June 30, 2010 (nine months period ended June 30, 2009 - $37,000), related to recovery of occupancy costs from a corporation in which an officer of the Company is also an officer. Consulting fee revenue of $6,000 for the three month period ended June 30, 2010 (three month period ended June 30, 2009 - $3,000) was earned from this corporation compared to $21,000 for the nine month period ended June 30, 2010 (nine month period ended June 30, 2009 - $20,000). At quarter end, $2,000 (2009 - $1,000) due from this corporation is included in amounts receivable.

9. CAPITAL STOCK

(a) Authorized

Unlimited common shares

Issued - common shares

	Number (000s)		Value ($000s)
Balance, September 30, 2009 (audited)	27,193	$	22,366
Warrants Exercised (i)	9		22
Options Exercised (ii)	33		30
Issued in connection with private placement (iii)	2,398		6,595
Share Issuance Costs (iii)	-		(628)
Amount allocated to warrants (iii)	-		(424)
Balance, December 31, 2009	29,633		$ 27,961
Warrants Exercised (iv)	13		8
Options Exercised (v)	533		330
Share Issuance Costs (iii)	-		(31)
Balance, March 31, 2010	30,130	$	28,268
Warrants Exercised (vi)	948		1,765
Options Exercised (vii)	330		299
Share Issuance Costs (iii)	-		29
Balance, June 30, 2010	**31,458**	**$**	**30,361**

(i) A total of 9,000 warrants were exercised at a price of $2.40 per common shares for gross proceeds of $22,000 in November 2009.

(ii) A total of 33,000 options were exercised for gross proceeds of $30,000 in November 2009.

(iii) On December 4, 2009, the Company completed a private placement resulting in the issuance of 2,398,000 units for gross proceeds of $6,595,000 (net of cash costs - $6,162,000) at a price of $2.75 per unit. Each unit comprises one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of $4.00, expiring December 4, 2011. The Company paid an agent's fee in relation to the private placement satisfied through the issuance of 142,000 warrants with an exercise price of $2.75 and expiring on December 4, 2011. The total share issuance costs were $630,000 and $424,000 was allocated to Warrants.

(iv) A total of 13,000 warrants were exercised at a price of $0.60 per common shares for gross proceeds of $8,000 in January 2010.

(v) During the three month period ended March 31, 2010, a total of 533,000 options exercised for gross proceeds of $330,000.

(vi) During the three month period ended June 30, 2010, a total of 948,000 warrants were exercised for gross proceeds of $1,765,000.

(vii) During the three month period ending June 30, 2010 the Company issued 330,000 shares resulting from the exercise of options. The exercise of these options resulted in gross proceeds of $299,000.

(b) During the period ended September 30, 2007, the Company made a non-interest bearing demand loan to an officer, which was used to acquire 100,000 common shares. The loan has been accounted for as a share purchase loan and, accordingly, the $10,000 loan balance has been deducted from share capital.

10. WARRANT CAPITAL

The following table summarizes the change in warrants:

	Nine Month Period Ended June 30, 2010 ($000s)	Year Ended September 30, 2009 (audited) ($000s)
Balance, beginning of period	**$ 461**	$ 274
Finder warrants	**-**	127
Finder warrants	**-**	59
Private Placement warrants (Note 9 (iii))	**424**	**-**
Broker warrants (Note 9 (iii))	**18**	-
Balance, end of period	**$ 1,027**	$ 461

11. CONTRIBUTED SURPLUS

The following summarizes the change in contributed surplus:

	Nine Month Ended June 30, 2010 ($000s)	Year Ended September 30, 2009 (audited) ($000s)
Balance, beginning of period	**$ 8,430**	$ 8,068
Stock-based compensation (Note 13)	**184**	380
Options exercised	**(198)**	(17)
Balance, end of period	**$ 8,416**	$ 8,430

12. STOCK OPTIONS

The Company maintains a Stock Option Plan (the "Plan") for the benefit of directors, officers, employees and consultants. The aggregate 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 3,200,000. 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 six equal installments over a period of 18 months.

The following summarizes the stock option activities under the Plan:

	Nine Month Period Ended June 30, 2010		Nine Month Period Ended June 30, 2009	
	Number of Options (000s)	**Weighted Average Exercise Price**	Number of Options (000s)	Weighted Average Exercise Price
Beginning balance	**2,368**	**$ 1.20**	2,624	$ 0.90
Granted	**209**	**2.32**	80	1.30
Exercised	**830**	**0.81**	133	0.13
Cancelled/expired	**122**	**0.88**	28	1.20
Forfeited	**3**	**1.74**	-	-
Ending balance	**1,623**	**$ 1.67**	2,543	$ 1.24
Exercisable	**783**	**$ 1.59**	1,276	$ 1.57

The Company had the following stock options outstanding under the Plan at June 30, 2010:

Number of Options (000s)	**Exercise Price**	**Expiry Date**
33	$ 1.20	June 29, 2011
67	1.20	August 29, 2011
180	1.74	August 7, 2012
50	1.50	October 23, 2012
758	1.60	February 26, 2013
303	1.75	August 26, 2013
80	1.30	May 22, 2014
25	3.26	November 3, 2014
68	2.25	February 22, 2015
60	2.10	May 27, 2015
1,623		

13. STOCK-BASED COMPENSATION

The fair value of the options granted during the nine month period ended June 30, 2010 was $314,950 (nine month period ended June 30, 2009 - $67,000). The total compensation expense for the nine month period ended June 30, 2010 was ($129,000) (nine month period ended June 30, 2009 - $291,000). The total amount credited to contributed surplus nine month period ended June 30, 2010 was ($14,000) (nine month period ended June 30, 2009 - $291,000).

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:

	Nine Month Period Ended June 30, 2010	Year Ended September 30, 2009
Dividend yield	**0%**	0%
Expected volatility	**80%**	80%
Risk-free interest rate	**1.98%**	4.6%
Expected life (years)	**5.00**	5.00
Weighted average grant date fair value	**$ 1.51**	$ 0.842

The Company has assumed no forfeiture rate as adjustments for actual forfeitures are made in the quarter they occur.

14. WARRANTS

The Company had the following warrants outstanding at June 30, 2010:

Number of Warrants (000s)	Purchase Price		Expiry Date
107	$	1.25	January 22, 2011
1,199		4.00	December 4, 2011
144		2.75	December 4, 2011
237		1.90	December 23, 2011
1,686			

15. 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.

16. 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.

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.

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's exposure to currency risk is negligible because the Company's operations to date are in one country, being Canada. The dollar amount and number of transactions conducted in currencies other than the Canadian dollar are not material.

d) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's accounts payable and accrued liabilities are all current. The Company ensures that it has sufficient capital to meet short term financial obligations after taking into account its cash on hand.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current quarter's financial statement presentation.

18. SUBSEQUENT EVENT NOTE

Subsequent to the quarter ended June 30, 2010, the Company completed a non-brokered private placement resulting in gross proceeds of $5,700,000 through issuance of 2,280,000 units at $2.50 per common share. Each unit consists of one common share and one half common share purchase warrant. Each whole share purchase warrant entitles the holder, for a period of two years, to acquire one common share of the Company for $5.00.