

SQI Diagnostics Inc.

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

June 30, 2010

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

This discussion and analysis covers the unaudited financial statements for the quarter ended June 30, 2010 and 2009, prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). The fiscal year end of SQI Diagnostics Inc. ("SQI" or "Company") is September 30th.

All dollar amounts are thousands of Canadian dollars, unless in tabular form, and all share amounts are thousands unless otherwise noted.

This discussion and analysis was performed by management using information available as at August 26, 2010. Certain portions of this document including management's assessment of the Company's future plans and operations contain forward-looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Company's control, including the impact of general imprecision of reserve estimates, taxation policies, obtaining regulatory approvals, successful product development, competition from other producers, stock market volatility and the ability to access sufficient capital from internal or external sources. The Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that the Company will derive from them. Additional information relating to the Company is available by accessing the SEDAR website at www.sedar.com and the Company's website at www.sqidiagnostics.com.

Overview

SQI Diagnostics Inc. is a medical systems company that develops proprietary human diagnostic technology through multiplexing, miniaturization and automation. Our technologies enable laboratories to analyze multiple biomarkers simultaneously, deliver accurate and quantitative patient results in less time, significantly reduce labour costs, and increase profits when compared with current diagnostic instrumentation. The Company's proprietary SQiDworks™ instrument and consumable tests together form an immunoassay system capable of providing many of the diagnostic tests currently performed in reference laboratories engaged in testing human blood for a wide range of disease markers.

Since 2003, the Company has been primarily involved in research, development and initial commercialization activities related to its core technology platform. 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 also incurred costs associated with gathering market intelligence concerning prospective customers and in fostering partnership opportunities with potential novel biomarker collaborators and OEM device manufacturers.

The Company is continuing to develop and intends to commercialize test kits for the autoimmune disease market as described further below, and plans to pursue commercialization of tests in infectious disease and allergen testing in the future. The Company also plans to seek regulatory approvals and clearances to sell these additional tests globally starting with the North American markets and then in Europe following the successful commercialization of several additional IgXPLEX test panels.

During the quarter ending June 30, 2010, the Company continued its transition from a development Company to a commercial Company. At the end of June 2010, the Company signed a contract with Gamma Dynacare Medical Laboratories (GDML) to supply them with a SQiDworks assay processing and analytical system and IgXPLEX RA™ test kits. GDML has also agreed to evaluate the Company's

IgXPLEX Celiac test kits when available later this fiscal year. GDML is a key customer for the Company, it processes significant test volumes of both rheumatoid arthritis and celiac.

Status of Development Program

The Company's development program includes several major components. The status of each component of the program is discussed in further detail below:

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

The SQiDworks 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 United States Food & Drug Administration ("FDA"), Canadian regulatory approval for, and has CE Marked its IgXPLEX 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 Canadian regulatory approval for, and has CE marked, its fully quantitative QuantiSpot RA™ tests kits, run on the SQiDworks platforms. The QuantiSpot RA test kits provide fully quantitative information to further aid in the diagnosis and diagnostic monitoring of rheumatoid arthritis.

The Company is developing additional test kits (panels) within the autoimmune disease segments including, but not restricted to, tests that aid in the diagnosis of celiac disease, vasculitis, lupus, Crohn's disease, and antiphospholipid syndrome (APS). Other autoimmune disease, infectious disease, and allergen panels are planned. The Company believes that the approved IgXPLEX RA and QuantiSpot RA tests have provided a template for the rapid development and commercialization of subsequent autoimmune panels. The majority of the development effort for each subsequent assay panel and the SQiDworks system extensively leverage the existing assay infrastructure of the first approved assay, which is expected to significantly reduce the cost of further infrastructure development.

Subsequent to the quarter ending June 30, 2010, the Company completed validation studies for its IgXPLEX Celiac test kits and filed for a Health Canada license to market this product. The Company expects to file for US FDA regulatory clearance prior to the close of the fourth quarter of fiscal 2010.

- (2) The Company has completed proof of concept for a test to measure the presence of biologic drugs used to treat a variety of autoimmune diseases. The Company believes that a test to measure these biological drugs in patients will provide important clinical and treatment management tools for autoimmune diseases. During the quarter, the Company completed development of the prototype of this test and, subsequent to the quarter end, provided its development partner, Mount Sinai Services, with the IgXPLEX IA (infliximab assay) to enable it to perform validation studies and to provide initial performance feedback to the Company. The Company believes that it will deliver a commercial product to its partner by the end of the calendar year.
- (3) The Company has completed the discovery phase milestones under a contract with Silliker Inc., a part of the Institut Mérieux, for a panel to detect multiple analytes used to aid in the detection and diagnosis of botulism infection. During the quarter, the Company executed a development and supply agreement with Silliker to complete commercial development of a multiplex botulism toxin assay. Under the terms of the agreement, the Company will deliver the IgXPLEX BOTX assay to Silliker, and in turn, Silliker will complete validation of the assay on a SQiDman platform purchased from the Company. The timing to complete development of this assay is dependent on the Company receiving validation protocols and certain performance metrics from Silliker. Upon

successful validation, Silliker will purchase IgXPLEX BOTX assays for exclusive use in its commercial testing laboratory and will have global distribution rights in certain fields of use. The Company expects that successful commercialization will result in commercial sales to Silliker in the 2011 fiscal year.

Status of Commercialization Activities and Other Events in the Quarter

During the quarter ended June 30, 2010, the Company invested in its sales and marketing team, its science, commercialization, and regulatory groups, and in infrastructure. The Company's sales effort is focusing on the North American market to generate sales to targeted customers of the currently approved system, including the SQiDworks fully automated analytical platform, IgXPLEX RA panel and QuantiSpot RA panel. The science, commercialization, and regulatory groups are focusing on the continued development of pipeline assays and SQiDworks and SQiDman platforms.

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

- (a) During the quarter ending June 30, 2010, the Company entered into a sales agreement with Gamma Dynacare Medical Laboratories (GDML) for the supply of its QuantiSpot RA test kits and SQiDworks platform. GDML has also requested that the Company provide to it sufficient IgXPLEX Celiac test kits upon the Company's successful validation of the product such that GDML can perform its internal review of the product's performance. Successful internal review by GDML may lead to the expansion of the current contract to include IgXPLEX Celiac test kits;
- (b) Subsequent to the quarter ending June 30, 2010 the Company executed its next evaluation agreement with a significant US-based reference laboratory and technology opinion-leader. The Company believes that the conversion of this target customer may result in a very positive general market reaction and demand for its products;
- (c) Completed an in-depth market survey of high potential target customers generating numerous high quality sales leads during the second quarter;
- (d) Completed 40 sales calls with potential customers from our target list drawn from the top 100 diagnostic labs (based on volume) during the second and third quarters. The Company believes that it has generated significant interest from these target customers to evaluate the SQiDworks platform and available test kits upon the filing and/or clearance of its IgXPLEX Celiac test kits;
- (e) Obtained the patent "Method to Measure Dynamic Internal Calibration True Dose Response Curves". Management believes this patent to be a significant achievement in its intellectual property portfolio establishing enhanced protection of in-array calibration and normalization; and,
- (f) Progressed a number of pipeline diagnostic tests through our discovery and development program;
 - a. Completed development of the Celiac 4-plex panel and subsequent to the quarter ending June 30, 2010 completed the validation procedures for the panel;
 - b. The IgXplex Vasculitis assay was advanced to the development stage.
 - c. Continued development of IgXPLEX IA test kits based on the expanded performance requirements requested by our partner, Mount Sinai Services. During this time, the R&D team also made significant technical improvements in the assay. The IgXPLEX IA test is intended to be used to measure and monitor the concentration of anti-TNF-based drugs including Remicade™, Humira™ and Enbrel™ in patients with a range of autoimmune and inflammatory disorders including but not limited to rheumatoid arthritis, chrohn's disease, plaque psoriasis and ankylosing spondylitis. The Company believes that the cost-effective measurement of these drugs would provide clinicians enhanced treatment options. The Company expects that it will be able to complete commercialization of an IgXPLEX IA test

that will be able to be cleared for IVD sale in Canada. It will remain as a Research Use Only (RUO) product with limited performance claims in the US until expanded clinical studies are performed. However, the Company continues to believe that as there are no predicate tests currently approved to test for the presence and concentration of anti-infliximab, that there is a viable RUO market for the product in the US.

- d. Advanced the IgXPLEX Lupus test kits to the proof of concept stage with the expectation it will progress to development stage in fiscal 2010.
- e. Initiated platform development for SQiDman with a target to complete development that is expected to coincide with customer requirements, including but not limited to the BOTX product in fiscal 2011.

Corporate Financing Transactions

On December 04, 2009, the Company completed a private placement resulting in the issuance of 2,398,000 shares at a price of \$2.75 per share for gross proceeds of \$6,595,000 (net of cash costs - \$6,162,000). Each unit was comprised of one common share and one half common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of \$4.00, expiring December 4, 2011. The total share issuance costs were \$628,000.

A total of 9,000 warrants and 33,000 options were exercised for gross proceeds of \$52,000 in November 2009. In addition, a total of 13,000 warrants were exercised for gross proceeds of \$8,000 in January 2010.

During the three month period ended March 31, 2010, a total of 533,000 options exercised for gross proceeds of \$330,000.

During the three month period ending June 30, 2010, the Company issued 330,000 shares resulting from the exercise of options. The exercise of these options resulted in gross proceeds of \$299,000. In addition, a total of 948,000 warrants were exercised for gross proceeds of \$1,765,000.

Subsequent to the quarter ended June 30, 2010, the Company completed a non-brokered private placement resulting in gross proceeds of \$5,700,000 through issuance of 2,280,000 units at \$2.50 per common share. Each unit consists of one common share and one half common share purchase warrant. Each whole share purchase warrant entitles the holder, for a period of two years, to acquire one common share of the Company for \$5.00.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

Financial statements are prepared in accordance with Canadian GAAP. These accounting principles require management to make certain estimates and assumptions. Management believes that the estimates and assumptions relied upon are reasonable, based upon information available at the time that these estimates and assumptions are made. Actual results could differ from these estimates.

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

Patents and Trademarks

The costs relating to patent and trademark fees are deferred and amortized over 10 years on a straight-line basis. Patents and trademarks of \$407,000 (September 30, 2009 - \$393,000) are recorded net of accumulated amortization.

Research and Development Costs

Research costs are charged to earnings in the period in which they are incurred. Development costs are expensed as incurred or deferred if they meet the criteria for deferral under Canadian generally accepted accounting principles and are expected to provide future benefits with reasonable certainty. At June 30, 2010, the Company was in development of its pipeline of novel tests for its diagnostic system. Deferral criteria have not yet been met, and accordingly, all development costs have been expensed.

Stock-Based Compensation and Other Stock-Based Payments

The Company applies a fair value based method of accounting for all stock-based payments. Accordingly, stock-based payments are measured at the fair value of the consideration received or the fair value of the equity instruments issued or liabilities incurred, whichever is more reliably measurable. Stock-based compensation is charged to operations over the vesting period and the offset is credited to contributed surplus. Consideration received upon the exercise of stock options is credited to share capital, at which time and the related contributed surplus is transferred to share capital.

Share Issuance Costs

Costs incurred in connection with the issuance of capital stock are netted against the proceeds received.

Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the year. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to the determination of the useful lives of property and equipment and patents and trademarks for amortization purposes, valuation of ITCs receivable, valuation of stock options and warrants and valuation allowance on future tax assets.

SELECTED FINANCIAL INFORMATION

First Quarter Commentary

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

	June 30, 2010 (000s)	March 31, 2010 (000s)	December 31, 2009 (000s)	September 30, 2009 (000s)
Revenue	\$ 6	\$ 10	\$ 5	\$ 7
Net Loss	\$ 1,613	\$ 2,021	\$ 1,620	\$ 1,387
Net Loss Per Share	\$ (0.05)	\$ (0.07)	\$ (0.06)	\$ (0.05)
Weighted Average Shares	30,790	29,917	27,930	27,271

	June 30, 2009 (000s)	March 31, 2009 (000s)	December 31, 2009 (000s)	September 30, 2008 (000s)
Revenue	\$ 8	\$ 7	\$ 10	\$ 19
Net Loss	\$ 1,354	\$ 1,473	\$ 1,467	\$ 926
Net Loss Per Share	\$ (0.05)	\$ (0.06)	\$ (0.07)	\$ (0.05)
Weighted Average Shares	26,326	25,837	22,448	22,217

Revenue for the quarter ended June 30, 2010 was \$6,000 compared to \$8,000 for the quarter ended June 30, 2009. Revenue for the three month periods ended June 30, 2010 and 2009 was from services provided to a third party.

For the quarter ended June 30, 2010, the Company recorded a net loss of \$1,613,000 (\$0.05 net loss per share) compared to a net loss of \$1,354,000 (\$0.05 net loss per share) for the quarter ended June 30, 2009. The net loss for the nine months ended June 30, 2010 was \$5,253,000 (\$0.18 net loss per share) compared to \$4,294,000 for the nine months ended June 30, 2009 (\$0.17 net loss per share). Per share values are based on the weighted average shares outstanding in the period. For the quarter ended June 30, 2010 there was an average of 30,790,000 shares outstanding (9 months ended June 30, 2010 – 29,533,000).

The net loss was greater for the quarter and nine month period ended June 30, 2010 compared to June 30, 2009. The increased loss for the three and nine months ended June 30, 2010 was primarily related to increased activity and expenses in the discovery efforts for and development of several IgXPLEX assays, including ordinary increases in wage and wage-related expenses owing to an increase in personnel, increased lab expenditures to support the greater number of projects, and other direct costs including serum acquisition and development and validation partner costs. Consulting expenses were higher in the quarter

ended June 30, 2010 owing to the addition of contract resources in sales and marketing, and various operational resources not directly involved in research and development.

R&D expenditures for the three month period ended June 30, 2010 were \$1,111,000 compared to the \$825,000 for the three month period ended June 30, 2009. R&D expenditures for the nine month period ended June 30, 2010 were \$3,438,000 and compared to the \$2,490,000 for the nine month period ended June 30, 2009. The increase in R&D expense for the three and nine month periods ended June 30, 2010 compared to the three and nine month periods ended June 30, 2009 related primarily to increased R&D salaries and related expenses, laboratory consumable costs and laboratory operating expenses due to the increased R&D activity. During the quarter and nine months ended June 30, 2010 there were an increased number of assay panels in discovery and development including celiac, vasculitis, lupus, Crohn's disease and IgXPLEX IA compared to the same period in the previous year when the majority of efforts were related to only the rheumatoid arthritis panel and related SQiDworks-IgXPLEX technology. In addition, there was an increase in regular R&D salary expenses owing to an increase in the number of R&D employees from 30 to 48 compared to the same quarter in the previous year. The Company incurred increased serum acquisition costs in the three and nine months ended June 30, 2010 compared to the three and nine month periods ended June 30, 2009 directly related to the development of the additional products being commercialized, contributing significantly to the R&D expenses. During the quarter ended June 30, 2010 the Company incurred additional R&D consulting expenses compared to the quarter ended June 30, 2009 as it utilized multiple experts in the areas of software development and testing.

General and administrative (G&A) expenses include: facility costs; insurance costs; and foreign exchange expenses. G&A expenses totalled \$123,000 for the quarter ended June 30, 2010 (nine months - \$324,000) compared to \$84,000 for the quarter ended June 30, 2009 (nine months - \$259,000). The increase for the quarter and nine months ended June 30, 2010 compared to the same period in 2009 was primarily a result of increased occupancy and related costs, and to other general office costs related to an increase in the numbers of employees.

Professional consulting (legal, accounting, Board of Directors compensation, recruiting, administrative contractor, and investor relations) costs in the quarter ended June 30, 2010 were \$140,000 (nine months - \$437,000) compared to \$104,000 from the quarter ended June 30, 2009 (nine months - \$198,000). During the quarter ended June 30, 2010 the Company incurred additional professional consulting expenses compared to the quarter ended June 30, 2009 as it utilized multiple experts in the areas of professional recruiting for science, regulatory, engineering and technical professionals, laboratory cost analysis, competitive and product intelligence, and work-flow management. Professional recruiting costs were incurred primarily to increase staffing to support product pipeline and commercialization efforts.

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 totaled \$116,000 for the quarter ended June 30, 2010 (nine months - \$309,000) compared to \$94,000 for the quarter ended June 30, 2009 (nine months - \$387,000).

Operational expenses were partially offset by interest income earned on short-term investments of \$8,000 for the quarter ended June 30, 2010 (nine months - \$20,000) compared to \$100,000 for the quarter ended June 30, 2009, which included interest earned on SR&ED tax refunds (nine months - \$118,000). The Company invests its cash in variable term cashable government investment certificates and short-term money market deposits.

Non-cash stock based compensation charges totalled \$129,000 for the quarter ended June 30, 2010 and \$14,000 for the nine months ended June 30, 2010 (\$94,000 - quarter ended June 30, 2009; \$291,000 - nine months ended June 30, 2009). The related stock option issuances are described further below in the Outstanding Share Capital section.

During the three month ended June 30, 2010, the Company recorded Scientific Research and Development (SR&ED) tax credits of \$295,000 used to offset operating costs. The Company received notice from the

Canada Revenue Agency that its SR&ED tax claim for fiscal 2009 had been finalized resulting in a refund of \$295,000 in July 2010.

Outlook

Management expects losses to continue for the current fiscal year as investment continues in product development and commercialization efforts on its pipeline of autoimmune test kits as well as investment in sales and marketing. During the remainder of the 2010 fiscal year and the 2011 fiscal year the Company will focus on sales and placing SQiDworks systems in Canadian and US-based customers for system evaluation and expects that some of these evaluation placements will lead to commercial acceptance and revenues from sales of consumable test kits. The Company delivered one such evaluation placement in January 2010 to GDML. This system was installed and handed off to the customer in February following training of its operational personnel. From the date of hand-off the customer was provided 90 days to run its internal acceptance validation. During the quarter ending June 30, 2010, the Company converted the positive validation of the platform to a commercial agreement for commercial use by the customer, and generated revenue to the Company in the period subsequent to the quarter end.

During the third quarter of the 2010 fiscal year the Company utilized its significant positive customer feedback relating to the commercial feasibility of its system and consumable tests from this market survey generated in the first two quarters of the 2010 fiscal year to focus on high-value customers with higher volumes of rheumatoid arthritis testing. Based on this market feedback, the Company believes that its strategy of focusing development, commercialization and marketing efforts on panels of autoimmune assays targeted at medium and large reference laboratory customers continues to be sound and aligns with customer demand. As well, the Company generated a significant number of qualified sales leads from its survey activity and is in the process of conducting both initial and follow-up sales meetings with approximately 40 qualified prospective customers. Our analysis of the market would indicate that there are over 300 laboratories in the United States with sufficient volume of rheumatoid arthritis testing to be target customers for the SQiDworks / IgXPLEX RA system. Management believes that the addressable market is sufficiently large and that with the completion of additional IgXPLEX panels the company will be well-positioned for commercial acceptance of our platforms over the next 12 months, and beyond.

Based on its successful FDA clearance, its Health Canada licenses and EU authorization, management has increased the intensity of the development and commercialization of several new IgXPLEX test kits and expects this development to result in the submission of applications to the US, Canadian and EU regulatory bodies over the next several quarters. This activity will generate increased expenses related to internal development, internal verification and validation studies and third party validation studies over the next 12 to 18 months.

It will also be necessary to invest in the customer service and administrative elements to support our customers and sales, as we place SQiDworks platforms across Canada and the United States. Management will add these expenses as needed to support forecasted customer installations of SQiDworks platforms and sales of consumable kits. In general, we have experienced an increase in administrative costs during the 2010 fiscal year compared to prior years. Management will continue to monitor the cash burn rate in relation to the capital available to it and will manage cash flows as required in the context of the capital markets. Management believes that it may, at some point, seek additional capital to advance and accelerate the number of tests under development and being validated for regulatory submissions, to build SQiDworks platforms to address customer demand, as well as to expand our sales team and its efforts in the United States.

Sources and Uses of Cash

Operational activities for the quarter ended June 30, 2010 were financed by cash on hand.

During the nine months ended June 30, 2010, \$659,000 was received upon the exercise of 896,000 options and \$1,795,000 upon the exercise of 970,000 warrants.

At June 30, 2010, current assets were \$6,959,000 compared to \$3,649,000 at September 30, 2009. Working capital as at June 30, 2010 was \$6,289,000 compared to \$3,280,000 at September 30, 2009.

Subsequent to the quarter ended June 30, 2010, the Company completed a non-brokered private placement resulting in gross proceeds of \$5,700,000 through issuance of 2,280,000 units at \$2.50 per common share. Each unit consists of one common share and one half common share purchase warrant. Each whole share purchase warrant entitles the holder, for a period of two years, to acquire one common share of the Company for \$5.00.

Management believes that cash on hand at June 30, 2010, plus cash generated subsequent to the quarter end in the private placement, and cash generated from revenues will be sufficient to fund Company operations for at least 12 months. The continued successful commercial launch and generation of revenue in the 2010 and 2011 fiscal years will extend this period.

Risks

The Company is subject to various risks. Factors that could cause results or events to differ materially from management's current expectations include, but are not limited to:

- changing competitive technology and market conditions;
- the Company's ability to successfully commercialize additional IgXPLEX tests in the autoimmune disease market;
- the successful and timely completion of clinical validation studies at partner sites;
- the failure to obtain requisite regulatory approvals (including the approval of the FDA) for the Company's diagnostic tests in a timely manner, if at all, and other inherent uncertainties related to the regulatory approval process;
- the ability to generate sufficient sales of the Company's platforms and tests; and,
- the ability of the Company to fund its cash requirements from internal and external sources.

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 IgXplex RA test kit used to detect and quantify a panel of biomarkers to aid in the diagnosis of rheumatoid arthritis was cleared and licensed to be sold and marketed in Canada during the quarter ended December 31, 2008 and in the United States in November of 2009, and in the quarter ended March 31, 2009 were authorized to be CE Marked and to be sold in Europe. The Company expects to seek regulatory approvals and clearances for its IgXPLEX Celiac test kit prior the end of the current fiscal quarter.

IgXPLEX and QuantiSpot 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- IgXPLEX RA system will enable it to complete and file applications for clearance of subsequently developed pipeline IgXPLEX assays more efficiently. This in turn may result in shorter review periods at the FDA than was experienced with the SQiDworks-IgXPLEX RA system. The timing of such clearances is dependent on several factors some of which are not controlled by the Company.

The IgXPLEX multiplexed test panels used to detect and quantify a panel of biomarkers to aid in the diagnosis of celiac disease, lupus, vasculitis, and Crohn's disease, are currently in the Company's discovery and development pipeline along with the IgXPLEX IA panel to detect the drug, infliximab, that is used in the management of multiple autoimmune diseases. The IgXPLEX IA panel is used to measure the quantity of therapeutic agent in the body and the information from this test could be used by clinicians in the management of several autoimmune diseases, including rheumatoid arthritis and irritable bowel disease. The Company is expecting one, or all of these new multiplexed test panels, (excepting IgXPLEX IA) and the SQiDworks platform, together each a system, to be commercially ready to file applications with the applicable regulatory jurisdictions in calendar 2010. Management believes that the IgXPLEX IA test kits will be available for commercial sale for diagnostic use in Canada and research use in the US prior to the end of the 2010 calendar year.

During the current reporting period the Company did not earn material revenues from its test kits or SQiDworks platform. The Company expects to earn revenue from its platform and IgXPLEX RA product commencing in the fourth quarter of fiscal 2010. 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. Management believes that it has sufficient cash reserves to support product launches of IgXPLEX RA and SQiDworks in North America and to complete development work, validation studies and regulatory efforts required for its current pipeline of up to 4 new test panels.

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 June 30, 2010, there were 31,458,000 common shares issued and outstanding.

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

The Company had the following warrants outstanding at June 30, 2010:

Number of Warrants (000s)	Purchase Price	Expiry Date
107	\$ 1.25	January 22, 2011
1,199	4.00	December 4, 2011
144	2.75	December 4, 2011
237	1.90	December 23, 2011
1,686		

The Company had the following stock options outstanding at June 30, 2010:

Number of Options (000s)	Exercise Price	Expiry Date
33	\$ 1.20	June 29, 2011
67	1.20	August 29, 2011
180	1.74	August 7, 2012
50	1.50	October 23, 2012
758	1.60	February 26, 2013
303	1.75	August 26, 2013
80	1.30	May 22, 2014
25	3.26	November 3, 2014
68	2.25	February 22, 2015
60	2.10	May 27, 2015
1,623		

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Recent Accounting Pronouncement Issued and Not Yet Applied

In January 2009, the CICA issued Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. In addition, the CICA issued Sections 1601, Consolidated Financial Statements, and 1602, Non-Controlling Interests, which replaces the existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements, while

section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

These standards apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier application permitted. The Company does not believe there to be any potential impact on its consolidated financial statements.

The CICA plans to converge Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards (“IFRS”) over a transition period expected to end in 2011, when IFRS will be fully adopted. The transition date of October 1, 2010 for the Company will require restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. While the company has begun assessing the adoption of IFRS for 2012, the financial reporting impact of the transition to IFRS has not been determined at this time. The Company will provide a detailed IFRS impact statement and transition plan as part of its year end 2010 financial reporting.

Future Prospects

In its current state of evolution, management believes that the Company has assembled the necessary intellectual, financial, and human capital to advance its current pipeline of autoimmune test panels and the SQiDworks system through the completion of clinical validation studies and regulatory filings in Canada, the U.S. and Europe. The Company believes that completion of its lead assay and clearance in the United States, licensing in Canada, and authorization to CE Mark it in Europe justifies the current intensified investment in development and commercialization of its pipeline of an additional group of at least nine autoimmune microarray diagnostic panels over the next two years, with four of these currently in the Company’s discovery or development processes. It further believes that successful completion of these pipeline tests may lead to the development and commercialization of other test panels addressing unmet medical needs in the detection of known analytes used in the diagnosis or therapies for autoimmune, infectious disease and allergy management.

SQI’s operational objectives are straightforward: generate revenue from products in the regulatory jurisdictions for which we have acquired regulatory approvals or licenses; continued successful commercialization and continuous improvement of a menu of autoimmune test kits; and expansion of partnerships and other strategic relationships to enhance our product offerings or 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.

The Company plans to execute on the following components of its operational strategy:

- Generate, maintain and grow customer sales in North America;
- Complete commercialization and regulatory filings (where appropriate) for, celiac, vasculitis, lupus, Crohn’s, anti-infliximab and IgXPLEX BOTX products;
- Work with our partners to enhance our product offerings;
- Provide world-class customer support and service to ensure satisfaction; and,
- Publish scientific papers to broaden our product value proposition.

The Company will continue to invest in research and development activities related to its core platform technologies of microarray-based assays and detection devices.

DISCLOSURE CONTROLS AND PROCEDURES, AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. 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 the quarter ended June 30, 2010;
- (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 June 30, 2010; and
- (e) have concluded that, other than the item described above in sub-point;
- (f) 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.