SQI Diagnostics Inc.

Consolidated Financial Statements

For the Year Ended September 30, 2008 and for the Period From December 15, 2006 to September 30, 2007)

AUDITORS' REPORT

To the Shareholders of
SQI Diagnostics Inc.

We have audited the consolidated balance sheets of **SQI Diagnostics Inc.**   as at **September 30, 2008** and **2007** and the related consolidated statements of operations and deficit and cash flows for the year ended **September 30, 2008** and for the period from December 15, 2006 to September 30, 2007. These financial statements are the responsibility of the company's management.   Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement.   An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.   An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at **September 30, 2008** and **2007** and the results of its operations and its cash flows for the year ended **September 30, 2008** and for the period from December 15, 2006 to September 30, 2007 in accordance with Canadian generally accepted accounting principles.

Collins Barrow Toronto LLP

Collins Barrow Toronto LLP
Licensed Public Accountants

November 17, 2008 (Except for Note 20, which is as of January 21, 2009)
Toronto, Ontario

Praxity
MEMBER
GLOBAL ALLIANCE OF
INDEPENDENT FIRMS

SQI Diagnostics Inc.

Consolidated Balance Sheets
As at September 30

	Note	2008	2007

Assets

Current

	Note	2008	2007
Cash and cash equivalents		$ 3,091,486	$ 3,399,601
Amounts receivable		24,481	42,912
Investment tax credits recoverable		1,075,407	148,750
Inventory	5	111,255	-
Prepaids and deposits		59,691	83,529
		4,362,320	3,674,792
Due from related party	6	104,579	100,456
Property and equipment	7	2,400,906	2,379,250
Patents		402,779	369,306
		$ 7,270,584	$ 6,523,804

Liabilities

Current

	Note	2008	2007
Accounts payable and accrued liabilities		$ 382,420	$ 240,364
Loans payable	8	735,482	16,511
		1,117,902	256,875

Shareholders' Equity

	Note	2008	2007
Capital stock	10	17,322,585	14,113,145
Warrants	11	274,086	89,188
Employee share purchase loan		(10,000)	(10,000)
Contributed surplus	12	8,067,709	7,790,715
Deficit		(19,501,698)	(15,716,119)
		6,152,682	6,266,929
		$ 7,270,584	$ 6,523,804

SUBSEQUENT EVENT (Note 20)

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

See accompanying notes.

SQI Diagnostics Inc.
Consolidated Statements of Operations and Deficit

	Note	Year Ended September 30, 2008	Period From December 15, 2006 to September 30, 2007
			(Note 19)
Revenue			
Consulting fees	9	$ 89,838	$ 71,550
Expenses			
Salaries and wages		427,172	391,602
General and administrative	9	344,879	228,807
Professional and consulting fees		383,949	296,899
Stock-based compensation	14	283,050	52,223
Research and development costs		2,032,791	1,849,891
Interest income		(73,344)	(64,539)
Amortization - patents		81,878	64,937
Amortization - property and equipment		395,042	208,612
		3,875,417	3,028,432
Net loss		(3,785,579)	(2,956,882)
Deficit at beginning of year		(15,716,119)	(12,759,237)
Deficit at end of year		$ (19,501,698)	$ (15,716,119)
Weighted average number of shares		20,550,294	16,619,481
Basic and diluted loss per share		$ (0.18)	$ (0.18)

See accompanying notes.

SQI Diagnostics Inc.
Consolidated Statements of Cash Flows

	Note	Year Ended September 30, 2008	Period From December 15, 2006 to September 30, 2007
			(Note 19)
Cash flows from (used in) operating activities			
Loss for the period		$ (3,785,579)	$ (2,956,882)
Add items not affecting cash			
Amortization - patents		81,878	64,937
- property and equipment		395,042	208,612
Stock-based compensation		283,050	52,223
Interest accrual		(4,123)	(3,456)
		(3,029,732)	(2,634,566)
Changes in non-cash working capital items			
Amounts receivable		18,431	14,381
Inventory		(111,255)	-
Prepaids and deposits		23,838	(39,510)
Accounts payable and accrued liabilities		142,056	(125,290)
Investment tax credits recoverable		(926,657)	462,337
		(3,883,319)	(2,322,648)
Cash flows used in investing activities			
Purchase of property and equipment		(416,698)	(1,330,800)
Additions to patents		(115,351)	(170,010)
Short-term investments		-	1,000,000
		(532,049)	(500,810)
Cash flows from financing activities			
Advances of loans payable		730,000	-
Repayment of loans payable		(11,029)	(143,633)
Proceeds from private placement and exercise of warrants, net of share issuance costs		3,388,282	5,092,064
Cash acquired on reverse takeover	1	-	606,909
		4,107,253	5,555,340
Increase (decrease) in cash during the year		(308,115)	2,731,882
Cash at beginning of year		3,399,601	667,719
Cash at end of year		$ 3,091,486	$ 3,399,601

Supplemental Disclosure

Cash paid for interest		$ 37,034	$ -

See accompanying notes.

1. **NATURE OF OPERATIONS AND AMALGAMATION**

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, and increase profits when compared with current diagnostic instrumentation.

The Company has received licenses to market its QuantiSpot™ RA test kit used to detect and quantify a panel of biomarkers to aid in the diagnosis of rheumatoid arthritis and its SQiDworks™ automated analytical platform in Canada. The Company is pursing marketing clearance for its platform and QuantiSpot RA test kit in other jurisdictions and expects that if successful these marketing clearances would be granted in the first half of 2009. The Company filed an application for marketing clearance in United States, with the Food & Drug Administration ("FDA") for the QuantiSpot RA panel and SQiDworks platform on October 15th, 2008. The Company continues to develop and pursue the commercialization of a number of other QuantiSpot™ test panels targeting detection and quantification of panels of biomarkers in the autoimmune sector. QuantiSpot™ tests are designed to run only on the Company's SQiDworks™ platform. In order to get the platform and QuantiSpot™ consumable tests approved for sale in the United States, the FDA typically requires the completion of clinical validation studies to compare the performance of a new test to predicate tests currently approved for sale in the USA. Upon successful completion of the validation studies, the data derived is then presented to the FDA in the form of a 510(k) Pre market Notification. It is typical for the external validation studies to take several months to complete and upon receipt of a completed 510(k) submission, the FDA may take up to four months to render an approval decision on the application.

The Company has not earned revenues from its QuantiSpot™ test kits or SQiDWorks™ platform and is therefore considered to still be in the development stage. The continuation of the Company's research and development activities is dependent upon the Company's ability to successfully finance its cash requirements through the generation of revenue from its partners and potential customers, or to complete further equity financing. Management believes that the Company's current level of cash will be sufficient to execute the Company's current planned expenditures for the remainder of 2009 and believes it will be able to manage its cash flows through the middle of 2010.

On April 26, 2007, an amalgamation between umedik Inc ("umedik"). and 670194 Canada Inc., a wholly owned subsidiary of SQI Diagnostics Inc. (formerly Emblem Capital Inc.) was completed. The amalgamated company continued under the name SQI Diagnostics Inc. ("SQI"). Pursuant to the amalgamation of umedik and 670194 Canada Inc., the shareholders of umedik received an aggregate of 14,719,314 outstanding common shares of SQI in exchange for all of the outstanding common shares of the Company.

In addition, SQI issued replacement options and warrants to all holders of the umedik's options and warrants who surrendered such securities pursuant to the Amalgamation Agreement. The replacement options and warrants issued by SQI are identical to umedik's options and warrants surrendered except in respect of the number of post consolidation common shares to which a holder is entitled upon exercise and the exercise price, which terms were modified to give effect to the acquisition and share consolidation.

SQI Diagnostics Inc.

Notes to Consolidated Financial Statements
September 30, 2008 and 2007

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1. **NATURE OF OPERATIONS AND AMALGAMATION** (Cont'd)

    Prior to the completion of the Qualifying Transaction pursuant to rules of the TSX Venture Exchange, Emblem Capital Inc. ("Emblem"), a Capital Pool Company, subdivided its common shares on a 6 for 1 basis.

    Following the transaction, the shareholders of umedik, Inc. controlled SQI and consequently, the transaction was accounted for as a reverse takeover with umedik, Inc. as the acquirer and continuing company. Since Emblem did not constitute a business, the transaction was accounted for as a capital transaction, that is, a financing and recapitalization of umedik.

    Accordingly:

    (i)   the assets and liabilities of umedik are included in the balance sheet at their historic carrying value;

    (ii)   the net assets of Emblem are included at fair value which equalled to their carrying value;

    (iii)   capital stock, contributed surplus and deficit of Emblem are eliminated; and

    (iv)   the comparative figures are those of umedik.

    Emblem's net assets acquired are as follows:

Cash	$	606,909
Accounts payable and accrued liabilities		(11,338)
Net asset value	**$**	**595,571**

2. **SIGNIFICANT ACCOUNTING POLICIES**

    These consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada, 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.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

Cash and Cash Equivalents

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

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

The costs relating to initial patent fees are deferred and amortized over 10 years on a straight-line basis. Patents are recorded net of accumulated amortization of $479,403 (2007 - $397,525).

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.

At September 30, 2008, the Company was carrying out validation studies to determine viability of the diagnostic system. Deferral criteria have not been met, and accordingly, all development costs have been expensed.

2.   **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

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

The Company 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 and 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.

SQI Diagnostics Inc.
Notes to Consolidated Financial Statements
September 30, 2008 and 2007

2. **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

Investment Tax Credits

Investment tax credits 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.

During the year ended September 30, 2008, the Company recorded an amount receivable relating to investment tax credits of $929,186 (2007 - $NIL) and a corresponding reduction in research and development costs.

Financial Instruments

(i) Financial Assets

Held-for-Trading

Financial assets that are held with the intention of generating profits in the near term and derivative contracts that are financial assets, except for a derivative that is a designated and effective hedging instrument, are classified as held for trading. In addition, any other financial assets can be designated by the Company upon initial recognition as held for trading. These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net income during the period.

Held-to-Maturity

Financial assets that have a fixed maturity date and which the Company has a positive intention and the ability to hold to maturity are classified as held to maturity, which are subsequently re-measured at amortized cost using the effective interest rate method.

Loans and receivables

Loans and receivables are non-derivative financial assets resulting from the delivery of cash or other assets in return for a promise to repay on a specified date, or on demand, usually with interest. Loans and receivables are subsequently re-measured at amortized cost using the effective interest rate method.

Available-for-Sale

Available for sale assets are non derivative financial assets that are either designated in this category or not classified in any of the other categories. Financial assets classified as available for sale are subsequently re-measured at fair value with the changes in fair value recorded in other comprehensive income.

SQI Diagnostics Inc.

Notes to Consolidated Financial Statements
September 30, 2008 and 2007

2.   **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

(ii)   Financial Liabilities

Held-for-Trading

Financial liabilities that are held with the intention of generating profits in the near term and derivative contracts that are financial liabilities, except for a derivative that is a designated and effective hedging instrument, are classified as held for trading. In addition, any other financial liabilities can be designated by the Company upon initial recognition as held for trading. These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net income during the period.

Other liabilities

Non-derivative financial liabilities that have not been designated as held for trading are classified as other liabilities, which are subsequently re-measured at amortized cost using the effective interest rate method.

The Company has classified its financial instruments as follows:

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

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.

2.   **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

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 for amortization purposes, valuation of ITC's receivable, valuation of stock options and warrants and valuation allowance on future tax assets.

3.   **ADOPTION OF NEW ACCOUNTING POLICIES**

Effective October 1, 2007, the Company adopted the recommendations of the CICA Handbook Section 1535, Capital Disclosures. Handbook Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by the new Handbook section in Note 17 to these consolidated financial statements.

Effective October 1, 2007, the Company adopted the new recommendations of the CICA Handbook Section 1506, Accounting Changes. Under these new recommendations, voluntary changes in accounting policy are permitted only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impractical, requires prior period errors to be corrected retrospectively and requires enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. These recommendations also require the disclosure of new primary sources of generally accepted accounting principles that have been issued but not yet effective. The impact that the adoption of this section will have on the Company's financial statements will depend on the nature of future accounting changes and the required additional disclosure on Recent Accounting Pronouncements is disclosed in Note 4.

Effective October 1, 2007, the Company adopted the recommendations of CICA Handbook Section 3862, Financial Instruments – Disclosure. Section 3862 provides standards for disclosures about financial instruments, including disclosures about fair value and the credit, liquidity and market risks associated with the financial instruments. Disclosure requirements pertaining to Section 3862 are contained in Note 18.

Effective October 1, 2007, the Company adopted the recommendations of CICA Handbook Section 3863, Financial Instruments – Presentation. Section 3863 provides standards for presentation of financial instruments and non-financial derivatives. Adoption of this standard had no impact on the presentation of the Company's financial instruments.

4. **RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET APPLIED**

In 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets ("CICA 3064"). CICA 3064, which replaces Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual financial statements for periods commencing October 1, 2008. The Company is in the process of assessing the impact of the new standard on its consolidated financial statements.

In March, 2007, the CICA issued Section 3031 on Inventories, which has replaced Section 3030 with the same title. Section 3031 prescribes the measurement of inventories at the lower of cost and net realizable value, with guidance on the determination of cost including allocation of overheads and other costs to inventory. Reversals of previous write-downs to net realizable value are permitted when there is a subsequent increase in the value of inventories. The new standard is effective for the Company's interim and annual financial statements for periods commencing October 1, 2008. The adoption of this new standard is not expected to have a significant impact on the Company's consolidated financial statements.

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 impact of the transition to IFRS on the Company's consolidated financial statements is not yet determinable

5. **INVENTORY**

Inventory consists of component parts that are to be used in the future production SQiDWorks™ and QuantiSpot™ products.

6. **DUE FROM RELATED PARTY**

The amount is due from an officer and director of the Company, bears interest at 4.25% per annum and is due on December 14, 2009.

7.   **PROPERTY AND EQUIPMENT**

As at September 30, 2008:

	Cost	Accumulated Amortization	Net
Computer hardware	$ 128,313	$ 88,579	$ 39,734
Computer software	124,874	82,881	41,993
Laboratory fixtures and equipment	3,168,697	1,019,548	2,149,149
Office equipment	147,216	96,688	50,528
Leasehold improvements	226,863	107,361	119,502
	$ 3,795,963	$ 1,395,057	$ 2,400,906

As at September 30, 2007:

	Cost	Accumulated Amortization	Net
Computer hardware	$ 117,851	$ 63,650	$ 54,201
Computer software	109,225	59,364	49,861
Laboratory fixtures and equipment	2,781,665	710,526	2,071,139
Office equipment	145,656	81,768	63,888
Leasehold improvements	224,868	84,707	140,161
	$ 3,379,265	$ 1,000,015	$ 2,379,250

8.   **LOANS PAYABLE**

	2008	2007
Term loan, bearing interest at prime plus 4% per annum, maturing with accrued interest on January 31, 2009, or upon receipt of 2006 and 2007 SR&ED ITC refunds, whichever is sooner	$ 730,000	$ -
Note payable to supplier, non-interest bearing, payable in monthly installments of $5,600	5,482	16,511
	$ 735,482	$ 16,511

SQI Diagnostics Inc.
Notes to Consolidated Financial Statements
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9.   RELATED PARTY TRANSACTIONS

Transactions with related parties are incurred 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 year ended September 30, 2008 is $33,161 (period ended September, 2007 - $19,746), related to recovery of occupancy costs, from a corporation in which an officer of the Company was also an officer. Consulting fee revenue of $89,838 for the year ended September 30, 2008 (period ended September 30, 2007 - $54,360) was earned from this corporation. At year end, $37,663 (2007 - $27,928) due from this corporation is included in amounts receivable.

SQI Diagnostics Inc.
Notes to Consolidated Financial Statements
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10. **CAPITAL STOCK**

Authorized
  unlimited common shares

Issued - common shares

	Number	Value
Emblem Shares outstanding at December 31, 2006	7,999,999	$ 867,300
Share consolidation at 6 for 1	(6,666,666)	-
	1,333,333	867,300
Elimination of share capital due to reverse takeover	-	(867,300)
Shares issued to former shareholders of Umedik (Note 1)	14,719,314	8,514,699
Net asset value of SQI ascribed to issued shares (Note 1)	-	595,571
Share issuance costs	-	(128,107)
Warrants exercised	77,501	7,735
Proceeds from private placement [(i)]	3,567,551	5,212,435
Amount allocated to warrants	-	(89,188)
Balance, September 30, 2007	19,697,699	$14,113,145
Warrants exercised	52,501	5,250
Issued in connection with a private placement (ii)	2,439,500	3,659,350
Options exercised	27,778	39,390
Share issuance costs (ii)		(494,550)
Balance, September 30, 2008	22,217,478	$17,322,585

(i)   Pursuant to a private placement, the Company issued 3,567,551 units at a price of $1.60 per unit as follows:

  (a) On June 29, 2007, 3,192,551 units were issued for a net amount of $4,660,435;

  (b) On July 3, 2007, 375,000 units were issued for a net amount of $552,000.

  Each issued unit is comprised of one common share and one-half common share warrant. Each whole warrant is exercisable at a price of $2.40 per common share, expiring on June 29, 2009 and July 3, 2009, respectively.

(ii) Pursuant to a private placement, the Company issued 2,439,500 shares at a price of $1.50 per share for gross proceeds of $3,659,350. Share issue costs related to the private placement amounted to $309,652. In addition, 194,200 broker warrants, exercisable at $1.50 per common shares and expiring on June 3, 2010 were issued, valued at $184,898. Total share issuance costs were $494,550.

SQI Diagnostics Inc.
Notes to Consolidated Financial Statements
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11. **WARRANT CAPITAL**

The following summarizes the change in warrants:

	2008	2007
Balance, beginning of period	$ 89,188	$ -
Allocated to warrants on a private placement (Note 10)	-	89,188
Broker warrants (Note 10(ii))	184,898	-
Balance, end of period	$ 274,086	$ 89,188

12. **CONTRIBUTED SURPLUS**

The following summarizes the change in contributed surplus:

	2008	2007
Balance, beginning of period	$ 7,790,715	$ 7,738,492
Stock-based compensation (Note 14)	283,050	52,223
Options exercised	(6,056)	-
Balance, end of period	$ 8,067,709	$ 7,790,715

SQI Diagnostics Inc.
Notes to Consolidated Financial Statements
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13. **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. Options issued to consultants providing investor relations services generally vest in stages over 12 months.

The following summarizes the stock option activities under the Plan:

	September 30, 2008		September 30, 2007	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning balance	1,847,533	$ 0.90	1,650,033	$ 0.80
Granted	1,110,000	$ 1.64	197,500	$ 1.74
Exercised (i)	(27,778)	$ 1.20	-	$ -
Expired	(305,562)	$ 1.20	-	$ -
Ending balance	2,624,193	$ 1.18	1,847,533	$ 0.90
Exercisable	1,445,488	$ 0.82	1,297,371	$ 0.71

(i) On exercise of stock options, $6,056 was transferred from contributed surplus to share capital.

The Company had the following stock options outstanding under the Plan at September 30, 2008:

Number of Options	Exercise Price	Expiry Date
133,336	$ 0.132	December 16, 2008
8,334	$ 1.680	July 1, 2009
833,350	$ 0.600	April 15, 2010
141,670	$ 1.200	April 15, 2010
116,669	$ 1.200	June 29, 2011
83,335	$ 1.200	August 29, 2011
197,500	$ 1.740	August 7, 2012
50,000	$ 1.500	October 23, 2012
757,500	$ 1.600	February 15, 2013
302,500	$ 1.750	August 26, 2013
2,624,193		

The Company also had 133,333 options outstanding at September 30, 2008 that were not granted under the plan. All of these options were exercisable at September 30, 2008 and have an exercise price of $0.90 and expire on October 14, 2009.

SQI Diagnostics Inc.

Notes to Consolidated Financial Statements
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14. **STOCK-BASED COMPENSATION**

The compensation cost of the options granted during the year ended September 30, 2008 was $589,903 (period ended September 30, 2007 - $230,522) which will be recognized over the vesting periods of 18 to 36 months. The total compensation expense for the year ended September 30, 2008 was $283,050 (period ended September 30, 2007 - $52,223). The total amount credited to contributed surplus for the year ended September 30, 2008 was $283,050 (period ended September 30, 2007 - $52,223).

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:

	2008	2007
Dividend yield	0%	0%
Expected volatility	81%	80%
Risk-free interest rate	4.1%	4.6%
Expected life (years)	5.00	5.00
Weighted average grant date fair value	$1.636	$1.167

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

15. **WARRANTS**

The Company had the following warrants outstanding at September 30, 2008:

Number of Warrants	Purchase Price	Expiry Date
89,147	$ 2.502	December 6, 2008
83,335	$ 0.440	April 26, 2009
50,001	$ 0.132	April 26, 2009
20,834	$ 1.200	April 26, 2009
344,004	$ 1.200	April 26, 2009
285,404	$ 1.600	June 29, 2009
1,783,776	$ 2.400	June 29, 2009
1,076,867	$ 0.600	April 26, 2010
194,200	$ 1.500	June 3, 2010
3,927,568		

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16. **INCOME TAXES**

(i) **Income Tax Expense**

The following table reconciles income taxes calculated at combined Canadian federal/ provincial tax rates with the income tax expense in the financial statements:

	Year Ended September 30, 2008	Period From December 15, 2006 to September 30, 2007
Loss before income taxes	$(3,785,579)	$(2,956,882)
Statutory rate	34.2 %	36.1 %
Expected income tax recovery	$(1,294,668)	$(1,067,434)
Non-deductible expenses and other	101,287	21,331
Change in valuation allowance related to operations	1,136,977	633,303
Change in future tax rates	560,607	335,797
Impact of SR&ED filings	(504,203)	77,003
Income tax expense	$ -	$ -

(ii) **Future Income Taxes**

The temporary differences that give rise to future income tax assets and future income tax liabilities are presented below:

	2008	2007
Amounts related to tax loss and other credits carry forwards	$ 5,221,128	$ 3,809,997
Property and equipment and intangibles	(491,587)	(326,525)
Share issue costs	296,407	304,406
Net future tax asset	5,025,948	3,787,878
Less: Valuation allowance	(5,025,948)	(3,787,878)
	$ -	$ -

16.   INCOME TAXES (Cont'd)

(iii) **Loss and Tax Credit Carryforwards**

As at September 30, 2008, the Company has non-capital losses of $8,426,442 expiring as follows:

2014	$ 879,122
2015	765,800
2026	1,472,456
2027	1,059,422
2028	4,249,642
	$ 8,426,442

The Company has undeducted scientific research and experimental development costs of $6,191,293 and investment tax credits relating to scientific research and development costs of $1,025,414 available to apply against future taxable income.

The potential tax benefit relating to the non-capital losses and tax credit carryforwards has not been reflected in these financial statements.

17.   CAPITAL RISK MANAGEMENT

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

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

18. **FINANCIAL RISK MANAGEMENT**

    a) **Credit Risk**

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

    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 Corporation 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 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 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 Corporation's accounts payable and accrued liabilities are all current. The Corporation ensures that it has sufficient capital to meet short term financial obligations after taking into account its cash on hand.

19. **COMPARATIVE FIGURES**

    Effective in 2007, the Company changed its fiscal year-end from December 14 to September 30. Accordingly, the financial statements for 2007 are for the period from December 15, 2006 to September 30, 2007.

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

20. SUBSEQUENT EVENT

Subsequent to the year end, the Company completed a non brokered private placement in two tranches. The first tranche, closed December 23, 2008, resulted in gross proceeds of $3,000,000 through issuance of 2,400,000 common shares at $1.25 per common share. The second tranche, closed January 21, 2009, resulted in gross proceeds of $1,664,375 through the issuance of 1,331,500 shares at $1.25 per common share. The shares issued through the private placement are subject to a four month hold period. The Company paid a finder's fee in relation to the private placement satisfied through the issuance of 236,800 warrants with an exercise price of $1.90 and expiring on December 23, 2011; the issuance of 106,520 warrants with an exercise price of $.125 and expiring on January 21, 2011; and, payment of $133,150.