



SQI Diagnostics Inc.

Consolidated Financial Statements

(Expressed in Canadian dollars)

For the Years Ended September 30, 2016 and 2015

INDEPENDENT AUDITORS' REPORT

To the Shareholders of SQI Diagnostics Inc.

We have audited the accompanying consolidated financial statements of SQI Diagnostics Inc. and its subsidiary which comprise the consolidated balance sheets as at September 30, 2016 and September 30, 2015 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended September 30, 2016 and September 30, 2015 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SQI Diagnostics Inc. and its subsidiary as at September 30, 2016 and September 30, 2015, and its financial performance and its cash flows for the years ended September 30, 2016 and September 30, 2015 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that SQI Diagnostics Inc. has material uncertainties that may cast significant doubt about the company's ability to continue as a going concern.

Collins Barrow Toronto LLP

Chartered Professional Accountants
Licensed Public Accountants
December 6, 2016
Toronto, Ontario

SQI Diagnostics Inc.
Consolidated Balance Sheets
(Amounts are in thousands of Canadian dollars)

| | As at September 30, 2016 | As at September 30, 2015 |
|--|--------------------------------|--------------------------------|
| Assets | | |
| Current | | |
| Cash | \$ 2,921 | \$ 1,852 |
| Accounts receivable | 700 | 194 |
| Prepays and other assets | 278 | 290 |
| Inventory (Note 5) | 345 | 219 |
| | 4,244 | 2,555 |
| Property and equipment (Note 6) | 1,143 | 1,440 |
| Patents and trademarks (Note 7) | 747 | 711 |
| | \$ 6,134 | \$ 4,706 |
| Liabilities | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 769 | \$ 768 |
| Deferred revenue | 55 | - |
| | 824 | 768 |
| Long Term | | |
| Secured debentures (Note 9) | 2,302 | 2,129 |
| | 3,126 | 2,897 |
| Shareholders' Equity | | |
| Capital stock (Note 10) | 54,380 | 49,490 |
| Warrant capital (Note 11) | 11,915 | 9,295 |
| Contributed surplus | 10,170 | 11,442 |
| Deficit | (73,457) | (68,418) |
| | 3,008 | 1,809 |
| | \$ 6,134 | \$ 4,706 |

Going concern (Note 2)
Contingencies (Note 18)

Approved by the Board

“Clive Beddoe”
Director (Signed)

“Andrew Morris”
Director (Signed)

See accompanying notes

SQI Diagnostics Inc.**Consolidated Statements of Loss and Comprehensive Loss**

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

| | Year Ended | |
|---|-----------------------|-----------------------|
| | September 30, 2016 | September 30, 2015 |
| Revenue | | |
| Services revenue | \$ 989 | \$ 443 |
| Product sales | 432 | - |
| | 1,421 | 443 |
| Expenses | | |
| Cost of products sold | 302 | - |
| Corporate and general (Note 14) | 1,552 | 1,857 |
| Sales and marketing (Note 15) | 695 | 767 |
| Research and development (Note 16) | 3,428 | 3,537 |
| Interest and accretion expense (Note 9) | 483 | 292 |
| Write off of patents (Note 7) | - | 87 |
| | 6,460 | 6,540 |
| Net loss and comprehensive loss | \$ (5,039) | \$ (6,097) |
| Loss per share | | |
| Basic and diluted | \$ (0.07) | \$ (0.11) |
| Weighted average number of common shares outstanding (thousands of shares) | | |
| Weighted average number of shares | 69,233 | 57,484 |

SQI Diagnostics Inc.
Consolidated Statements of Changes in Equity
(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, 2014 | 56,336 | \$ 47,942 | \$ 8,805 | \$ 9,732 | \$ (62,321) | \$ 4,158 |
| Issued in connection with private placements (Note 10b) | 5,330 | 2,665 | | | | 2,665 |
| Allocated to warrants – private placement (Note 10b) | | (1,100) | 1,100 | | | |
| Share issuance costs – private placement (Note 10b) | | (46) | | | | (46) |
| Options exercised (Note 12) | 50 | 29 | | (11) | | 18 |
| Warrants expired (Note 11) | | | (3,548) | 3,548 | | - |
| Warrants issued (Note 9) | | | 978 | | | 978 |
| Revaluation of extended warrants (Note 11) | | | 1,960 | (1,960) | | - |
| Stock-based compensation (Note 13) | | | | 133 | | 133 |
| Net loss and comprehensive loss | | | | | (6,097) | (6,097) |
| Balance as at September 30, 2015 | 61,716 | \$ 49,490 | \$ 9,295 | \$ 11,442 | \$ (68,418) | \$ 1,809 |
| Issued in connection with private placements (Note 10c) | 7,631 | 3,052 | | | | 3,052 |
| Allocated to warrants – private placement (Note 10c) | | (1,183) | 1,183 | | | - |
| Issued in connection with rights offering (Note 10d) | 11,558 | 3,121 | | | | 3,121 |
| Share issuance costs (Note 10c and 10d) | | (100) | | | | (100) |
| Warrants expired (Note 11) | | | (286) | 286 | | - |
| Revaluation of extended warrants (Note 11) | | | 1,723 | (1,723) | | - |
| Stock-based compensation (Note 13) | | | | 165 | | 165 |
| Net loss and comprehensive loss | | | | | (5,039) | (5,039) |
| Balance as at September 30, 2016 | 80,905 | \$ 54,380 | \$ 11,915 | \$ 10,170 | \$ (73,457) | \$ 3,008 |

See accompanying notes

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

| | Year Ended | |
|--|-----------------------|-----------------------|
| | September 30, 2016 | September 30, 2015 |
| Cash flows used in operating activities | | |
| Net loss | \$ (5,039) | \$ (6,097) |
| Add items not affecting cash | | |
| Amortization - patents and trademarks | 146 | 135 |
| - property and equipment | 390 | 416 |
| Stock-based compensation | 165 | 133 |
| Loss on sale of equipment | - | 15 |
| Accretion on debenture | 173 | 96 |
| Write off of patents | - | 87 |
| | (4,165) | (5,215) |
| Changes in non-cash working capital items | | |
| Accounts receivable, prepaids, and other assets | (494) | (194) |
| Inventory | (124) | (165) |
| Accounts payable and accrued liabilities | 1 | 335 |
| Deferred revenue | 55 | - |
| | (4,727) | (5,239) |
| Cash flows used in investing activities | | |
| Purchase of property and equipment | (95) | (117) |
| Additions to patents and trademarks | (182) | (199) |
| Sale of property and equipment | - | 24 |
| | (277) | (292) |
| Cash flows from financing activities | | |
| Proceeds from debenture, net of issuance costs | - | 3,011 |
| Proceeds from issuance of shares and exercise of warrants and options, net of share issuance costs | 6,073 | 2,637 |
| | 6,073 | 5,648 |
| Net change in cash during the year | 1,069 | 117 |
| Cash at beginning of year | 1,852 | 1,735 |
| Cash at end of year | \$ 2,921 | \$ 1,852 |
| Non-cash investing activities | | |
| Equipment reclassified from fixed assets to inventory to be used in customer platforms | \$ 2 | \$ 21 |

SQI Diagnostics Inc.
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

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

1. NATURE OF OPERATIONS

SQI Diagnostics Inc., (the "Company"), is incorporated under the *Canada Business Corporations Act*, is listed on the TSX Venture Exchange under the symbol SQD and trades on the 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and their interpretations adopted by the International Accounting Standards Board ("IASB"). Our accounting policies have been applied consistently within our consolidated financial statements.

Basis of Presentation and Going Concern

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

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

Since inception, the Company has focused on product research, development and more recently on commercialization activities. To date, the Company has yet to earn continuing revenues from its Diagnostics Tools and Services business or its in vitro diagnostic tests. The Company has a history of net losses and negative cash flows from operations, which are expected to continue in the near term.

The Company's ability to continue as a going concern and execute on its research, development and commercialization activities is dependent upon the Company's ability to successfully generate product or service revenues, or to finance its cash requirements through further equity and/or debt financings.

Based on the foregoing, the Company will continue to pursue commercial sales, strategic partnering activities and funding opportunities, however, no assurances can be given that it will be successful in generating revenues, or raising additional investment capital to generate sufficient cash flows to continue as a going concern. As a result, these material uncertainties cast significant doubt regarding the Company's ability to continue as a going concern.

These consolidated financial statements do not reflect the adjustments that might be necessary to the carrying amount of reported assets, liabilities, revenue, and expenses and the statement of financial position classification used if the Company was unable to continue operations in accordance with this assumption. Such adjustments could be material.

The 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 December 5, 2016.

SQI Diagnostics Inc.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

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

2. BASIS OF PRESENTATION (continued)

Basis of Consolidation

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

Inter-company balances and transactions are eliminated upon consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES

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 less accumulated amortization and accumulated impairment losses, if any. Property and equipment are initially recorded at cost. Where an item of property and equipment comprises major components with different useful lives, the components are accounted for as separate items of property and equipment. Amortization is provided on the straight-line basis over the items' estimated useful lives as follows:

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

Intangible Assets

Patents and trademarks comprise costs, including professional fees, incurred in connection with the creation and filing of patents and registration of trademarks related to the Company's core technology 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 impairment losses, if any.

Research costs are charged to operations in the period in which they are incurred. Development costs are deferred if they meet the criteria for deferral under IFRS where; the product or process is clearly defined and the costs attributable thereto can be identified, the technical feasibility has been established, management has indicated its intention to produce and market the product, the future market is clearly defined, adequate resources are available, and recovery of development costs can reasonably be regarded as assured and are expected to provide future benefits with reasonable certainty. Deferral criteria have not been met, and accordingly, all development costs have been expensed in the year.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Long-lived Assets

Long-lived assets comprise property and equipment and intangible assets with finite lives (patents and trademarks). The Company reviews the carrying value of its long-lived assets with finite lives annually to determine whether there is any indication that those assets have suffered impairment. If any such indication exists the asset is tested for impairment. The recoverable amount of the asset is estimated in order to determine the extent of impairment. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risk specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying value, the carrying value of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying value of the asset (or CGU) is increased to the revised estimate of its recoverable amount, so that the increased carrying value does not exceed the carrying value that would have been determined had no impairment loss been recognized for the asset (CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Revenue Recognition

Revenue from services rendered is recognized by reference to the stage of completion. Stage of completion is measured by reference to actual costs incurred to date as a percentage of total estimated costs for each contract. When the contract outcome cannot be estimated reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered. An expected loss on a contract is recognized immediately in profit or loss.

Revenue from the sale of goods is recognized when persuasive evidence of an agreement exists, significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue from the sale of products with a one year warranty, is recognized when the terms and conditions of sale are agreed upon and when shipping, training and installations services are complete. Sales are recorded net of discounts and sales returns.

Deposits from customers on the purchase of SQI platforms which have not yet been delivered to the customer are recognized as deferred revenue.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock-Based Compensation and Other Stock-Based Payments

The Company offers a share option plan for its directors, officers, and employees. The fair value of stock-based payment awards granted is recognized as an expense with a corresponding increase in contributed surplus. The Company grants stock options with multiple vesting periods, with each vesting period being treated as a separate tranche and considered a separate grant for the calculation of fair value. Fair value is calculated using the Black-Scholes option pricing model and the resulting fair value is amortized over the vesting period of the respective tranches. In addition, stock-based compensation expense recognized reflects estimates of award forfeitures with any change in estimate there of reflected in the period of the change. Consideration received upon the exercise of stock options is credited to capital stock at which time the related contributed surplus is transferred to capital stock.

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 the statement of loss and comprehensive loss.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred 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. Deferred 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. Deferred tax assets for unused tax losses, investment tax credits ("ITCs") and deductible temporary differences are recorded in the financial statements to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Investment Tax Credits

ITCs are recorded when qualifying expenditures are incurred and there is reasonable assurance that the credits will be realized. ITCs are recorded in the statement of loss and comprehensive loss as a reduction of research and development costs.

Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

The Company's financial instruments are measured initially at fair value and thereafter based on their classification. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics, and the Company's designation of such instruments. At initial recognition financial instruments are classified in the following categories depending on the nature and purpose for which the instruments were acquired:

SQI Diagnostics Inc.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

(i) Financial Assets and Liabilities at Fair Value through Profit or Loss

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term.

Financial instruments in this category are initially and subsequently stated at fair value. Transaction costs are expensed in the statement of operations. Gains and losses arising from changes in fair value are presented in the statement of loss and comprehensive loss in the period in which they arise.

The Company's cash is classified in this category.

(ii) Loans and Receivables

Trade receivables, loans and other receivables that have fixed or determinable payments and that are not quoted in an active market are classified as loans receivable.

Financial instruments in this category are initially measured at the fair value of the amount expected to be received and subsequently carried at amortized cost, using the effective interest rate method except for short-term receivables where the recognition of interest would be immaterial. Any gains or losses on the realization of loans and receivables are included in net loss.

The Company's accounts receivable are classified in this category.

(iii) Other Financial Liabilities

Other financial liabilities are initially measured at the amount required to be paid, less, when material, a discount to reduce the payable to fair value. Subsequently, other financial liabilities are measured at amortized cost using the effective interest rate method. Any gains or losses in the realization of other liabilities are included in net loss. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time. Increases in the liability due to the passage of time are recognized as finance expense. Actual costs incurred upon settlement of the obligations are charged against the liability with any differences charged to net loss.

Accounts payable and accrued liabilities and secured debentures are classified as other financial liabilities.

Fair Value Measurement

The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other standard valuation techniques derived from observable market inputs.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

The Company's cash is categorized as level 1.

Impairment of Financial Assets

All financial assets except those at fair value through profit and loss are subject to review for impairment at each reporting date. Financial assets are impaired when there is objective evidence that a financial asset or group of assets is impaired. The loss is determined as the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the financial asset's original effective interest rate. The carrying value of the asset is reduced by this amount indirectly through the use of an allowance account. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Net Income (Loss) Per Share

Basic net income (loss) per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted average number of common and potential common shares outstanding during the period. The dilutive effect of outstanding stock options and warrants on earnings per share is calculated by determining the proceeds for the exercise of such securities which are then assumed to be used to purchase common shares of the Company. The outstanding share options and warrants are not included in the diluted net loss per share as they are anti-dilutive for all years presented.

Provisions

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Warrants

Proceeds from issuances by the Company of units consisting of shares and warrants are allocated on a pro-rata basis as determined by the fair value of each element. The fair value of the warrants is estimated using the Black-Scholes option pricing model. In circumstances where finder's warrants are issued coincidentally with a unit offering, the finder's warrants are valued using the Black-Scholes option pricing model. The Company's policy is to value warrant modifications and record an adjustment to the change in fair value as a result of revisions made to warrant terms with a corresponding reduction in contributed surplus.

SQI Diagnostics Inc.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Critical Accounting Estimates and Judgments

The preparation of financial statements in conformity with IFRS 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 period. Actual results could differ from those estimates. The following judgments and estimates are those deemed by management to be material to the Company's consolidated financial statements

(i) Inventory

The Company estimates the net realizable values of inventory, taking into account the most reliable evidence available at each reporting date. The future realization of inventory may be affected by future technology or other market-driven changes that may reduce future selling prices.

(ii) Property and Equipment and Patents and Trademarks

Measurement of property and equipment and patents and trademarks involves the use of estimates for determining the useful lives for amortization of property and equipment and patents and trademarks. Among other factors, these judgments are based on industry standards, manufacturer's guidelines and company-specific history and experience.

(iii) Impairment of non-financial assets

Assessment of impairment is based on management's judgment of whether there are sufficient internal and external factors that would indicate that an asset, or an asset of a CGU, is impaired. The assessment of these factors, as well as the determination of a CGU, is based on management's judgment. Management has assessed SQI Diagnostics Inc as one CGU and considers factors such as whether an active market exists for the output produced by the assets as well as other market factors to determine if an asset is impaired.

(iv) Stock-based compensation and warrants

The Company uses an option pricing model to determine the fair value of stock-based compensation and warrants. Inputs to the model are subject to various estimates relating to volatility, interest rate and expected life of the instrument. Fair value inputs are subject to market factors as well as internal estimates. The Company considers historic trends together with any new information to determine the best estimate of fair value at the date of grant.

Separate from the fair value calculation, the Company is required to estimate the expected forfeiture rate of stock-based compensation.

SQI Diagnostics Inc.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Critical Accounting Estimates and Judgments (continued)

(v) Deferred tax assets

Deferred tax assets and liabilities contain estimates about the nature and timing of future deductible temporary differences as well as the future tax rates that will apply to those differences. Changes in tax laws and rates as well as changes to the expected timing of reversals may have a significant impact on deferred tax assets and liabilities. Currently, the Company has deductible temporary differences which would create a deferred tax asset. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. To date, the Company has determined that none of its deferred tax assets should be recognized. The generation of future taxable income could result in the recognition of some or a portion or all of the remaining benefits, which could result in an improvement in the Company's results of operations through the recovery of future income taxes.

(vi) Secured debentures

The Company uses valuation techniques that include inputs that are not based on observable market data to estimate the value of the secured debentures and the related warrants.

4. RECENT ACCOUNTING PRONOUNCEMENTS

IFRS 9 Financial Instruments

IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. IFRS 9 also incorporates requirements for financial liabilities, most of which were carried forward unchanged from IAS 39. Certain changes were made to the fair value option for financial liabilities to address the issue of own credit risk. IFRS 9 removes the volatility in profit or loss caused by changes to the credit risk of liabilities elected to be measured at fair value. Requirements related to hedge accounting, representing a new hedge accounting model, have been added to IFRS 9. The new model represents a substantial overhaul of hedge accounting, which will allow entities to better reflect their risk management activities in financial statements. The most significant improvements apply to those that hedge non-financial risk, so these improvements are expected to be of particular interest to non-financial institutions. In addition, a single, forward-looking expected loss impairment model is introduced, which will require more timely recognition of expected credit losses. The effective date for IFRS 9, which is to be applied retrospectively, is for annual periods beginning on or after January 1, 2018. The Company is assessing the impact of this new standard on its consolidated financial statements.

SQI Diagnostics Inc.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

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

4. RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

IFRS 15 Revenue Recognition

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. IFRS 15 replaces the detailed guidance on revenue recognition requirements that currently exists under IFRS. IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers, unless the contracts are within the scope of other IFRS guidance. The standard also provides a model for the measurement and recognition of gains and losses on the sale of certain non-financial assets that are not an output of the Company's ordinary activities.

Additional disclosure is required under the standard, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods, and key judgments and estimates. The standard is effective for annual periods beginning on or after January 1, 2018; early application is permitted either following a full retrospective approach or a modified retrospective approach. The modified retrospective approach allows the standard to be applied to existing contracts beginning the initial period of adoption and restatements to the comparative periods are not required. The Company is required to disclose the impact by financial line item as a result of the adoption of the new standard. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

IAS 1 Presentation of Financial Statements

Amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.

IAS 7 Statement of Cash Flow

In January 2016, the IASB issued the disclosure initiative amendments to IAS 7, Statement of Cash Flow. The amendment will require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash and non-cash changes. The amendments are effective for annual periods beginning on or after January 1, 2017. Earlier adoption is permitted.

IAS 12 Income Taxes

In January 2016, IAS 12, Income Taxes, was amended to clarify that, among other things, unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use; the carrying amount of an asset does not limit the estimation of probable future taxable profits; and estimates for future taxable profits exclude tax deduction resulting from the reversal of deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017. Earlier adoption is permitted.

SQI Diagnostics Inc.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

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

5 INVENTORY

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

6. PROPERTY AND EQUIPMENT

| Cost | Computer Hardware | Computer Software | Laboratory Fixtures and Equipment | Office Equipment | Leasehold Improvements | Total |
|-------------------------------|--------------------------|--------------------------|--|-------------------------|-------------------------------|-----------------|
| September 30, 2014 | \$ 283 | \$ 179 | \$ 4,887 | \$ 176 | \$ 265 | \$ 5,790 |
| Additions | 23 | 15 | 79 | - | - | 117 |
| Dispositions | - | - | (186) | - | - | (186) |
| Transfers to inventory | - | - | (35) | - | - | (35) |
| September 30, 2015 | \$ 306 | \$ 194 | \$ 4,745 | \$ 176 | \$ 265 | \$ 5,686 |
| Additions | 39 | 18 | 38 | - | - | 95 |
| Transfers to inventory | - | - | (12) | - | - | (12) |
| September 30, 2016 | \$ 345 | \$ 212 | \$ 4,771 | \$ 176 | \$ 265 | \$ 5,769 |

| Accumulated Amortization | Computer Hardware | Computer Software | Laboratory Fixtures and Equipment | Office Equipment | Leasehold Improvements | Total |
|---------------------------------|--------------------------|--------------------------|--|-------------------------|-------------------------------|-----------------|
| September 30, 2014 | \$ 271 | \$ 179 | \$ 3,169 | \$ 154 | \$ 218 | \$ 3,991 |
| Amortization expense | 9 | 4 | 383 | 6 | 14 | 416 |
| Disposition | - | - | (147) | - | - | (147) |
| Transfers to inventory | - | - | (14) | - | - | (14) |
| September 30, 2015 | \$ 280 | \$ 183 | \$ 3,391 | \$ 160 | \$ 232 | \$ 4,246 |
| Amortization expense | 22 | 9 | 340 | 6 | 13 | 390 |
| Transfers to inventory | - | - | (10) | - | - | (10) |
| September 30, 2016 | \$ 302 | \$ 192 | \$ 3,721 | \$ 166 | \$ 245 | \$ 4,626 |

Net Book Value

| | | | | | | |
|---------------------------|--------------|--------------|-----------------|--------------|--------------|-----------------|
| September 30, 2015 | \$ 26 | \$ 11 | \$ 1,354 | \$ 16 | \$ 33 | \$ 1,440 |
| September 30, 2016 | \$ 43 | \$ 20 | \$ 1,050 | \$ 10 | \$ 20 | \$ 1,143 |

SQI Diagnostics Inc.**Notes to Consolidated Financial Statements****September 30, 2016 and 2015**

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

7. PATENTS AND TRADEMARKS**Cost**

| | | |
|-----------------------------|-----------|--------------|
| September 30, 2014 | \$ | 1,770 |
| Additions | | 199 |
| Write off of patents | | (105) |
| September 30, 2015 | \$ | 1,864 |
| Additions | | 182 |
| Write off of patents | | - |
| September 30, 2016 | \$ | 2,046 |

Accumulated Amortization

| | | |
|-----------------------------|-----------|--------------|
| September 30, 2014 | \$ | 1,036 |
| Amortization expense | | 135 |
| Write off of patents | | (18) |
| September 30, 2015 | \$ | 1,153 |
| Amortization expense | | 146 |
| Write off of patents | | - |
| September 30, 2016 | \$ | 1,299 |

Net Book Value

| | | |
|---------------------------|-----------|------------|
| September 30, 2015 | \$ | 711 |
| September 30, 2016 | \$ | 747 |

During the year the Company reviewed its patent portfolio and determined that no write-off of patents was required. Patents with a net book value of \$87,000 were written off as at September 30, 2015.

8. RELATED PARTY TRANSACTIONS**Compensation of key management**

Key management includes the Company's Officers and Directors. Compensation of key management includes:

| | Year Ended | |
|---|-----------------------|-----------------------|
| | September 30, 2016 | September 30, 2015 |
| Salaries and short-term employee benefits | \$ 796 | \$ 838 |
| Stock-based compensation | 94 | 96 |
| | \$ 890 | \$ 934 |

In addition, the Company has a contingent liability in the amount of \$75,000 for retention bonuses for certain key management employees.

SQI Diagnostics Inc.

Notes to Consolidated Financial Statements

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9. SECURED DEBENTURES

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

The Debentures may be redeemed in whole or in part, at face value and without premium or penalty, at the option of the Company if at any time following the first anniversary of the date of issuance of the debentures, and prior to the maturity date of such debentures, the volume weighted average closing price of the Company's shares on the TSXV (or any other stock exchange on which such shares are then traded) is equal to or greater than \$1.00 per share for twenty (20) consecutive trading days.

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

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

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

| | September 30, 2016 | September 30, 2015 |
|---------------------------------------|-----------------------|-----------------------|
| Secured debentures | \$ 3,236 | \$ 3,236 |
| Equity component of secured debenture | (858) | (858) |
| Issuance costs | (345) | (345) |
| | 2,033 | 2,033 |
| Accretion in carrying amount of notes | 269 | 96 |
| Balance end of year | \$ 2,302 | \$ 2,129 |

SQI Diagnostics Inc.

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

10. CAPITAL STOCK

- (a) The Company has authorized an unlimited number of common shares.
- (b) On July 16, 2015 the Company completed a non-brokered private placement of 5,330,000 units of the Company at \$0.50 per unit for gross proceeds of \$2,665,000.

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 July 16, 2019, subject to accelerated expiry in certain circumstances. The proceeds from the issuance of units are allocated between capital stock and warrant capital based on their relative fair values, with \$1,100,000 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 \$0.48; dividend yield 0%; risk free interest 0.42%; volatility 131%; and an expected life of 3 years. Expected volatility is based on historical volatility. The total share issuance costs were \$46,000.

- (c) On December 15, 2015 and December 21, 2015 the Company completed a non-brokered private placement of an aggregate of 7,630,945 units of the Company at \$0.40 per unit for gross proceeds of \$3,052,000. Each unit comprises one common share of the Company and one common share purchase warrant. Each warrant is exercisable at a price of \$0.52 and entitles the holder thereof to acquire one common share for a period of three 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 \$1,183,000 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 \$0.30; dividend yield 0%; risk free interest 0.54%; volatility 125%; and an expected life of 3 years. Expected volatility is based on historical volatility. The total share issuance costs were \$32,000.
- (d) On August 16, 2015, the Company completed a Rights Offering (the "Offering") of 11,557,833 shares for gross proceeds of \$3,121,000. Under the terms of the Offering one right was offered for every six common shares held as at July 21, 2016. Each right entitled the holder to acquire one common share at a price of \$0.27 per share. The total share issuance costs were \$68,000.

SQI Diagnostics Inc.

Notes to Consolidated Financial Statements

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

11. WARRANT CAPITAL

The Company had the following warrants outstanding at September 30, 2016:

| Number of Warrants | Exercise Price | Maturity |
|--------------------|----------------|--------------------------|
| 2,276 | \$2.50 | October 26, 2017 |
| 5,126 | \$1.10 | May 1, 2018 |
| | | January 26, 2017 – April |
| 16,695 | \$0.64 | 10, 2019 |
| | | January 30, 2020 and |
| 3,560 | \$0.59 | February 20, 2020 |
| | | December 15 and 21, |
| 7,631 | \$0.52 | 2018 |
| 35,288 | | |

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 in connection with a private placement. 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. On December 4, 2014, these warrants, having reached the maximum term allowable under TSX Venture rules, expired unexercised. Accordingly, \$1,107,000 was transferred to contributed surplus in fiscal 2015.

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 years. 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 fiscal 2015. In addition, 512,604 warrants with an expiry of May 1, 2015 expired unexercised and \$331,000 was transferred to contributed surplus upon expiry in 2015.

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. During the year ended September 30, 2015, these warrants expired unexercised. As a result of the expiry \$1,211,000 was transferred to contributed surplus in fiscal 2015.

On July 31, 2012, the Company extended the expiry of 1,140,000 warrants to August 12, 2013. These warrants were issued in connection with a private placement which was completed on August 12, 2010. On July 29, 2013, the Company received further approval to extend the expiry of these warrants to August 12, 2015. All other terms of the warrants remained unchanged. On August 12, 2015, the warrants expired unexercised and \$899,000 was transferred from warrant capital to contributed surplus in 2015.

SQI Diagnostics Inc.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

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11. WARRANT CAPITAL (continued)

On January 14, 2016, the Company extended the expiry of 2,965,000 warrants that were issued in connection with a private placement in January 2014. Each warrant entitles the holder thereof to purchase one common share of the Company at any time until the close of business on January 26, 2016 at an exercise price of \$0.65 per common shares. The warrants were amended to extend the term of such warrants until January 26, 2017. All other provisions of the warrants remain the same. Accordingly, \$239,000 was recorded in warrant capital with a corresponding reduction in contributed surplus in 2016. In addition, 296,500 warrants with an expiry of January 26, 2016 expired unexercised and \$95,000 was transferred to contributed surplus.

On March 14, 2016, the Company extended the expiry of 8,400,000 warrants that were issued in connection with a public offering in April 2014. Each warrant entitles the holder thereof to purchase one common share of the Company at any time until the close of business on April 10, 2016 at an exercise price of \$0.65 per common shares. The warrants were amended to extend the term of such Warrants until April 10, 2019, subject to certain accelerated expiry conditions. All other provisions of the warrants remain the same. Accordingly, \$1,484,000 was recorded in warrant capital with a corresponding reduction in contributed surplus in 2016. In addition, 588,000 warrants with an expiry of April 10, 2016 expired unexercised and \$191,000 was transferred to contributed surplus.

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

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

Subsequent to year end, on October 25, 2016, 2,276,000 warrants, having reached the maximum term allowable under TSX Venture rules, expired unexercised. The warrants were issued in October 2011 in connection with a private placement.

SQI Diagnostics Inc.**Notes to Consolidated Financial Statements****September 30, 2016 and 2015**

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

12. STOCK OPTIONS

The Company maintains a Stock Option Plan (the "Plan") for the benefit of employees, officers and directors. The maximum number of common shares reserved for issuance under the Plan, together with any other employee stock option plans, options for services and employee share purchase plans, will not exceed 10% of the issued and outstanding shares at the time of the option grant. Options granted pursuant to the Plan will have terms not to exceed five years, and are granted at an option price which will not be less than the fair market price at the time the options are granted. All options granted to individual optionees, other than consultants, generally vest in three equal installments over a period of 12 to 36 months.

The following summarizes the stock option activities under the Plan:

| | Year Ended | | | |
|-------------------|--------------------|---------------------------------|--------------------|---------------------------------|
| | September 30, 2016 | | September 30, 2015 | |
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Beginning Balance | 2,422 | \$ 0.70 | 2,540 | \$ 1.25 |
| Granted | 2,149 | \$ 0.30 | 815 | \$ 0.49 |
| Exercised (i) | - | \$ - | (50) | \$ 0.35 |
| Cancelled/Expired | (413) | \$ 1.17 | (753) | \$ 1.54 |
| Forfeited | (427) | \$ 0.52 | (130) | \$ 0.36 |
| Ending Balance | 3,731 | \$ 0.52 | 2,422 | \$ 0.70 |
| Exercisable | 1,819 | \$0.73 | 1,659 | \$0.98 |

- (i) There were no options exercised during the year ended September 30, 2016. For the year ended September 30, 2015, \$11,000 was transferred from contributed surplus to capital stock on the exercise of stock options. The average market price on the date of exercise for these options was \$0.45.

The Company had the following stock options outstanding under the Plan at September 30, 2016:

| Number of Options | Range of Exercise Prices | Weighted average time to maturity |
|-------------------|--------------------------|-----------------------------------|
| 3,041 | \$0.25 - 0.69 | 3.84 years |
| 390 | \$0.70 - 1.65 | 1.27 years |
| 300 | \$1.66 - 1.90 | 0.32 years |
| 3,731 | | |

SQI Diagnostics Inc.

Notes to Consolidated Financial Statements

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13. STOCK-BASED COMPENSATION

The fair value of the options granted during the year ended September 30, 2016 was \$515,000 (2015 - \$307,000), which will be recognized over vesting periods of 12 to 36 months. The total compensation expense credited to contributed surplus for the year ended September 30, 2016 was \$165,000 (2015 - \$133,000).

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:

| | Year Ended | |
|---|--------------------|--------------------|
| | September 30, 2016 | September 30, 2015 |
| Dividend Yield | 0% | 0% |
| Expected Volatility (historical data basis) | 114% | 109% |
| Risk-free Interest Rate | 0.67% | 0.71% |
| Share price | \$ 0.30 | \$ 0.49 |
| Expected Life (years) | 5.00 | 5.00 |
| Weighted average grant date fair value | \$ 0.24 | \$ 0.30 |

The Company estimates forfeiture rates based on historic experience with any change in estimate thereof reflected in the year they occur. The Company assumes a forfeiture rate of 10% to 30% (2015 - 10% to 30%) based on the vesting period of the option.

14. CORPORATE AND GENERAL EXPENSE

| | Year Ended | |
|---|--------------------|--------------------|
| | September 30, 2016 | September 30, 2015 |
| Salaries and wages | \$ 564 | \$ 554 |
| General and administrative | 483 | 527 |
| Professional and consulting | 456 | 693 |
| Stock-based compensation | 49 | 83 |
| Total corporate and general expense by nature | \$ 1,552 | \$ 1,857 |

15. SALES AND MARKETING EXPENSE

| | Year Ended | |
|---|--------------------|--------------------|
| | September 30, 2016 | September 30, 2015 |
| Contractor fees | \$ 480 | \$ 491 |
| Travel and marketing | 205 | 252 |
| Stock-based compensation | 10 | 24 |
| Total sales and marketing expense by nature | \$ 695 | \$ 767 |

SQI Diagnostics Inc.**Notes to Consolidated Financial Statements****September 30, 2016 and 2015**

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

16. RESEARCH AND DEVELOPMENT COSTS

| | Year Ended | |
|--|-----------------------|-----------------------|
| | September 30, 2016 | September 30, 2015 |
| Salaries and wages | \$ 2,571 | \$ 2,428 |
| Laboratory costs and supplies | 488 | 484 |
| Professional fees | 87 | 29 |
| Investment tax credits | (360) | 19 |
| Amortization – patents and trademarks (Note 7) | 146 | 135 |
| Amortization – property and equipment (Note 6) | 390 | 416 |
| Stock-based compensation | 106 | 26 |
| Total research and development expense by nature | \$ 3,428 | \$ 3,537 |

17. INCOME TAXES**(a) Income Tax Expense**

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

| | Year Ended | |
|---|-----------------------|-----------------------|
| | September 30, 2016 | September 30, 2015 |
| Loss before income taxes | \$ (5,039) | \$ (6,097) |
| Statutory rate | 26.5% | 26.5% |
| Expected income tax recovery | \$ (1,335) | \$ (1,616) |
| Effect on income taxes of unrecognized deferred income tax assets relating to deductible temporary differences on: | | |
| Change in deferred taxes not recognized | 2,250 | 1,292 |
| Impact of ITCs | 933 | 392 |
| Share issue costs | (26) | (71) |
| Non-deductible expenses and other items | 44 | 3 |
| Income tax expense | \$ - | \$ - |

SQI Diagnostics Inc.**Notes to Consolidated Financial Statements****September 30, 2016 and 2015**

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

17. INCOME TAXES (continued)**(b) Deferred Income Taxes**

The temporary differences that give rise to deferred income tax assets are presented below:

| | Year Ended | |
|--|----------------------|----------------------|
| | September 30, | September 30, |
| | 2016 | 2015 |
| Amounts related to tax loss and other credits carry forwards | \$ 21,440 | \$ 19,381 |
| Property and equipment and patents and trademarks | 595 | 453 |
| Share issue costs | 275 | 226 |
| Net deferred tax asset | 22,310 | 20,060 |
| Less: Deferred taxes not recognized | (22,310) | (20,060) |
| Deferred income taxes | \$ - | \$ - |

(c) Loss and Tax Credit Carryforwards

As at September 30, 2016, the Company has non-capital losses of approximately \$43,369,000 expiring as follows:

| | |
|------|-----------|
| 2025 | \$ 119 |
| 2026 | 1,542 |
| 2027 | 1,154 |
| 2028 | 2,815 |
| 2029 | 3,619 |
| 2030 | 5,211 |
| 2031 | 6,613 |
| 2032 | 3,897 |
| 2033 | 3,707 |
| 2034 | 4,704 |
| 2035 | 5,005 |
| 2036 | 4,983 |
| | \$ 43,369 |

In addition, the Company has undeducted scientific research and experimental development costs of approximately \$20,168,000 and investment tax credits relating to scientific research and development costs of approximately \$4,897,000 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.

SQI Diagnostics Inc.

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18. CONTINGENCIES

In the ordinary course of business, the Company may be contingently liable for litigation and claims with customers, suppliers, former employees or competitors. Management believes that provisions have been recorded in the accounts where required.

19. 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.

20. FINANCIAL RISK MANAGEMENT

(a) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and accounts receivable are exposed to credit risk. The credit risk on cash is mitigated because the counterparties are Schedule 1 Canadian banks. The credit risk on accounts receivable is due to the concentration of accounts as a result of the few large customers that comprise the Company's international customer base. In fiscal 2016, four customers accounted for 100% (2015 – four customers account for 96%) of the revenue. The Company is also exposed to counterparty risk on accounts receivable. The maximum credit risk exposure is limited to the reported amounts of these financial assets. Credit risk on accounts receivable is managed by ongoing review of the amount and aging of accounts receivable balances.

Allowance for doubtful accounts and past due receivables are reviewed by Management at each balance sheet date. The Company updates its estimate of the allowance for doubtful accounts based on the evaluation of the recoverability of receivable balances from each customer taking into account historic collection trends of past due accounts. Receivables are written off once determined not to be collectible. There is no allowance for doubtful accounts recorded in 2016 or 2015.

(b) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its fixed and variable interest rate financial instruments. Fixed-rate instruments subject the Company to a fair value risk while the variable-rate instruments subject it to a risk of changes in cash flow. The Company's cash is exposed to cash flow interest rate risk as the Company invests cash at floating rates of interest in highly liquid instruments. Fluctuations in interest rates would not significantly impact interest income due to the short term nature of the Company's investments. The Company's Debentures are subject to a fixed interest rate.

SQI Diagnostics Inc.

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

20. FINANCIAL RISK MANAGEMENT (continued)

(c) Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is not exposed to significant currency risk.

(d) Fair Value Risk

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

(e) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. At September 30, 2016, the Company had a working capital surplus of \$3,420,000 (2015 - working capital surplus of \$1,787,000). The Company's liabilities consist of accounts payables and accrued liabilities which are due within one year of the balance sheet date and secured debentures which require annual interest payments of \$324,000 on the anniversary date and the principal amount of \$3,236,000 is due five years from the date of issuance. The Company has sufficient liquidity to meet its current obligations as they come due. The continuation of the Company's research, development and commercialization activities is dependent upon the Company's ability to generate product or service revenues or to finance its operations through further equity and or debt financings.

21. GEOGRAPHIC INFORMATION

The Company operates in two principle geographic areas North America and Europe. The Company's revenues and non-current assets by location are detailed below.

| | Revenues | | Non-current Assets | |
|---------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| United States | \$ 517 | \$ 189 | \$ 1,890 | \$ 2,151 |
| Europe | 904 | 254 | - | - |
| Total | \$ 1,421 | \$ 443 | \$ 1,890 | \$ 2,151 |