



## **SQI Diagnostics Inc.**

**Condensed Interim Consolidated Financial Statements**

**(Unaudited)**

**For the Three and Nine Months Ended June 30, 2015 and 2014**

### **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 June 30, 2015	As at September 30, 2014
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 610	\$ 1,735
Prepays, deposits and amounts receivable (Note 3)	429	290
Inventory (Note 4)	197	33
	<b>1,236</b>	<b>2,058</b>
<b>Property and equipment</b> (Note 5)	<b>1,509</b>	<b>1,799</b>
<b>Patents and trademarks</b> (Note 6)	<b>764</b>	<b>734</b>
	<b>\$ 3,509</b>	<b>\$ 4,591</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 703	\$ 433
<b>Long Term</b>		
Secured debentures (Note 10)	\$ 2,092	-
<b>Shareholders' Equity</b>		
<b>Capital stock</b> (Note 11)	<b>47,971</b>	<b>47,942</b>
<b>Warrant capital</b> (Note 12)	<b>9,094</b>	<b>8,805</b>
<b>Contributed surplus</b>	<b>10,519</b>	<b>9,732</b>
<b>Deficit</b>	<b>(66,870)</b>	<b>(62,321)</b>
	<b>714</b>	<b>4,158</b>
	<b>\$ 3,509</b>	<b>\$ 4,591</b>

**Contingencies (Note 15)**  
**Subsequent Events (Note 17)**

Approved by the Board

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

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**"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)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>June 30, 2015</b>	<b>June 30, 2014</b>	<b>June 30, 2015</b>	<b>June 30, 2014</b>
<b>Revenue</b>				
Product and services revenue	\$ 180	\$ 32	\$ 265	\$ 52
	<b>180</b>	<b>32</b>	<b>265</b>	<b>52</b>
<b>Expenses</b>				
Corporate and general (Note 7)	569	379	1,423	1,059
Sales and marketing (Note 8)	210	157	584	424
Research and development (Note 9)	857	954	2,633	2,496
	<b>1,636</b>	<b>1,490</b>	<b>4,640</b>	<b>3,979</b>
<b>Operating loss</b>	<b>(1,456)</b>	<b>(1,458)</b>	<b>(4,375)</b>	<b>(3,927)</b>
Interest Income	3	9	8	13
Interest and accretion expense	(118)	-	(182)	-
	<b>(115)</b>	<b>9</b>	<b>(174)</b>	<b>13</b>
<b>Net loss</b>	<b>\$ (1,571)</b>	<b>\$ (1,449)</b>	<b>\$ (4,549)</b>	<b>\$ (3,914)</b>
<b>Loss per share</b>				
Basic and diluted	\$ (0.03)	\$ (0.03)	\$ (0.08)	\$ (0.08)
<b>Weighted average number of common shares outstanding (thousands of shares)</b>				
Weighted average number of shares	56,381	55,505	56,351	49,177

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

	Issued Capital Stock		Warrant Capital	Contributed Surplus	Deficit	Total Equity
	Number of Shares (thousands of shares)	Amount \$				
Balance as at September 30, 2013	44,952	45,558	5,349	10,306	(56,861)	4,352
Issued in connection with private placements (Note 11b)	2,965	1,483				1,483
Allocated to warrants – private placement (Note 11b)		(971)	971			-
Share issuance costs – private placement (Note 11b)		(210)	95			(115)
Issued in connection with public offering (Note 11c)	8,400	4,200				4,200
Allocated to warrants – public offering (Note 11c)		(1,428)	1,428			-
Share issuance costs – public offering (Note 11c)		(701)	191			(510)
Options exercised (Note 13)	19	11		(4)		7
Warrants expired (Note 12)			(162)	162		-
Revaluation of extended warrants (Note 12)			933	(933)		-
Stock-based compensation (Note 14)				175		175
Net loss					(3,914)	(3,914)
Balance as at June 30, 2014	56,336	47,942	8,805	9,706	(60,775)	5,678
<b>Balance as at September 30, 2014</b>	<b>56,336</b>	<b>47,942</b>	<b>8,805</b>	<b>9,732</b>	<b>(62,321)</b>	<b>4,158</b>
<b>Options exercised</b> (Note 13)	<b>50</b>	<b>29</b>		<b>(11)</b>		<b>18</b>
<b>Warrants expired</b> (Note 12)			<b>(2,649)</b>	<b>2,649</b>		<b>-</b>
<b>Warrants Issued</b> (Note 10)			<b>978</b>			<b>978</b>
<b>Revaluation of extended warrants</b> (Note 12)			<b>1,960</b>	<b>(1,960)</b>		<b>-</b>
<b>Stock-based compensation</b> (Note 14)				<b>109</b>		<b>109</b>
<b>Net loss</b>					<b>(4,549)</b>	<b>(4,549)</b>
<b>Balance as at June 30, 2015</b>	<b>56,386</b>	<b>47,971</b>	<b>9,094</b>	<b>10,519</b>	<b>(66,870)</b>	<b>714</b>

See accompanying notes

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

	Three Months Ended		Nine Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
<b>Cash flow used in operating activities</b>				
Loss for the period	\$ (1,571)	\$ (1,449)	\$ (4,549)	\$ (3,914)
Add items not affecting cash				
Amortization - patents and trademarks	34	31	99	90
- property and equipment	105	134	326	404
Stock-based compensation	39	57	109	175
Loss on sale of property and equipment	15	-	15	-
Accretion on debentures	38	-	59	-
	<b>(1,340)</b>	<b>(1,227)</b>	<b>(3,941)</b>	<b>(3,245)</b>
Changes in non-cash working capital items				
Prepays, deposits and amounts receivable	(38)	(74)	(139)	(50)
Inventory	(86)	1	(164)	23
Accounts payable and accrued liabilities	169	(257)	270	(85)
	<b>(1,295)</b>	<b>(1,557)</b>	<b>(3,974)</b>	<b>(3,357)</b>
<b>Cash flows used in investing activities</b>				
Purchase of property and equipment	(13)	(10)	(75)	(24)
Additions to patents and trademarks	(38)	(46)	(129)	(134)
Sale of property and equipment	24	-	24	-
	<b>(27)</b>	<b>(56)</b>	<b>(180)</b>	<b>(158)</b>
<b>Cash flows from financing activities</b>				
Proceeds from debenture, net of issuance costs		-	3,011	-
Proceeds from private placement, public offering and exercise of warrants and options, net of share issuance costs	18	3,698	18	5,065
	<b>18</b>	<b>3,698</b>	<b>3,029</b>	<b>5,065</b>
Net change in cash and cash equivalents during the period	<b>(1,304)</b>	2,085	<b>(1,125)</b>	1,550
Cash and cash equivalents at beginning of period	1,914	880	1,735	1,415
Cash and cash equivalents at end of period	\$ <b>610</b>	\$ 2,965	\$ <b>610</b>	\$ 2,965

**SQI Diagnostics Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Unaudited)**  
**June 30, 2015**  
(Amounts are in Canadian dollars; tabular amounts in thousands)

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**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 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 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 financial statements should be read in conjunction with the Company's Audited Consolidated Financial Statements for the years ended September 30, 2014 and 2013.

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 August 17, 2015.

**Basis of Presentation and Going Concern**

The condensed interim consolidated financial statements have been prepared in accordance with 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 Drug Development 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.

**SQI Diagnostics Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
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**June 30, 2015**  
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**2. BASIS OF PRESENTATION**

**Basis of Presentation and Going Concern (continued)**

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 Drug Development 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 Drug Development 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.

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 value 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.

**3. PREPAIDS, DEPOSITS AND AMOUNTS RECEIVABLE**

	<b>June 30, 2015</b>	September 30, 2014
Accounts receivable	\$ 118	\$ 26
Prepays and deposits	256	229
Sales tax recoverable	55	35
	<b>\$ 429</b>	<b>\$ 290</b>

**4. INVENTORY**

Inventory consists of 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)**  
**June 30, 2015**  
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**5. PROPERTY AND EQUIPMENT**

<b>Cost</b>	<b>Computer Hardware</b>	<b>Computer Software</b>	<b>Laboratory Equipment</b>	<b>Office Equipment</b>	<b>Leasehold Improvements</b>	<b>Total</b>
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
<b>Additions</b>	<b>14</b>	<b>13</b>	<b>48</b>	<b>-</b>	<b>-</b>	<b>75</b>
<b>Dispositions</b>			<b>(186)</b>			<b>(186)</b>
<b>June 30, 2015</b>	<b>\$ 297</b>	<b>\$ 192</b>	<b>\$ 4,749</b>	<b>\$ 176</b>	<b>\$ 265</b>	<b>\$ 5,679</b>

<b>Accumulated Amortization</b>	<b>Computer Hardware</b>	<b>Computer Software</b>	<b>Laboratory Equipment</b>	<b>Office Equipment</b>	<b>Leasehold Improvements</b>	<b>Total</b>
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
<b>Amortization expense</b>	<b>6</b>	<b>3</b>	<b>302</b>	<b>4</b>	<b>11</b>	<b>326</b>
<b>Dispositions</b>			<b>(147)</b>			<b>(147)</b>
<b>June 30, 2015</b>	<b>\$ 277</b>	<b>\$ 182</b>	<b>\$ 3,324</b>	<b>\$ 158</b>	<b>\$ 229</b>	<b>\$ 4,170</b>

<b>Net Book Value</b>						
September 30, 2014	\$ 12	\$ -	\$ 1,718	\$ 22	\$ 47	\$ 1,799
<b>June 30, 2015</b>	<b>\$ 20</b>	<b>\$ 10</b>	<b>\$ 1,425</b>	<b>\$ 18</b>	<b>\$ 36</b>	<b>\$ 1,509</b>



**SQI Diagnostics Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Unaudited)**  
**June 30, 2015**  
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**6. PATENTS AND TRADEMARKS**

<b>Cost</b>	
September 30, 2013	\$ 1,718
Additions	186
Write down of patents	(134)
September 30, 2014	\$ 1,770
<b>Additions</b>	<b>129</b>
<b>June 30, 2015</b>	<b>\$ 1,899</b>
<b>Accumulated Amortization</b>	
September 30, 2013	\$ 943
Amortization expense	121
Write off of patents	(28)
September 30, 2014	\$ 1,036
<b>Amortization expense</b>	<b>99</b>
<b>June 30, 2015</b>	<b>\$ 1,135</b>
<b>Net Book Value</b>	
September 30, 2014	\$ 734
<b>June 30, 2015</b>	<b>\$ 764</b>

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)****June 30, 2015**

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

**7. CORPORATE AND GENERAL EXPENSE**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>June 30, 2015</b>	June 30, 2014	<b>June 30, 2015</b>	June 30, 2014
Salaries and wages	\$ 153	\$ 142	\$ 407	\$ 389
General and administrative	129	106	393	339
Professional and consulting	259	107	559	270
Stock-based compensation	28	24	64	61
Corporate and general expense by nature	\$ 569	\$ 379	\$ 1,423	\$ 1,059

**8. SALES AND MARKETING EXPENSE**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>June 30, 2015</b>	June 30, 2014	<b>June 30, 2015</b>	June 30, 2014
Contractor fees	\$ 114	\$ 99	\$ 369	\$ 249
Travel and marketing	94	35	197	106
Stock-based compensation	2	23	18	69
Sales and marketing expense by nature	\$ 210	\$ 157	\$ 584	\$ 424

**9. RESEARCH AND DEVELOPMENT COSTS**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>June 30, 2015</b>	June 30, 2014	<b>June 30, 2015</b>	June 30, 2014
Salaries and wages	\$ 610	\$ 642	\$ 1,795	\$ 1,855
Laboratory costs and supplies	94	137	371	362
Professional fees	5	-	15	40
Investment tax credit	-	-	-	(300)
Amortization – patents and trademarks	34	31	99	90
Amortization – property and equipment	105	134	326	404
Stock-based compensation	9	10	27	45
Research and development expense by nature	\$ 857	\$ 954	\$ 2,633	\$ 2,496

**SQI Diagnostics Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Unaudited)**  
**June 30, 2015**  
(Amounts are in Canadian dollars; tabular amounts in thousands)

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**10. DEBENTURES**

On January 30, 2015 and February 20, 2015 the Company issued secured 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. 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 par 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.

For accounting purposes, 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 \$0.53; dividend yield 0%; risk free interest 0.52%; 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 share issuance costs including compensation warrants were \$345,000.

The carrying value of the debenture is accreted to their fair value of \$3,236,000 using the effective interest rate of 23.4%

	<b>June 30, 2015</b>	September 30, 2014
Secured debentures	\$ 3,236	\$ -
Equity component of secured debenture	(858)	-
Issuance costs	(345)	-
	<b>2,033</b>	
Accretion in carrying amount of notes	59	-
Balance end of period	<b>\$ 2,092</b>	\$ -

**SQI Diagnostics Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Unaudited)**  
**June 30, 2015**  
(Amounts are in Canadian dollars; tabular amounts in thousands)

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**11. CAPITAL STOCK**

- (a) The Company has authorized an unlimited number of common shares.
- (b) On January 27, 2014, the Company completed a non-brokered private placement of 2,965,000 units of the Company at \$0.50 per unit for gross proceeds of \$1,483,000.

Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at a price of \$0.65 for a period of two years from the date of issuance. The proceeds from the issuance of units are allocated between capital stock and warrant capital based on their relative fair values, with \$971,000 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 \$0.52; dividend yield 0%; risk free interest 1.25%; volatility 133%; and an expected life of 2 years. Expected volatility is based on historical volatility.

In connection with the private placement, the Company paid a finder's fee of \$104,000 and issued 296,500 compensation warrants exercisable for a two year period from the closing of the private placement. Each compensation warrant is exercisable into one common share and one warrant at a price of \$0.50. Each underlying warrant included in the compensation warrant is exercisable into one common share at a price of \$0.65 for a two year period from the date of the private placement. The fair value of the compensation warrants was estimated at \$95,000 using the Black-Scholes pricing model with the following assumptions: share price \$0.52; dividend yield 0%; risk free interest 1.25%; volatility 133%; and an expected life of 2 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 \$210,000.

- (c) On April 10, 2014 the Company completed public offering of 8,400,000 units of the Company at a price of \$0.50 per unit for gross proceeds of \$4,200,000.

Each unit comprises one common share of the Company and one common share purchase warrant. Each warrant is exercisable at a price of \$0.65 and entitles the holder thereof to acquire one common share until April 10, 2016. The proceeds from the issuance of units are allocated between capital stock and warrant capital based on their relative fair values, with \$1,428,000 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 \$0.50; dividend yield 0%; risk free interest 1.08%; volatility 131%; and an expected life of 2 years. Expected volatility is based on historical volatility.

The Company paid the Agent a fee equal \$294,000 and issued 588,000 compensation warrants exercisable until April 10, 2016. Each warrant is exercisable into one common share and one warrant at a price of \$0.50. Each underlying warrant is exercisable into one common share at a price of \$0.65 until April 10, 2016. The fair value of the compensation warrants was estimated at \$191,000 using the Black-Scholes pricing model with the following assumptions: share price \$0.50; dividend yield 0%; risk free interest 1.08%; volatility 131%; and an expected life of 2 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 \$701,000.

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**Notes to Condensed Interim Consolidated Financial Statements**  
**(Unaudited)**  
**June 30, 2015**  
(Amounts are in Canadian dollars; tabular amounts in thousands)

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**12. WARRANT CAPITAL**

The Company had the following warrants outstanding at June 30, 2015:

<b>Number of Warrants</b>	<b>Purchase Price</b>	<b>Weighted average time to maturity</b>
1,140	\$5.00	0.12 years
2,276	\$2.50	1.33 years
5,126	\$1.10	2.84 years
11,365	\$0.65	0.73 years
3,560	\$0.60	4.61 years
885	\$0.50	0.71 years
<b>24,352</b>		

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.

On May 1, 2015, the Company extended the expiry of 5,126,000 warrants by 36 months to May 1, 2018. In addition, at any time prior to the expiry date, as amended, should the 20-day trailing average price exceed \$1.43, warrant holders shall have 30 days to exercise this series of warrants and any unexercised warrants shall expire thereafter. All other provisions of the warrants will remain the same. The warrants were issued in May 2013 in connection with a private placement. The fair value of the extension was estimated using the Black-Scholes pricing model with the following assumptions: share price \$0.53; dividend yield 0%; risk free interest 0.7%; volatility 129%; and an expected life of 3 year. Expected volatility is based on historical volatility. As a result of the extension \$1,960,000 was recorded in warrant capital with a corresponding reduction in contributed surplus. In addition, 512,604 warrants with an expiry of May 1, 2015 expired unexercised and \$331,000 was transferred to contributed surplus upon expiry.

**SQI Diagnostics Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Unaudited)**  
**June 30, 2015**  
(Amounts are in Canadian dollars; tabular amounts in thousands)

**12. WARRANT CAPITAL (continued)**

On May 8, 2014 the Company received approval from the TSX Venture exchange to extend the expiry of 3,508,171 warrants with an exercise price of \$2.50 issued in connection with a private placement which was completed on June 20, 2012. The warrants which had expiry dates of May 10, 2014, May 16, 2014, June 13, 2014 and June 19, 2014 were extended to May 10, 2015, May 16, 2015, June 13, 2015 and June 19, 2015. All other provisions of the warrants remain unchanged. The fair value of the extension was estimated using the Black-Scholes pricing model with the following assumptions: share price \$0.37; dividend yield 0%; risk free interest 1.04%; volatility 120%; and an expected life of 1 year. Expected volatility is based on historical volatility. As a result of the extension \$147,000 was recorded in warrant capital with a corresponding reduction in contributed surplus. In addition, 210,491 warrants with an expiry dates of May 10, 2014, May 16, 2014, June 13, 2014 and June 19, 2014 expired unexercised and \$108,000 was transferred to contributed surplus upon expiry. During the quarter-ended June 30, 2015 these warrants expired unexercised. As a result of the expiry \$1,211,000 was transferred to contributed surplus.

**13. 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:

	<b>Nine Months Ended</b>			
	<b>June 30, 2015</b>		<b>June 30, 2014</b>	
	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Beginning Balance	2,540	\$ 1.12	2,308	\$ 1.25
Granted	475	\$ 0.55	200	\$ 0.57
Exercised <sup>(i)</sup>	(50)	\$ 0.35	(19)	\$ 0.35
Cancelled/Expired	(158)	\$ 1.55	(113)	\$ 1.96
Forfeited	(130)	\$ 0.36	(66)	\$ 1.21
Ending Balance	2,677	\$ 1.03	2,310	\$ 1.21
Exercisable	2,197	\$ 1.14	2,064	\$ 1.27

**SQI Diagnostics Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(Unaudited)**  
**June 30, 2015**  
(Amounts are in Canadian dollars; tabular amounts in thousands)

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**13. STOCK OPTIONS (continued)**

- (i) On the exercise of stock options, \$11,000 was transferred from contributed surplus to capital stock for the nine months ended June 30, 2015 (nine months ended June 30, 2014 - \$4,000). The average market price on the date of exercise for these options was \$0.45 (nine months ended June 30, 2014 - \$0.70).

The Company had the following stock options outstanding under the Plan at June 30, 2015:

<b>Number of Options</b>	<b>Range of Exercise Prices</b>	<b>Weighted average time to maturity</b>
1,910	\$0.31 - 1.16	3.19 years
472	\$1.17 - 2.03	1.57 years
295	\$2.04 - 2.29	0.21 years
<b>2,677</b>		

**14. STOCK-BASED COMPENSATION**

The fair value of the options granted during the nine months ended June 30, 2015 was \$260,000 (nine months ended June 30, 2014 - \$83,000), which will be recognized over the vesting periods of 12 - 36 months. The total compensation expense for nine months ended June 30, 2015 was \$109,000 (nine months ended June 30, 2014 - \$175,000). The total amount credited to contributed surplus for the nine months ended June 30, 2015 was \$109,000 (nine months ended June 30, 2014 - \$175,000).

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:

	<b>Nine Months Ended</b>	
	<b>June 30, 2015</b>	<b>June 30, 2014</b>
Dividend Yield	<b>0%</b>	0%
Expected Volatility (historical data basis)	<b>108%</b>	97%
Risk-free Interest Rate	<b>0.69%</b>	1.1%
Share price	<b>\$ 0.55</b>	\$ 0.57
Expected Life (years)	<b>5.00</b>	5.00
<b>Weighted average grant date fair value</b>	<b>\$ 0.27</b>	\$ 0.42

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

**15. 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. No such provision was required in the current quarter

**16. 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.

**17. 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 \$3,000 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.



**17. FINANCIAL RISK MANAGEMENT (continued)**

**e) Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. At June 30, 2015 the Company had a working capital surplus of \$533,000 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.

**18. SUBSEQUENT EVENTS**

On July 16, 2015 raised gross proceeds of \$2,665,000 million through the first tranche of a non-brokered private placement (the "Private Placement") of 5,330,000 units ("Units") priced at \$0.50 per Unit.

Each Unit will consist of one common share and one common share purchase warrant. Each common share purchase warrant will entitle the holder to purchase one common share at a price of \$0.65 for a period of three years from the date of issuance, subject to accelerated expiry in certain circumstances.