



SQI DIAGNOSTICS INC.

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

March 31, 2018

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

This Management's Discussion and Analysis ("MD&A") covers the condensed interim financial statements for the three and six months ended March 31, 2018 and 2017. The annual audited financial statements and MD&A for the year ended September 30, 2017 and the most recent Annual Information form ("AIF") can be found on SEDAR at www.sedar.com.

All amounts are expressed in Canadian dollars unless otherwise indicated.

This discussion and analysis was prepared by management using information available as at May 9, 2018.

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", "positioned" 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, product development efforts, and statements in respect of:

- our requirement for, and our ability to obtain, future funding;*
- our expected future losses and accumulated deficit levels;*
- technological advances of competitive products and general market competition;*
- 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 in Canada and the United States;*
- 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:

- *uncertain future capital needs and additional financing;*
- *history of losses;*
- *market competition;*
- *market acceptance of products;*
- *complex regulatory compliance requirements;*
- *rapidly changing technology and customer requirements;*
- *research and development activities;*
- *marketing and distribution;*
- *reliance on key suppliers;*
- *legislative or regulatory change;*
- *key personnel;*
- *development or manufacturing delays;*
- *unknown defects or errors;*
- *foreign exchange fluctuations;*
- *unknown defects or errors;*
- *intellectual property protection; and*
- *volatility of share price and an active market for our shares.*
- *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.

COMPANY OVERVIEW

SQI Diagnostics uses advanced technologies to develop and sell testing kits, services and automated testing systems to pharmaceutical and diagnostic testing companies. Our products and services allow them to perform very large numbers of blood-based tests for their clinical and research diagnostic testing needs— quickly, cheaply and accurately.

SQI was founded in 1999 and has advanced from being largely an R&D enterprise to a commercially-driven one. In 2007, the company began trading on the TSX Venture Exchange and today enjoys an expanding number of revenue streams, fuelled by the growing demands of global diagnostic and pharmaceutical firms.

SQI Value Proposition: many more tests; 95% less blood

We produce and market best-in-class platforms, which use our customized consumable kits to create multiple recurring revenue streams that will be both high in volume and high in margin.

This value proposition is consistent across all our target markets. We significantly reduce both human labour and costs while delivering superior quality tests via “multiplexing” and automation.

This, in turn, creates a widening circle of benefits: it significantly reduces the effort to validate many different tests, and reduces the consumption of limited and very valuable blood samples. This enables our customers to run many different tests using 95% less blood.

SQI: Science, Quality, Innovation – One test, many results, all at once

Meeting the growing needs of big pharma and biotech

The use of biologic drugs – proteins that are engineered in the laboratory for pharmaceutical use – has increased significantly in the past 25 years since the introduction of the first recombinant protein therapeutic (i.e. human insulin). Today, there are an estimated 5,000 biologic drugs undergoing extensive development in North America.

In fact, the market for custom and routine high-volume tests (called assays) used in clinical drug development is over \$11 billion annually in the US and EU alone. In this market, our services and products are used to test the response to and safety of novel and biosimilar drugs which are designed to have active properties similar to ones that have previously been licensed.

Our technology is commonly referred to as “multiplexing”. It allows drug development companies to condense a large number of individual tests into a single SQI test, saving them significant time and money over traditional, slower testing methods. In addition, our automated systems are used by us and our customers to run SQI tests “hands-free” and

provide complete data analysis, which is seamlessly reported to our customers' data management systems.

Meeting the needs of Diagnostic Companies

We are building custom tests for customers in the diagnostic market that can deliver as many as 80 unique results from a single patient sample - all in one test. In other words, we remove materially all of the work our customers would have needed to perform, validate and run 80 different tests. We transform their single test content and apply our multiplexing and automation technology to deliver *one test, with many results, all at once*. Addressing the need to reduce testing costs through multiplexing and automation for diagnostic companies has opened new opportunities for significant revenue growth for SQI. Our target diagnostic customers have existing and proven test content and are typically currently running a significant number of patient tests in their laboratories that will create immediate demand for our customized test kits once they transition to SQI technology.

No young company finds it quick or easy to establish its credentials with risk-averse global pharmaceutical companies, and our experience has been no different. However, we are now starting to realize the benefits of our years of investment and hard work.

We are quickly expanding our pipeline of customers and products and are creating a diversified bundle of recurring revenue streams and future recurring revenues.

We currently have a total of seven customers that are generating revenue; 5 platforms sold; plus three target customers that we have actively engaged in the contracting stage; one diagnostic customer that has a signed letter of intent for a multi-product deal for existing SQI autoimmune products and new, to-be-developed products; and, five customers/partner opportunities in the pre-contracting, work-planning stage. All told, there are now 14 customers in our revenue pipeline - up from seven at this time last year

Subsequent to the quarter end, we signed one of the most exciting customer opportunities to date. Our deal with Microdrop LLC brings the prospect of participating in one of the fastest growing markets, the direct-to-consumer retail market. The partnership with Microdrop will aid patients in obtaining a quick, easy to access digital output that assists in their understanding, predicting and monitoring their own health.

Following the closing of this agreement we are working aggressively to deploy, install and validate the first 2 sqidlites and the first product (celiac test panel) within 12 weeks.

We foresee three phases to our Microdrop partnership – initial launch in the first CLIA lab (2 sqidlites, first 2 tests), product expansion to additional high value tests, and finally high-volume processing and operational expansion to a second CLIA laboratory. [CLIA refers to US regulatory standards called Clinical Laboratory Improvement Amendments].

Commercial Highlights for the Quarter

Revenues in the second quarter of fiscal 2018 were \$176,000, and \$552,000 for the six months ending Mar 31, 2018. Revenues for the quarter were down from the previous quarter by an amount roughly equivalent to the 1 sqidlite sale to Predictive Health Diagnostics. Service-based revenues were also slightly down quarter over quarter while product revenues from kit sales were up by approximately \$60,000, three times last quarter's kit sales.

It is worth noting that as we progress along the route of commercialization with our current customers, we expect a reasonably high degree of month-to-month variability in revenues. Total revenues will fluctuate depending on lumpier platform sales. For example, in Q1, our prior period, we sold two systems. Together, these added up to more than this quarter's entire revenue. There were no platform sales this quarter, and service revenues were also lower than in prior periods as our development work has been mostly completed. This work drives our service revenue.

Although it's tempting to focus solely on the income statement, it is important to understand the sources of revenue, and the transition from development projects to kits sales. This transition has started and will continue to evolve over the coming quarters. We also point to the continued growth in the base of customers, most notably in the diagnostic segment of our business where we expect significant, growing and recurring kit sales. These include the best opportunities for near term revenues and are also expected to provide the long-term base of recurring revenues.

Overall, we made excellent progress during the quarter with our key customer targets, announcing that our lead prospect signed a long-term, multi-product contract that opens up the new Direct to Consumer market to SQI. This customer's first kit purchases will be a pair of proprietary SQI tests for two autoimmune diagnostic tests that had previously been developed for the in vitro diagnostic (IVD) market. The majority of the biomarker tests for these kits have already been developed and we have received FDA clearance for the prior generation of the tests. While we believe there is limited development risk with the test kits themselves; there is some development risk as we transition from our existing venous blood draw collections to patient-centric finger stick blood samples. Mitigating this risk is the fact that our technology has the capacity to use the sample collection volume provided by the finger-stick collection method required for this consumer-focussed market.

During the second quarter, we succeeded in six key goals:

1. For the first time we have accomplished a major commercial milestone in our business model by achieving recurring kit sales to a significant customer. Our commercial success is anchored in our ability to grow the sales of platforms and kits to our customers and reducing the relative contribution of revenue from service-based sales. We are now delivering on that model and there are many reasons we expect this trend to continue. The number of kit sales to customers, including those run in our lab, will

continue to grow as our customers gain confidence and expand their business with us. Our diagnostic customers will leverage the efficiency of our multiplexing technologies allowing them to process more patient samples at a lower cost. This should lead to a growth in their patient base. For our biopharma customers, a gain in their confidence should translate to an expansion of clinical programs for which we deliver services and products and should also lead to an expansion of the types of products we sell to them.

2. Completed the validation and delivered a second kit order to Predictive Health Diagnostics (PULStest.com) for their cardiac health predictive product. The number of patient samples being processed at PHD are growing and subsequent to the end of the quarter we delivered our third lot of kits which represent about 2,200 samples being processed in PHD's CLIA lab. We expect to deliver at these levels every month in the near term and that the number of patient samples being processed is expected to double during the fiscal year.

This is the first blood test ever to detect heart attack risk factors in patients. The test's predictive potential as cited in leading scientific papers has been shown to predict the likelihood that patients will experience a heart attack (ACS event) up to five years in advance. The benefit is significant and obvious: doctors can now put in place potentially life-saving preventative measures to keep that heart attack from happening.

We believe that this customer's product has been clinically proven and the big question that remains is: how big is the market for a test that predicts the likelihood of a heart attack in enough time to allow a patient to modify their lifestyle or be therapeutically treated.

3. We completed the product development for a large, global biopharma customer first announced as a new customer in November. We are currently awaiting the shipment of the first lot of patient samples to be received and run at SQI's lab.

4. We ended the second quarter of fiscal 2018 with a total of seven customers that are now generating revenues. Subsequent to the quarter end, we added an eighth customer and have sales proposals with customers that we believe to have a high likelihood of acceptance in the third quarter.

5. We made major progress with our instant immunoassay collaboration with McMaster University. During the quarter we demonstrated the portability of a testing device by running assays at SQI's lab. The preliminary data from these tests showed that we achieved a more consistent manufacture of the proof of concept chip. A reproducible proof of concept chip allows us to benchmark progress while eliminating bias caused by variability in the manufacture of test chips. Our next milestone for this project, in June 2018, is proof of principle protein sensor design, meeting initial performance targets for sensitivity, precision, time to results and device stability.

6. The large comparative study we reported last quarter was restarted. This study for our human diagnostic DNA customer was launched during the second half of 2017 and was delayed. Management believes that finishing this validation study in 2018 will lead to commercial production of this product and recurring sales of kits.

Outlook

As the chart below shows, we continue to advance and move customers up the revenue funnel from target customers, through product development and to commercial validation and product shipments. We continue to expect progress with 1 or 2 new customers per quarter and plan to start generating service revenue from them almost immediately. This is then followed by the generation of revenue from either CRO-like services at our lab in Toronto, or a platform sale and kit sales. In the third quarter we expect to announce an additional new diagnostic customer, for a total of nine active customers.

Detailed list of Current Customers and Target Customers

Customer Count	Customer Description	Alternate Name / Detail	Commercial Status
1	GD-Biosciences	PULS 7-plex predictive panel	Generating Revenue, 1 sqidlite, Second Order Shipped
2	DNA Sepsis Customer	Sepsis pathogen detection	Generating revenue (2 sqidlites)
3	Big Pharma	PK	Generating revenue (1 sqidlite under service contract)
4	Big Pharma; SQI as CRO	GM-CSF	Generating revenue; Prd Dev done; awaiting patient samples
5	IRX Pharma	Quality Control Kits	Generating review (1 sqid-X); 2 orders shipped
6	Big Biotech ; SQI as CRO	ADA	Generating Revenue; Prd Dev Complete; waiting for primate samples
7	Big Biotech; SQI as CRO	ADA	Prod Dev Complete -company sold - pause
8	Microdrop LLC - Direct to Consumer Dx	Celiac / RA / Novel Panels	Contracting
Sales Funnel			
Near Term Prospects			
9	Partnership: Organ Transplant Dx	8-plex MDx and PoC MDx	Green Light to proceed; Term Sheet and Quote pending acceptance
10	CRO	Take out MSD - cytokines, ADA	Work planning
	Animal Dx (same customer as #2)	Bovine Mastitis	Selling small volumes of kits
11	Big Biotech	Cytokine	Samples to be sent 0x/2018
12	63X Cytokine Panel	Peptotech-Stanford-SQI	Work planning
13	Partnership: Lupus Nephritis Dx	J Winter / 6-plex	Work planning
	Big Pharma (same customer as #3)	Xplex / Streptavidin / NAb	On hold

Legend:

ADA - pharma or biotech drug development product (immunogenicity) used during drug development testing in animals or clinical trials in humans.

Dx - a diagnostic test.

CRO - contract research organization, a laboratory is paid to run tests on systems at their facility under contract to a pharma or biotech client.

CLIA - refers to federal regulatory standards called Clinical Laboratory Improvement Amendments, a form of regulatory clearance where a CLIA-approved reference laboratory can validate an in vitro diagnostic test for its own use. CLIA tests are sold by a diagnostic company without FDA or other similar approvals to CLIA labs.

RUO Dx - a diagnostic test that is and can be sold without any regulatory approvals.

LDT Dx - a diagnostic test where the customer buys test components from a manufacturer and may outsource a material amount of the tests development but where the customer controls the development of the test, maintains development records and is responsible for the performance of the test. Similar to CLIA, the customer validates the test and FDA or similar approvals are not required.

Since our first days, we have invested significantly in our technologies and automated systems so that our customers can save considerable time and money using our products. We have also expanded the range of applications for our multiplexing technologies with two market groups in mind: pharmaceutical and biotechnology drug developers, and other diagnostic companies.

As our customers begin buying our products in commercial quantities, we plan to expand both our manufacturing facilities and our marketing capabilities. This scale-up is currently being coordinated with our vendors and its completion will be timed to satisfy customer demand.

As we work through commercialization and recurring kit sales to the customers at the top of this chart we expect to continue advancing active and target customers in the sales pipeline. These targets include a mix of large pharma, large biotech and diagnostic customers from a variety of sectors.

We further expect that we will see recurring kit and services sales in our pharmaceutical market. We plan to deliver on existing customer requirements and complete the development of products for our new customers which will lead to the on-going sales of kits.

Our sales and business development work with target customers in our diagnostic segment continues to expand. We have been successful in advancing several of these opportunities. Specifically, we are targeting companies that have a mix of novel and routine single-plex biomarkers, all in panels in the range of 5 to 10 plexes; a mix of existing and known testing volumes with an internal (CLIA) testing capability; as well as novel tests with very large market potential.

We continue to work closely with our partner, McMaster University in Hamilton Ontario, to advance the technology development partnership and licensing deal with the Multiphysics Research Group (MURG) within the Faculty of Engineering. During the quarter, we were advised that this partnership was successful in winning an NSERC grant of \$565,000 in support of the research at McMaster University for this project to bring the total outside, committed funding to a total of \$715,000. SQI has a three-year funding commitment that we expect to partially fund through customer-based service revenues. We estimate total project funding from all above sources to be in excess of \$1.5 million for this project. All of SQI's commitments to our academic partners and government funding agencies are contingent on advancement of the science and engineering milestones being achieved.

When successfully commercialized, this technology will give SQI a new product to address new markets. This could result in test kits run on small, easy-to-use devices at the point of care such as a doctor's office, in emergency rooms, surgery, or hospital clinics. However, SQI also believes that this technology could be a very cost-effective tool for research labs, and, more importantly, provide global opportunities where the cost of capital and test kits of existing diagnostic technologies is not practical in most of these markets. This would likely take the form of a small, portable reader, costing between \$5,000 and \$10,000 with single use, multi-result chips for applications – ranging from infectious disease tests to biomarker tests that include: Alzheimer's panels, cancer immunology markers, allergy panels and transplantation health status panels.

SQI management continues to evaluate the technology and will determine the feasibility to commercialize, as well as the best applications and markets and the possible opportunities to out-license as we continue to move down this development path.

CORPORATE FINANCING TRANSACTIONS

On December 20, 2017, the Company completed a non-brokered private placement of an aggregate of 31,061,300 units of the Company at \$0.15 per unit for gross proceeds of \$4,659,000. Each unit comprises one common share of the Company and one common share purchase warrant. Each warrant is exercisable at a price of \$0.20 and entitles the holder thereof to acquire one common share for a period of five years from the date of issuance, 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 \$2,048,000 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 \$0.14; dividend yield 0%; risk free interest 1.75%; volatility 117%; and an expected life of 5 years. Expected volatility is based on historical volatility.

In connection with the private placement, the Company paid a finder's fee of \$75,000 and issued 463,260 compensation warrants exercisable for 36 months from the closing of the private placement. Each compensation warrant is exercisable into one common share at a price of \$0.20. The fair value of the compensation warrants was estimated at \$40,000 using the Black-Scholes pricing model with the following assumptions: share price \$0.14; dividend yield 0%; risk free interest 1.75%; volatility 112%; and an expected life of 3 years. Expected volatility is based on historical volatility. Broker warrants were not measured at the fair value of the services received as the fair value of such services was not reliably measurable. The total share issuance costs were \$174,000.

SELECTED FINANCIAL INFORMATION

Second Quarter Commentary

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

	March 31, 2018 (000s)	December 31, 2017 (000s)	September 30, 2017 (000s)	June 30, 2017 (000s)
Revenue	\$ 176	\$ 376	\$ 126	\$ 176
Net Loss	\$ 1,631	\$ 1,788	\$ 1,536	\$ 1,607
Net Loss Per Share	\$ (0.01)	\$ (0.02)	\$ (0.01)	\$ (0.02)
Weighted Average Shares	134,936	107,926	103,875	103,875
	March 31, 2017 (000s)	December 31, 2016 (000s)	September 30, 2016 (000s)	June 30, 2016 (000s)
Revenue	\$ 251	\$ 415	\$ 709	\$ 235
Net Loss	\$ 1,289	\$ 1,497	\$ 1,248	\$ 1,446
Net Loss Per Share	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.02)
Weighted Average Shares	86,520	80,905	75,126	69,347

During the six months ended March 31, 2018, the Company recorded revenue from the sale of custom kits and platforms, as well as service revenue to our pharma and diagnostic customers. Revenue for the three months ended March 31, 2018 was \$176,000 compared to \$251,000 for the same period last year. Revenue for the six months ended March 31, 2018 was \$552,000 compared to \$666,000 for the same period last year. While revenues are down compared to the prior periods it is significant to note that a larger percentage of revenue in the current period was due to the sale of product versus service revenue. This is a direct result of the transitioning our existing customers into the commercial phase – meaning that the development phase of their projects are complete and they are now purchasing kits. We continue some development work for our DNA-based customer and have done development work for two new pharma customers in the six months ended March 31, 2018.

For the quarter, the Company recorded a net loss of \$1,631,000 (\$0.01 net loss per share) as compared to the net loss of \$1,289,000 (\$0.01 net loss per share) for the quarter-ended March 31, 2017. For the six months ended March 31, 2018, the Company recorded a net loss of \$3,419,000 (\$0.03 net loss per share) which is greater than the net loss of \$2,786,000 (\$0.03 net loss per share) for the six months ended March 31, 2017. Per share values are based on the weighted average shares outstanding in the relevant period. For the quarter-ended March 31, 2018, there was an average of 134,936,000 shares outstanding.

The increase in net loss for the three and six months ended March 31, 2018 as compared to the three and six months ended March 31, 2017 is a result of higher product commercialization and development costs and the increased marketing costs associated with the shift to a more sales-focussed company.

R&D expenditures, excluding amortization and stock-based compensation, for the three months ended March 31, 2018 were \$782,000 compared to \$633,000 for the same period last year. R&D expenditures, excluding amortization and stock-based compensation, for the six months ended March 31, 2018 were \$1,717,000 compared to \$1,425,000 for the same period last year. The increase in R&D expenditures for the three and six-month periods is a result of higher laboratory costs primarily related to consumables purchased at a higher than normal level to ensure completion of critical projects to meet internal deadlines and to deliver finished products to our customers for their validation and commercial kit sales. The Company had two customer projects move into the commercial phase in the first quarter of fiscal 2018 as well as starting development work on two new pharma projects in first two quarters of fiscal 2018.

Corporate and general expenses excluding stock-based compensation, totaled \$382,000 for the three months ended March 31, 2018 as compared to \$349,000 for the three months ended March 31, 2017. Corporate and general expenses are higher compared to the prior period due to the payment of bonuses in March of 2018. Corporate and general expenses excluding stock-based compensation, totaled \$787,000 for the six months ended March 31, 2018 as compared to \$650,000 for the six months ended March 31, 2017. Corporate and general expenses are higher for the six months ended March 31, 2018 compared to the same period in the prior year due to higher professional fees for recruiting, investor relations, as well as the payment of bonuses.

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, totaled \$273,000 for the three months ended March 31, 2018 compared to \$214,000 for the three months ended March 31, 2017. Sales and marketing expenses, excluding stock-based compensation, totaled \$548,000 for the six months ended March 31, 2018 compared to \$523,000 for the six months ended March 31, 2017. Sales and marketing expenses were higher for the three and six months ended March 31, 2018 compared to the same period in the previous year, primarily due to the addition of sales personnel and to the payment of bonuses or commissions.

Non-cash, stock-based compensation charges, totaled \$69,000 for the three months ended March 31, 2018 compared to \$60,000 for the three months ended March 31, 2017. Non-cash stock-based compensation charges totaled \$118,000 for the six months ended March 31, 2018 compared to \$138,000 for the six months ended March 31, 2017. The related stock option issuances are detailed later in this document.

Sources and Uses of Cash

Management expects further investments for product development and commercialization efforts for its pipeline of custom Ig_plex consumable kits, new xPlex products and platforms, and sales and marketing initiatives into 2018.

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. Capital expenditures to increase manufacturing capacity and the purchase of platforms in anticipation of customer demand will impact the Company's cash resources.

Operating activities for the six months ended March 31, 2018, were financed by cash on hand and from financing initiatives closed during the year.

At March 31, 2018, current assets were \$3,475,000 compared to \$2,414,000 at September 30, 2017. As at March 31, 2018, the Company had a \$2,883,000 working capital surplus compared to a surplus of \$1,919,000 at September 30, 2017.

Cash used in investment activities for the quarter-ended March 31, 2018 was \$244,000 (six months - \$277,000) compared to \$60,000 for the three months ended March 31, 2017 (six months - \$116,000). The Company is undertaking strategic laboratory equipment purchases and upgrading equipment in order to meet customer capacity requirements. During the quarter, the Company leased equipment that will effectively triple its array printing capacity.

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 for the year ended September 30, 2017, investors 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 their 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 focussed 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

Our future capital needs are uncertain and additional financing may be required.

We have a limited commercial history and a history of losses.

The competitive market for our products is changing and evolving.

Our success depends, in part, on gaining market acceptance of our products.

Our market has complex regulatory compliance requirements.

We may experience rapidly changing technology and customer requirements.

New diagnostic products, and improvements to existing diagnostic products, require significant research, development, testing and investment prior to any final commercialization.

We have limited experience in the marketing and distribution of our products.

We rely on key suppliers.

We may be subject to legislative or regulatory change.

We rely key personnel.

We may experience development or manufacturing delays.

Our products may be subject to unknown defects or errors.

We may experience foreign exchange fluctuations.

Risks Related to Intellectual Property

Our commercial success depends, in part, upon our ability to protect our intellectual property and proprietary technologies.

Risks Related to *Our* Common Shares

There may be volatility of our share price that does not reflect the long-term value of the Company.

There may not be an active market for our shares.

We have not paid dividends.

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.

During the current reporting period, the Company earned service revenues and revenues

from the sale of its diagnostic kits and platforms and we believe that a great deal of progress has been achieved in proving our value to several large global pharmaceutical and diagnostic customers. We continue to advance our relationships with these and other customers to the stage where we expect recurring sales of testing platforms and consumables to 'market-ready' customers. However, additional platform placements and commercial sales are required to reach a position of cash flow break-even. The continuation of the Company's research, development and commercialization activities along with investment in marketing and sales depends on 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 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 can be obtained. To date, we have mitigated our financing risks through the on-going financial support of three key insider shareholders who have invested in the success of the Company.

Outstanding Capital Stock

As at May 9, 2018, there were 134,936,133 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 May 9, 2018:

Number of Warrants	Exercise Price	Maturity
16,695	\$0.64	July 16, 2018 – April 10, 2019
3,560	\$0.59	January 30, 2020 and February 20, 2020
7,631	\$0.52	December 15 and 21, 2018
22,970	\$0.21	March 10, 2022
31,061	\$0.20	December 20, 2022
463	\$0.20	December 20, 2020
82,380		

The Company had the following stock options outstanding under the Plan at May 9, 2018:

Number of Options	Range of Exercise Prices	Weighted average time to maturity
7,992	\$ 0.16 - 0.39	3.66 years
532	\$ 0.40 – 0.69	1.56 years
50	\$ 0.70 – 0.75	0.09 years
8,574		

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

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

The significant accounting policies that management believes are the most critical in fully understanding and evaluating the reported financial results are included in the financial statements for the year ended September 30, 2017. Refer to the audited consolidated financial statements for the year ended September 30, 2017 for discussion on accounting policies and estimates that are most important in assessing, understanding and evaluating the Company's consolidated financial statements. Changes in these estimates and assumptions could have a material impact on the Company's consolidated financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS

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.

IFRS 9 "Financial Instruments" was issued in final form in July 2014 by the IASB and will replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 also includes requirements relating to a new hedge accounting model, which represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however early adoption is permitted.

IFRS 15, Revenue from Contracts and Customers ("IFRS 15") was issued by the IASB in May 2014, and will replace IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control-based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018.

IFRS 16 Leases was issued in January 2016 and replaces IAS 17 Leases. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. If the lease was classified as a finance lease, a lease liability was included on the statement of financial position. IFRS 16 now requires lessees to recognize a right of use asset and lease liability reflecting future lease payments for virtually all lease contracts. The right of use asset is treated similarly to other nonfinancial assets and depreciated accordingly. The lease liability accrues interest. The IASB has included an exemption for certain short-term leases and leases of low value assets; however, this exemption can only be applied by lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the identified asset's use and obtain substantially all the economic benefits from that use. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15, Revenue from Contracts with Customers, is also applied.

The Company has not yet completed its evaluations of the effect of adopting the above standards and amendment and the impact it may have on its consolidated financial statements.

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 or his designate 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 IFRS;

(c) evaluated the design and effectiveness of the Company's DC&Ps as of March 31, 2018;

(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 year-ended March 31, 2018; 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.

Glossary of Terms:

ADA: Anti-drug antibodies, an immune response to administered therapeutics which are an interest for both drug efficacy and safety

Biomarker: Biological molecules, the presence or absence of which can be used to detect or monitor a state of disease or can be used to test the efficacy or safety of a drug in development

CRO: Contract Research Organization; organizations who typically conduct testing for large pharmaceutical companies and development laboratories

DDTS: Drug Development Tools and Services

EMA: European Medicines Agency

Epitope mapping: Testing used to identify specific immunogenic regions in a drug candidate

FDA: U.S. Food and Drug Administration

IVD: In vitro diagnostics; specifically assays which meet the rigorous standards of regulated bodies (FDA HC)

Multiplex(ing): to obtain multiple results from one single biological sample to save time, cost and development of multiple tests

PK: Pharmacokinetics – the rate at which a drug is metabolized in a patient; used to better design dosing regimens, among other things

R&D: Research and development

sqidlite™: Our bench-top diagnostic system – fully automated bench top microarray processing system

sqidworks: Our diagnostic platform is a high-throughput fully automated microarray processing and analytical instrument

sqid-X: sqid-X™ System – semi-automated bench-top platform that incorporates all of SQI's technology with the exception of automated fluidics handling