SQI Diagnostics Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations

December 31, 2011

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This discussion and analysis covers the unaudited financial statements for the quarters ended December 31, 2011 and 2010. The Company has adopted International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and as required by the Canadian Institute of Chartered Accountants ("CICA"). In accordance with the guidelines established by the CICA, the transition date for the implementation of IFRS was October 1, 2010. All amounts for prior periods reported in this MD&A and the accompanying financial statements have been restated or reclassified to conform to IFRS and to financial statement presentations adopted for the current period being reported. Note 3 to the condensed interim consolidated financial statements contains the details of the IFRS accounting principles used by the Company to prepare the financial data contained in this MD&A and the consolidated financial statements. In addition, Note 20 contains a reconciliation of the impact of the adoption of IFRS on amounts previously reported under Canadian generally accepted accounting principles then in effect. The fiscal year end of SQI Diagnostics Inc. ("SQI" or "Company") is September 30th.

All amounts are expressed in Canadian dollars unless otherwise indicated.

This discussion and analysis was prepared by management using information available as at February 28, 2011.

This document contains forward-looking statements that relate to future events or future performance and reflect our expectations and assumptions regarding our growth, results of operations, performance and business prospects and opportunities. Such forward-looking statements reflect our current beliefs and are based on information currently available to us. In some cases, forward-looking statements can be identified by terminology such as "our goal", "may", "would", "could", "will", "should", "expect", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other similar expressions concerning matters that are not historical facts. The forward-looking statements in this document include, among others, statements regarding our future operating results, economic performance and product development efforts, and statements in respect of:

- *our expected future losses and accumulated deficit levels;*
- *our requirement for, and our ability to obtain, future funding on favourable terms or at all;*
- *market competition and technological advances of competitive products;*
- *our expectations regarding the acceptance of our products by the market;*
- *our expectations regarding the progress and the successful and timely completion of the various stages of the regulatory clearance process;*
- *our strategy to develop new products and to enhance the capabilities of existing products;*
- *our strategy with respect to research and development;*
- *our dependence on expanding our customer base;*
- *our plans to market, sell and distribute our products;*
- *our plans in respect of strategic partnerships for research and development;*
- *our ability to obtain a sufficient supply of the components needed for our products;*
- *our plans to retain and recruit personnel;*
- *our plans to correct defects or errors in our systems; and*
- *our strategy with respect to the protection of our intellectual property.*

A number of factors could cause actual events, performance or results, including those in respect of the foregoing items, to differ materially from the events, performance and results discussed in the forward-looking statements. Factors that could cause actual events, performance or results to differ materially from those set forth in the forward-looking statements include, but are not limited to:

- *the extent of our future losses;*
- *our ability to obtain the capital required to fund development and operations;*
- *development or commercialization of similar products by our competitors;*
- *our ability to develop and market our products;*
- *our ability to comply with applicable governmental and securities regulations and standards;*
- *our ability to develop and commercialize our technologies;*
- *delays or failures in our ability to develop and implement new diagnostic products;*
- *our reliance on a few key and significant customers;*
- *our ability to attract and retain skilled and experienced personnel;*
- *the impact of changes in the business strategies and development priorities of our strategic partners;*
- *loss of suppliers or increases to the cost of the components of our systems;*
- *the impact of legislative changes to the healthcare system and regulatory process;*
- *our ability to maintain effective internal control over financial reporting;*
- *damage to our manufacturing facility or its failure to accommodate future sales growth;*
- *the impact of unknown defects or errors and product liability claims;*
- *foreign currency fluctuations;*
- *our ability to obtain patent protection and protect our intellectual property rights and not infringe on the intellectual property rights of others;*
- *the expense and potential harm to our business of intellectual property litigation;*
- *stock market volatility;*
- *the fact that further equity financing may substantially dilute the interests of our shareholders; and*
- *other risks detailed from time-to-time in our ongoing quarterly filings, annual information forms, annual reports and annual filings with applicable securities regulators, and those which are discussed under the heading "Risk Factors".*

Although the forward-looking statements contained in this management discussion and analysis are based on what we consider to be reasonable assumptions based on information currently available to us, there can be no assurance that actual events, performance or results will be consistent with these forward-looking statements, and our assumptions may prove to be incorrect. These forward-looking statements are made as of the date of this document.

OVERVIEW

SQI Diagnostics Inc. is a life sciences Company that develops and commercializes proprietary technologies and products for advanced microarray diagnostics. Our goal is to become a leader in the development and commercialization of microarray and multiplexed diagnostics by offering our customers a comprehensive "turnkey" solution that increases the efficiency and ease of diagnostic testing and test development.

Our target customers — clinical, academic and diagnostic development laboratories — require diagnostic processing equipment and consumable tests ("systems") that are capable of processing large numbers of patient samples at low cost and with minimal labour requirements ("high-throughput systems"). High-throughput systems have not been widely employed in autoimmune disease, allergen or companion diagnostics testing and only limited use of high-throughput systems exists in infectious disease testing. To our knowledge, no fully-automated high-

throughput systems exist that are capable of addressing the combined multiplex testing needs of these markets. A fully-automated system capable of providing multiple biomarker measurements in a single test array has the potential to increase a laboratory's throughput with significantly less labour, consumables and other costs.

Our proprietary microarray tests and automated systems are designed to simplify antigen, protein and antibody testing workflow, increase throughput, reduce costs and provide excellent data quality. In many instances, our technology enables analysis that was traditionally unavailable.

Our high-throughput SQiDworks diagnostic platform is a fully-automated microarray processing and analytical instrument, which provides significant cost savings and other benefits over existing technologies. Additionally, the incremental cost savings of tests run on our fully-automated platform versus existing technologies increase as the complexity of the test increases.

Our IgX PLEX microarrays have the ability to accurately measure multiple biomarkers in a single test. Additionally, our microarray technology uses less patient blood and has fewer steps than traditional methods, which increases the predictive value of the test. The increased predictive value of the test may enable the healthcare provider to choose a treatment plan earlier in the course of the disease.

Our proprietary multiplex assay development process and microarray manufacturing capabilities, combined with our automated systems, are designed to significantly reduce the complexity and cost to our customers to commercialize microarray tests using their own biomarkers.

The Company has been primarily involved in research, development and commercialization activities related to its core technology platform since 2003. The Company has expended significant resources to create and protect its technology platform through the filing of patents and in building an automated instrument and multiplexed assay platform. The Company has invested in fostering partnerships with clinicians who are leaders in our disease areas of focus and with potential novel biomarker collaborators. The Company has also incurred costs associated with gathering market intelligence concerning prospective customers, developing a direct sales platform and in marketing and selling to prospective customers.

The Company has developed its fully automated SQiDworks and SQiDLITE and semi-automated SQiDman™ microarray-based test platforms that enable laboratory customers to generate multiple patient test results with less than one unit of traditional 'test effort'. The Company has received marketing clearance from the United States Food & Drug Administration ("FDA"), Canadian regulatory approval for, and has CE Marked, its fully automated, high throughput SQiDworks platform. SQiDworks is the only fully-automated microarray processing system to achieve these regulatory clearances.

The SQiD platforms are to be used to run a menu of tests used to aid in the diagnosis of a wide range of diseases in targeted market segments. The Company has received clearance from the FDA and Canadian regulatory approval for qualitative rheumatoid arthritis (RA) test kits used to detect and measure a panel of biomarkers to aid in the diagnosis of rheumatoid arthritis. The Company has also received clearance from the FDA and Canadian regulatory approval for qualitative celiac disease test kits run on the SQiDworks platform. The quantitative RA assay has been licensed in Canada and CE Marked in Europe. The quantitative celiac assay has been licensed in Canada and CE Marked in Europe.

The Company is focusing on the continued development of a pipeline of other tests that can be processed on the SQiDworks platform. The Company is moving these assays through the development pipeline and expects to advance additional test kits through the regulatory process during fiscal 2012 as discussed further in this document. The Company is also focused on the release of SQiDLITE, our second generation diagnostic platform. This platform is a fully-automated microarray processing and analytic platform. This bench-top system will be able to process multiple sizes of microarray devices from single 8-well strips up to a single 96 well microarray plate. This system is based on the same technology and uses many of the same components as our SQiDworks system. It is targeted at small to medium sized clinical and diagnostic customers.

In the second half of fiscal 2011 we added additional products and services targeted at laboratory and other diagnostic customers to leverage our expertise in assay design and microarray printing. These Diagnostic Tools and Services offerings will enable customers to build panels of existing single biomarker tests into microarrays that they can then offer to their customers. These multiplexed test panels may then be sold and used as either Research Use Only (RUO) or Lab Developed Tests (LDT). The Diagnostic Tools and Services are intended to bring product and service-based revenue to SQI sooner in the product development cycle, reduce our development risk by utilizing the customer's existing content, and reduce regulatory risks by either the selective targeting of RUO and LDT prospects, or by transferring products to these customers prior to validation and regulatory processes.

Status of Development Program

The Company's development program includes several major components which the Company expects will advance its commercialization strategy. As a result of a business realignment that was announced on November 30, 2011 the Company has streamlined its IVD product development pipeline. The impact of this realignment was to focus more intensively on completing products in final development and to shift all products in development such that fewer products would be in active development at any given time. The status of each component is summarized and discussed in further detail below:

Product	Development Status	Approval Status		
		Canada	United States	Europe
SQiDworks™ Diagnostics Platform	Complete	Licensed	Cleared as a system with IgX PLEX RA Assay	CE Marked
SQiDLITE Platform	Development			
SQiDman Analyzer	Development - RUO	Not required - RUO	Not required - RUO	Not required - RUO
IgX PLEX Rheumatoid Arthritis Assay (Qualitative)	Complete	Licensed	Cleared	
IgX PLEX Rheumatoid Arthritis Assay (Quantitative) *	Complete	Licensed		CE Marked

Product	Development Status	Approval Status		
		Canada	United States	Europe
IgX PLEX Celiac (Qualitative)	Complete	Licensed	Cleared	
IgX PLEX Celiac Panel (Quantitative)	Complete	Licensed		CE Marked
IgX PLEX Celiac DGP Panel (Quantitative)	Final Development - Active			
IgX PLEX Vasculitis Panel (Quantitative)	Final Development - Active			
IgX PLEX Rheumatoid Arthritis Panel with expanded markers (Quantitative)	Final Development – on hold			
IgX PLEX Lupus Panel (Quantitative)	Development – on hold			
IgX PLEX TNF Assay (Quantitative)	Development – on hold			
IgX PLEX IBD – Crohn's Disease (Quantitative)	Proof of Concept – on hold			
IgX PLEX APS (Quantitative)	Proof of Concept – on hold			

* Marketed in Canada under the name "QuantiSpot Rheumatoid Arthritis"

The Company's SQiDworks and SQiDman platforms are also capable of running RUO and Investigational Use Only (IUO) test kits and the Company is exploring sales opportunities related to these applications of its platform with the Company's products as well as through the potential development of target customers' content. Delivering RUO/IUO product based on customer owned content would require collaboration and assay development though this effort would be materially less than that experienced with the Company's pipeline of regulatory-cleared products. Management believes this creates additional new revenue opportunities for the Company.

Platform development of SQiDLITE has continued through the first quarter of 2012 with a target to complete development on a timeline to coincide with customer requirements for early in calendar 2012. The development of the SQiDLITE platform addresses the needs of smaller and mid-market IVD customers, of prospects in the Diagnostic Tools and Services market, and of the research market.

The Company continues to focus on its in-market IVD tests and believes that it must continuously improve and update its products. The Company has identified and has moved into development enhancements to the existing RA and celiac test panels. These enhancements include fully quantitative IgX PLEX microarray technology and expanded biomarker content. The Health Canada approval for IgX PLEX Celiac Quantitative test kit represents the first approval of the Company's second generation fully quantitative test. All in-development tests will utilize this second generation, fully quantitative multiplexing technology; the Company believes these enhancements will provide significant market advantages compared to our competitors.

Status of Commercialization Activities and Other Events in the Fiscal Year to Date

During the quarter-ended December 31, 2011, the Company invested in its sales and marketing team, its science, commercialization, and regulatory groups, and in infrastructure. The Company's sales efforts are focusing on the North American market and European targets to generate sales to targeted customers of the currently approved system, including the SQiDworks fully automated analytical platform and RA and celiac tests. The Company has also focussed its sales and business development efforts on the Diagnostic Tools and Services opportunities to provide a range of products and services to other diagnostic companies and diagnostic laboratories.

Following is an overview of the Company's achievements for the 2012 fiscal year to date:

(a) Subsequent to quarter end the Company announced it entered into an agreement with Integrated Sciences Pty Ltd, of Australia governing the sale and distribution of SQI's IVD products in the Australian marketplace. Integrated Sciences has experience and customer exposure with high volume reference laboratories. The Company believes Integrated Sciences will be a valued partner through which to introduce the SQiDworks platform and IgX PLEX celiac qualitative assay. Additionally, a reciprocal Memorandum of Understanding between the Department of Health of Canada and the Australian Therapeutic Goods Administration, signed in 2007, is expected reduce the regulatory burden to begin the marketing efforts in the Australian marketplace.

(b) The Company has provided quantitative celiac test kits to Gamma Dynacare Medical Labs (GDML) enabling their internal review of the product's performance; the review was completed during the quarter ended December 31, 2011. During the quarter the Company completed the last stages of the Lab Information System integration which is expected to lead to the expansion of the current contract to include the sale to them of our quantitative celiac test kits.

(c) Progressed a number of pipeline diagnostic tests through our discovery and development program:

    (i) The Company's vasculitis assay continues to progress through the assay development pipeline. Collaborative studies demonstrating the utility of the Company's assays were presented at the 15th International Vasculitis and ANCA Workshop May 15th – 18th, 2011.

(ii) The Company's quantitative lupus test panel, currently on hold, is in the assay development stage. The development results show that SQI is able to effectively multiplex up to 15 protein biomarkers, including double stranded DNA in a single microarray. This is a significant achievement and our largest panel to date. Management believes that, if successfully completed and approved, it will provide SQI with the only such product in the market. Management also believes that the successful completion and clearance of the lupus product will be transformative to the Company's commercial position. The Company expects to initiate clinical validation of this product in the second half of calendar 2012, and to complete regulatory filings shortly thereafter.

(iii) The Company's IBD-Crohn's candidate test panel is in the proof-of-concept stage and while currently on-hold, is being targeted to go into active development during calendar 2012.

(iv) During the quarter ended December 31, 2011 the Company began development of our first RUO assay, a 7 plex antibody panel for the quantification of cytokines. Monitoring cytokine expression represents a major segment of the RUO immunoassay market.

(d) The Company worked with a supplier to finalize a new component, to our specifications, which will be used to significantly reduce the cost to manufacture all IgX PLEX assays.

(e) The Company achieved a measurable overall performance improvement in its assays through work with a supplier to improve the consistency of a significant component of our IgX PLEX assays.

(f) The Company completed the prototype of its SQiDLITE platform and showcased the system to target Diagnostic Tools and Services ("DTS") customers at AACC in July, 2011. Commercial completion of this platform is expected to occur to address specific customer demands in early calendar 2012.

(g) Diagnostic Tools and Services software (*Automated Assay Development Toolkit*) was completed during the first fiscal quarter of fiscal 2012. This product is intended to be sold to assist DTS customers to work with SQI assay development teams in the product development process or to be used by RUO and LDT customers to use the many features of the SQiDworks and SQiDLITE platforms to develop optimized multiplexed tests.

CORPORATE FINANCING TRANSACTIONS

On October 26, 2011 the Company completed a non-brokered private placement of 2,276,000 units of the Company at $2.00 per unit for gross proceeds of $4,552,000.

Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at a price of $2.50 for a period of two years from the date of issuance, provided that if on any day that is 12 months following the date of issuance the 20-day volume weighted average trading price of the Company's shares on the TSX Venture Exchange equals or exceeds $3.25, then upon the Company sending subscribers written notice of such date and issuing a news release announcing such date, the common share purchase warrants will only be exercisable for a period of 30 days following the date on which such written notice is sent to the subscribers. The value of capital stock includes value attributable to the warrants in the amount of $794,000, which has been included in warrant capital.

In connection with the private placement, the Company paid a finder's fee equal of $258,000 and issued 86,040 compensation warrants exercisable for 24 months from the closing of the private placement. Each warrant is exercisable into one common share and one warrant at a price of $2.00. Each underlying warrant is exercisable into one common share at a price of $2.50 for a two year period. The total share issuance costs were $362,000.

During the quarter-ended December 31, 2011 a total of 58,335 employee stock options were exercised at an average price of $1.20 for total proceeds of $70,000.

During the quarter 236,800 warrants expired unexercised.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

The Company's financial statements are prepared in accordance with International Financial Reporting Standards.

The significant accounting policies that management believes are the most critical in fully understanding and evaluating the reported financial results include the following:

Intangible Assets

Patents and trademarks are comprised of 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 expensed as incurred or deferred if they meet the criteria for deferral under International Financial Reporting Standards and are expected to provide future benefits with reasonable certainty.

At December 31, 2011, the Company was developing IgX PLEX diagnostics assays for celiac, and vasculitis. While not in active development other assays in the development pipeline include lupus (SLE), Crohn's (IBD), antiphospholipid syndrome, the second generation, fully quantitative

IgX PLEX RA assay and a diagnostic assay to detect and measure infliximab (also referred to as anti-TNF) in the blood of autoimmune patients. Deferral criteria have not been met, and accordingly, all development costs have been expensed in the period.

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 share-based payments 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, share-based compensation expense recognized reflects estimates of award forfeitures with any change in estimate thereof reflected in the period of the change. Consideration received upon the exercise of stock options is credited to share capital at which time the related contributed surplus is transferred to share capital.

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 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, for unused tax losses, investment tax credits and deductible temporary differences.

Critical Accounting Estimates and Judgments

The preparation of financial statements in conformity with International Financial Reporting Standards 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.

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

RECENT ACCOUNTING PRONOUNCEMENTS

IFRS 9 Financial Instruments

In October 2010, the IASB issued IFRS 9, Financial Instruments (IFRS 9). IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is assessing the impact of this new standard on its consolidated financial statements.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

In May, 2011, the IASB issued IFRS 10, Consolidated Financial Statements (IFRS 10) and IAS 27 Separate Financial Statements (IAS 27). IFRS 10 and the amended IAS 27 together replace IAS 27 Consolidated and Separate Financial Statements. IFRS 10 established the principles for the presentation and preparation of consolidate financial statements when an entity controls one or more other entities. IAS 27 prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. These standards are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is assessing the impact of these new standards.

IFRS 13 Fair Value Measurement

In May, 2011, the IASB issued IFRS 13 Fair Value Measurement (IFRS 13). IFRS 13, which is to be applied prospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IFRS 13 defines fair value, provides a framework for measuring fair value and includes disclosure requirements for fair value measurements. IFRS 13 will be applied in most cases when another IFRS requires (or permits) fair value measurement. The Company is assessing the impact of this new standard on its consolidated financial statements.

TRANSITION TO IFRS

The Company has adopted International Financial Reporting Standards (IFRS) effective October 1, 2011. The Company's financial statements for the year ended September 30, 2012 will be the first annual statements that comply with IFRS. Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with Canadian generally accepted accounting principles (Canadian GAAP).

The accounting policies set out in Note 3 to the condensed interim consolidated financial statements have been applied in preparing the financial statements for the three months ended December 31, 2011, the comparative information presented in these financial statements for the period ended December 31, 2010, the year ended September 30, 2011 and in the preparation of the opening IFRS statement of financial position as at October 1, 2010. The Company will ultimately prepare its opening balance sheet and financial statements for fiscal 2012 and 2011 by applying existing IFRS with an effective date of September 30, 2012 and prior. Accordingly, the opening balance sheet and financial statements for fiscal 2012 and 2011 may differ from these statements.

The Company has applied IFRS 1; First time Adoption of International Financial Reporting Standards (IFRS1) in preparing these first IFRS consolidated statements. In preparing the opening IFRS statement of financial position, the Company had adjusted amounts previously reported in financial statements prepared in accordance with Canadian GAAP. Note 20 to the condensed interim consolidated financial statements explains the principal adjustments made by the Company in restating its Canadian GAAP balance sheet as at October 1, 2010 and its previously published Canadian GAAP financial statements for the year ended September 30, 2011 and the three month period ended December 31, 2010.

IFRS optional exemptions

Business Combinations
The Company has elected to apply IFRS 3 relating to business combinations prospectively from October 1, 2010, and accordingly has not restated any balances pertaining to any prior transactions.

Share-based payments
The Company has elected not to apply the requirements of IFRS 2 to awards that vested as of October 1, 2010.

IFRS mandatory exceptions

Use of estimates
The estimates made by the Company under Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any differences in accounting policies.

IFRS Adjustments

As detailed in Note 20 to the condensed interim consolidated financial statements the Company has adjusted stock based compensation expense as a result of the transition to IFRS. The impact of these changes on the statement of financial position at October 1, 2010 is an increase to contributed surplus and deficit of $114,000. The impact on the statement of operations for the three months ended December 31, 2010 and the year ended September 31, 2011 is to increase (decrease) stock based compensation by $55,000 and $(3,000), respectively.

SELECTED FINANCIAL INFORMATION

First Quarter Commentary

The table below summarizes quarterly financial information for the 3 month periods shown.

	IFRS December 31, 2011 (000s)	IFRS September 30, 2011 (000s)	IFRS June 30, 2011 (000s)	IFRS March 31, 2011 (000s)
Revenue	$ 4	$ 5	$ 9	$ 4
Net Loss	$ 1,650	$ 3,896	$ 2,648	$ 1,890
Net Loss Per Share	$ (0.05)	$ (0.11)	$ (0.08)	$ (0.06)
Weighted Average Shares	35,637	33,946	33,936	33,852

	IFRS December 31, 2010 (000s)	CGAAP September 30, 2010 (000s)	CGAAP June 30, 2010 (000s)	CGAAP March 31, 2010 (000s)
Revenue	$ 18	$ 14	$ 6	$ 10
Net Loss	$ 2,310	$ 2,621	$ 1,812	$ 2,020
Net Loss Per Share	$ (0.07)	$ (0.08)	$ (0.06)	$ (0.07)
Weighted Average Shares	33,759	32,705	30,790	29,917

Revenue for the quarter-ended December 31, 2011 was $4,000 compared to $18,000 for the quarter-ended December 31, 2010. Revenue for the three months ended December 31, 2011 was a result of sales of the QuantiSpot RA test kits. Revenue in the three months ended December 31, 2010 resulted from sales of QuantiSpot RA test kits and consulting services provided to a related party. The reduction in revenue was owing to the complete reduction in laboratory services provided to a related party that was discontinued in early fiscal 2011. The discontinued revenue was not related to any of the Company's diagnostic customers, products or services revenues.

For the quarter-ended December 31, 2011, the Company recorded a net loss of $1,650,000 ($0.05 net loss per share) compared to a net loss of $2,310,000 ($0.07 net loss per share) for the quarter-ended December 31, 2010. Per share values are based on the weighted average shares outstanding in the period. For the quarter-ended December 31, 2011 there was an average of 35,637,000 shares outstanding.

The net loss was lower for the three months ended December 31, 2011 compared to the three months ended December 31, 2010. On November 30, 2011 the Company announced a business realignment which streamlined its product development portfolio as well as reducing its

workforce by 14 positions. The Company's cost cutting measures resulted in reduced costs in research and development, corporate and professional costs.

R&D expenditures, excluding amortization and stock based compensation, for the quarter-ended December 31, 2011 were $959,000 compared to the $1,499,000 for the quarter-ended December 31, 2010. With fewer projects in active development the Company reduced expenditures on salaries, lab consumables, scientific consultants, partnering and validation costs. In the first quarter of 2012 the Company moved the celiac quantitative assay and Vasculitis assay through the final development stage. In the first quarter of 2011 the Company had six projects in various stages of active development, including products that are temporarily put on hold owing to resource reallocations; these projects are expected to be put back into active development following the successful completion of current projects.

Corporate expenses include, primarily, salaries and related expenses (including benefits and payroll taxes) of the Company other than salaries and related expenses paid to personnel engaged in research and development. General and Administrative expenses include facility costs, insurance costs, and foreign exchange expenses. Corporate and general expenses totalled $305,000 for the three months ended December 31, 2011 compared to $329,000 for the three months ended December 31, 2010. Increased occupancy costs were offset by a reduction in other costs.

Professional consulting (legal, accounting, Board of Directors compensation, recruiting, administrative contractor, and investor relations) costs in the three months ended December 31, 2011 were $87,000 compared to $107,000 for the three months ended December 31, 2010. The decrease in professional and consulting costs in the three months ended December 31, 2011 was primarily related to reduced recruiting and investor relations fees.

Sales and Marketing expenses were primarily related to sales and marketing consultant fees and to travel related to selling activities in the quarter. Sales and marketing expenses, excluding stock based compensation, totalled $89,000 for the three months ended December 31, 2011 compared to $106,000 for the three months ended December 31, 2010. The decrease in sales and marketing expenses for the quarter-ended December 31, 2011 compared to the quarter-ended December 31, 2010 were primarily a result of a reduction in the number of sales contractors. With executive support, the sales team is targeting its efforts on the currently approved products and the Diagnostic Tools and Services business.

Non-cash stock based compensation charges totalled $52,000 for the three months ended December 31, 2011 compared to $170,000 for the three months ended December 31, 2010. The related stock option issuances are described further below in the Outstanding Share Capital section.

Operational expenses were partially offset by interest income earned on short-term investments of $2,000 for the three months ended December 31, 2011 compared to $24,000 for three months ended December 31, 2010. The Company invests its cash in variable term cashable government investment certificates and short-term money market deposits.

OUTLOOK AND FUTURE PROSPECTS

The Company's announced business realignment on November 30, 2011 streamlined its IVD product development pipeline. This realignment will focus the Company's R&D efforts more intensively on completing products currently in final development. Products in other stages of development will be held pending successful completion of late stage assays and then will be moved, one at a time, into active development. The Company believes this staging of assays in development will enhance the progression of assays being filed for regulatory review. The Company further believes that these resources can be used to address the needs of and for the successful acquisition of customers in its Diagnostics Tools and Services offerings. Completing work and selling products and SQiD platforms to these customers could significantly increase the Company's revenues and could reduce the time to achieving revenues when compared to its core IVD business.

The Company launched its Diagnostics Tools and Services business line in the second half of 2011. This business is focussed on using our core IVD development technologies, software and platforms to enable other diagnostic customers and laboratories with their single test biomarker panels to move to multiplexed assays on the SQI technology platform. We believe that our unique technology is attractive to prospects who desire multiplexed assays but do not have the capability to commercialize multiplexed tests. We also believe that our multiplex automated platforms (SQiDworks, SQiDLITE, SQiDman) are unique in this market and if provided to customers on an OEM basis will enable a broader adoption of multiplexed tests that we could generate revenue streams from across lines: Diagnostic Tools and Services assay development fees; product revenue from the manufacture of OEM kits; software revenues; platform revenues from the sale of primarily SQiDLITE units, but also SQiDworks and SQiDman units. Management believes that the success of these potential diagnostic customers may cause the proliferation of SQiD-platforms in the market and a greater potential installed base of platforms that could be used to run a variety of IgX PLEX test kits, including our own IVD and RUO kits.

The Company will also focus on converting several of the many current prospects for our Diagnostic Tools and Services offerings in order to generate near term revenues. The Company has been actively seeking customers for its Diagnostic Tools and Services business line and management believes that it has generated significant interest in a number of prospects that will generate revenues earlier in the product development cycle. The benefits of the Diagnostic Tools and Services opportunities also include gaining access to developed revenue streams through the replacement of single-plex test sales of our customers with multiplexed tests developed under contract and then manufactured and sold on an OEM basis.

Management expects losses to continue for the fiscal 2012 year as investment continues in product development and commercialization efforts on its pipeline of autoimmune test kits and platforms, as well as investment in sales and marketing. The Company continues to focus on sales and placing SQiDworks systems in Canadian, US and European customers for system evaluation, and believes some, or all, of these evaluation placements will lead to commercial acceptance and revenues from sales of consumable test kits in the future. The Company's customer, GDML is presently evaluating the quantitative celiac test kits and management is optimistic that this evaluation will lead to additional revenues from GDML attributed to IgX PLEX Quantitative Celiac kits in fiscal 2012.

On February 14, 2012, the Company signed an agreement with Integrated Sciences of Australia for the exclusive distribution of SQI IVD products and platforms. Integrated Sciences is one of the longest established suppliers of IVD and Life Science products in Australia and Management

believes that this distribution partnership will lead to the placement, evaluation and acceptance of multiple SQiDworks and SQiDlite platforms and the sale of IVD products.

As part of its sales and marketing strategy, Management continues to evaluate and seek strategic partners in geographies outside of Canada for our IVD diagnostic products as well as our Diagnostic Tools and Services business.

SQI's operational objectives are straightforward: generate revenue from products in the regulatory jurisdictions for which we have acquired regulatory approvals or licenses; generate revenue from services, products and software from customers in its Diagnostics Tools and Services business, continue successful commercialization and continuous improvement of a menu of autoimmune test kits; and, expand partnerships and other strategic relationships to enhance our product offerings and revenues. Success in these steps will allow the Company to further validate its multiplexing model, value proposition and to roll-out and sell its products to customers in its target markets.

Related Party Transactions

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

Included in general and administrative expense for the three month period ended December 31, 2011 is $NIL (three month period ended December 31, 2010 - $12,000), related to recovery of occupancy costs from a corporation in which an officer of the Company is also an officer. Consulting fee revenue of $NIL for the three months ended December 31, 2011 (three months ended December 31, 2010 - $9,000) was earned from this corporation. At quarter-end, $Nil (September 30, 2011 – $NIL; October 1, 2010 $1,000) due from this corporation is included in amounts receivable.

Sources and Uses of Cash

Operational activities for the quarter-ended December 31, 2011 were financed by cash on hand.

At December 31, 2011, current assets were $2,511,000 compared to $1,266,000 at September 30, 2011. Working capital as at December 31, 2011 was $1,451,000 compared to ($1,322,000) at September 30, 2011.

Cash used in investing activities for the quarter-ended December 31, 2011 was $106,000 compared to $282,000 for the quarter-ended December 31, 2010. The decreased investing activities during the first quarter of 2012 were a result of the Company's focus on cost cutting measures. In the first quarter of 2011 the Company invested in (1) an overhaul of its out-dated network and data storage infrastructure to expand its data storage capacity required to support the research and development program and to enhance its disaster recovery systems to protect the vast amount of data generated through product development and validation, and (2) a SQiDworks platform for internal use for platform development activities.

On October 26, 2011 the Company completed a non-brokered private placement of 2,276,000 units of the Company at a price of $2.00 per unit for total gross proceed of $4,552,000; net

proceeds were $4,243,000.

During the quarter-ended December 31, 2011 a total of 58,335 employee stock options were exercised at an average price of $1.20 for total proceeds of $70,000.

RISK FACTORS

An investment in our common shares involves a number of risks. In addition to the other information contained in this Management Discussion and Analysis, including our consolidated financial statements and related notes and the Annual Information Form dated June 15, 2011, you should give careful consideration to the following risk factors. Any of the matters highlighted in these risk factors could have a material adverse effect on our business, results of operations and financial condition, causing an investor to lose all, or part of, its, his or her investment.

The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are not aware of or focused upon, or that we currently deem to be immaterial, may also impair our business operations and cause the trading price of our common shares to decline.

Risks Related to Our Business and Strategy

We have incurred losses since inception, and we expect to continue to incur losses for the foreseeable future.

Our future capital needs are uncertain and we may need to raise additional funds in the future, which may not be available on a timely basis or on commercially reasonably terms.

Market competition and technological advances of similar diagnostics products could reduce the attractiveness of our products or render them obsolete.

If our products fail to achieve and sustain sufficient market acceptance, our revenue will be adversely affected.

We are subject to complex regulatory compliance requirements and the failure to obtain, or the withdrawal of, regulatory clearance or approval for our products could adversely affect our ability to market our products and/or require us to incur significant costs to comply with such requirements.

We may not be able to develop new products or enhance the capabilities of our existing diagnostics products to keep pace with rapidly changing technology and customer requirements.

Research and development of diagnostic products requires significant testing and investment and may not result in commercially viable products within the timeline anticipated, if at all.

We may need additional capacity to meet our manufacturing needs at the end of 2012.

We have limited experience in marketing, selling and distributing our products, and we need to expand our internal and external sales and marketing force and distribution capabilities to successfully commercialize and sell our products.

We rely on strategic partnerships for research and development and commercialization of our products.

We depend upon key suppliers for some of the components and materials used in our platform technologies and our microarrays, and the loss of any of these suppliers could harm our business.

Future legislative or regulatory changes to the healthcare system, including reimbursement, may adversely affect our business.

We rely on certain key personnel and our ability to successfully grow our business would be adversely affected by their departure from our company.

If we cannot provide quality technical support, we could lose customers and our operating results could suffer.

We may experience development or manufacturing problems or delays that could limit the growth of our revenue or increase our losses.

Our products could have unknown defects or errors, which may give rise to claims against us and adversely affect market adoption of our systems.

Our future financial results may be adversely affected by foreign exchange fluctuations.

Risks Related to Intellectual Property

Our ability to protect our intellectual property and proprietary technology through patents and other means is uncertain.

Risks Related to Our Common Shares

We expect that our share price will fluctuate significantly, and you may not be able to resell your common shares at or above the current price.

We have never paid dividends on our common shares, and we do not anticipate paying any cash dividends in the foreseeable future.

Management seeks to mitigate these risks, and others, primarily by retaining experienced employees and advisors who have expertise in the scientific, medical business, regulatory, manufacturing and operational disciplines of automated platform integration and immunoassay diagnostic test development.

The Company's SQiDworks automated analytical platform and its lead IgX PLEX RA multiplexed test kit, which have received regulatory clearances in Canada, Europe and the United States, are believed to be the first microarray technologies in the autoimmune disease market to receive such clearances. The Company has continued to build on this regulatory success with the Health Canada licensing of its IgX PLEX Celiac Qualitative test and its IgX PLEX Celiac Quantitative test, also CE Marked in Europe. With the Health Canada approval for the first second generation fully quantitative assay, the Company anticipates that its quantitative celiac product line will progress commercially, in calendar 2012 with the release of a 6-plex quantitative panel that adds additional emerging biomarkers for markets in Canada, the US and Europe.

Our tests are designed to run only on the SQiDworks platform. In order to obtain approval for the SQiDworks platform and the Company's consumable tests for sale in the United States, our

largest target market, the FDA typically requires the conduct of clinical validation studies to compare the performance of a new test to predicate tests currently approved for sale in the US. Upon successful completion of validation studies conducted at both SQI's labs and at multiple third party labs, the data derived are 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 180 days to render a decision on the application, not including any "time-outs" which the Company may take to prepare responses to various inquiries from the FDA. The Company believes the experience gained in obtaining the clearance of the SQiDworks, RA test and celiac test, will enable it to complete and file applications for clearance of the subsequently developed pipeline of assays more efficiently. This in turn may result in shorter review periods at the FDA than was experienced with the SQiDworks-RA system. The timing of such clearances is dependent on several factors some of which are not controlled by the Company.

During the current reporting period the Company did not earn significant revenues from its test kits or SQiDworks platform. Management believes that material revenues from the sale of its test kits may be achieved in the 2012 calendar year; this is subject to certain risks including without limitation, the continued success of the development program and regulatory approvals of the products. The continuation of the Company's research, development and commercialization activities along with investment in marketing and sales is dependent upon the Company's ability to successfully manage its growth, investment in continued pipeline development and its cash requirements.

We are exposed to market risks related to changes in interest rates and foreign currency exchange rates, which could affect the value of our current assets and liabilities. We do not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates relative to our cash investment, due to the prime interest rate based nature of the investment. We have not entered into any forward currency contracts or other financial derivatives to hedge foreign exchange risk. We are subject to foreign exchange rate changes that could have a material effect on future operating results or cash flows.

Management will continue to review the Company's financial needs and to seek additional capital financing as required from sources that may include equity financing, debt financing, collaborative projects and licensing arrangements; however, there can be no assurance that such additional funding will be available or if available, whether acceptable terms will be offered

Outstanding Share Capital

As at December 31, 2011, there were 36,280,000 common shares issued and outstanding.

The following tables describe the securities that have been issued that are convertible under certain conditions into common shares:

The Company had the following warrants outstanding at December 31, 2011:

Number of Warrants	Purchase Price	Expiry Date
1,140,000	$ 5.00	August 12, 2012
57,000	$ 2.50	August 12, 2012
1,199,000	$ 4.00	December 4, 2012
2,276,000	$ 2.50	October 26,, 2013
86,000	$ 2.50	October 26,, 2013
4,758,000		

The Company had the following stock options outstanding under the Plan at December 31, 2011:

Number of Options	Exercise Price	Expiry Date
143,000	$ 1.74	August 7, 2012
50,000	$ 1.50	October 23, 2012
465,000	$ 1.60	February 26, 2013
115,000	$ 1.75	August 26, 2013
65,000	$ 1.30	May 22, 2014
25,000	$ 3.26	November 3, 2014
82,000	$ 2.25	February 22, 2015
50,000	$ 2.10	May 27, 2015
175,000	$ 2.50	August 16, 2015
100,000	$ 2.90	October 4, 2015
60,000	$ 2.85	January 31, 2016
50,000	$ 1.65	December 19, 2016
1,380,000		

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

DISCLOSURE CONTROLS AND PROCEDURES, AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The accompanying financial statements have been prepared by management in accordance with International Financial Reporting Standards. For quarterly reporting periods, the Company's financial statements are approved by the Audit Committee and the Board of Directors. For annual reporting periods, the Company's financial statements are approved by the Board of Directors upon recommendation by the Audit Committee. The integrity and objectivity of these financial statements are the responsibility of management. In addition, management is responsible for all other information in this report and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

In support of this responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

In particular, the CEO and CFO are responsible for establishing and maintaining disclosure controls and procedures ("DC&Ps") and internal controls over financial reporting ("ICFRs") for the Company, and have:

(a) designed such DC&Ps, or caused them to be designed under supervision, to provide reasonable assurance that material information is made known during the period in which the annual and quarterly filings are being prepared;

(b) designed such ICFRs, or caused them to be designed under supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP;

(c) evaluated the design and effectiveness of the Company's DC&Ps as of December 31, 2011;

(d) have concluded that a material design weakness in the ICFRs may exist in terms of the inadequate segregation of certain duties, which is typical of development stage companies; mitigating factors, including dual-payment authorization policies and transparent internal financial transaction reporting processes, serve to minimize the risk that such design weakness could result in a material misstatement of results for the quarter-ended December 31, 2011; and

(e) have concluded that, other than the item described above in sub-point (d), there are no additional material design weaknesses in the DC&Ps or ICFRs, and that the effectiveness of the DC&Ps is sufficient to expect the prevention or detection of material misstatements of results.

The financial statements include amounts that are based on the best estimates and judgments of management. The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board of Directors exercises this responsibility principally through the Audit Committee. The Audit Committee consists of three directors, all of whom are independent and not involved in the daily operations of the Company. The Audit Committee meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the financial statements prior to their presentation to the Board of Directors for approval.