SQI Diagnostics Inc.

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

September 30, 2012

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

This discussion and analysis covers the audited financial statements for the years ended September 30, 2012 and 2011. 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 fiscal 2011 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 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. Note 24 of the consolidated financial statements contains a reconciliation of the impact of the adoption of IFRS on amounts previously reported under Canadian generally accepted accounting principles as at September 30, 2011 and October 1, 2010 and for the year ended September 30, 2011. 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 December 12, 2012.

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 comprehensive "turnkey" solutions that increase the efficiency and ease of diagnostic testing, test development and bioanalytical and immunogenicity testing in drug and vaccine development.

Our target customers —in the IVD segment - clinical, reference, academic and diagnostic development laboratories — and in the Diagnostic Tools and Services segment – diagnostic companies, contract research organizations (CRO), and pharmaceutical and vaccine developers — require diagnostic processing equipment and consumable tests ("systems") that are capable of processing large numbers of patient samples to detect and quantify multiple and varied types of

human antibodies, isotypes and sub-classes of antibodies as well as human proteins including protein-based drugs. Our systems and multiplexing technologies enable many tests to be completed in a single well of one of our consumable test kits at low cost and with minimal labour requirements using our "high-throughput systems". High-throughput systems have not been widely employed in autoimmune disease, allergen or immunogenicity 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, and the ability to greatly reduce the effort and time to complete certain aspects of clinical testing in a drug development program.

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 (SQiDworks) 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 SQiDlite™ Bench-Top Diagnostic System (SQiDlite), launched at the American Association of Pharmaceutical Scientists (AAPS) Annual Meeting and Exposition in October of 2012, offers laboratories of all sizes flexible, configurable, fully automated workflow solutions from dilutions through reporting to run protein and antibody multiplexed immunoassays. 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. SQiDlite integrates all test fluidics, test kit processing and analyzing functions in a user-friendly bench-top footprint.

Our Ig_PLEX and Custom PLEX™ microarrays have the ability to accurately measure multiple biomarkers, including but not limited to antibodies, their isotypes and subclasses of the isotypes in a single test. Additionally, our microarray technology uses less patient blood and has fewer steps than traditional methods, which may increase 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, or to develop in-house research use only (RUO) bioanalytical tests to capture and measure their target biomarkers.

The Company is focussing on the continued development of a pipeline of quantitative autoimmune tests that can be processed on our systems. The Company is moving these multiplexed tests through the development pipeline and expects to advance additional test kits through the regulatory process during fiscal 2013 as discussed further in this document.

Diagnostics Tools and Services refer to new Custom PLEX™ products and services targeted at laboratory and other diagnostic customers to leverage our expertise in assay design, automated microarray processing systems, test development software and microarray printing. These

Diagnostic Tools and Services offerings enable us to build panels of a target customer's existing single biomarker tests into multiplexed microarrays that they can then offer to their customers on an OEM basis or use internally for their own purposes such as immunogenicity testing in drug development. These multiplexed test panels may then be sold and used as either RUO, Lab Developed Tests (LDT) or IVD testing provided our customer has obtained required regulatory approvals. The Diagnostic Tools and Services offerings 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 non-IVD prospects, or by transferring products to these customers prior to validation and regulatory processes.

During the second half of the fiscal year and subsequent to year end, the Company has been focussing on arranging and completing many targeted sales and business development initiatives with a large number of (1) diagnostics companies with immunologic single-plex tests amenable to multiplexing, (2) pharmaceutical and vaccine companies using single-plex immunogenicity tests in drug development and (3) CROs that service the immunogenicity testing needs of pharmaceutical companies that outsource their bioanalytical and immunogenicity testing. The Company is focussed on completing agreements with targeted Diagnostic Tools and Services customers and it believes that one, or more, agreements to produce proof of concept or turn-key non-IVD tests will lead to longer-term opportunities and conversion of additional customer prospects.

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 is 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 Company also completed the proof of concept and SQiD-X System (manual bench-top system, formerly named SQiDman) development for an 8-plex Cytokine RUO test panel that is intended to be used to showcase the Company's technical capabilities to rapidly commercialize RUO tests to our Diagnostic Tools and Services customers. The status of each component of our development program 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	Complete	RUO	RUO	RUO
SQiD-X System	Development			
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	
Ig_PLEX Celiac DGP Panel (Quantitative)	Verification/Validation			
Ig_PLEX Vasculitis Panel (Quantitative)	Final Development - Active			
8 plex Cytokine RUO inflammatory marker panel	Complete	Not required - RUO		
Ig_PLEX Rheumatoid Arthritis Panel with expanded markers (Quantitative)	Final Development – on hold			
Ig_PLEX Lupus Panel (Quantitative)	Development – on hold			
Ig_PLEX TNF Assay (Quantitative)	Development – on hold			
Ig_PLEX IBD – Crohn's Disease (Quantitative)	Proof of Concept – on hold			
Ig_PLEX APS (Quantitative)	Proof of Concept – on hold			

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

Platform development of SQiDlite has continued through fiscal 2012. The Company launched SQiDlite at the AAPS Annual Meeting and Exposition on October 14-18th in Chicago IL. 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.

Verification work advanced during fiscal 2012 on the Ig_PLEX Celiac DGP Panel and the Company expects validation to commence in the first fiscal quarter of 2013 followed shortly by completion and submission of applications for regulatory approval in both Canada and the United States.

Development work also advanced on the Ig_PLEX Vasculitis Panel and the Company expects to be able to commence verification and validation work for this IVD test in the first half of 2013.

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

The Company invested in its sales and marketing efforts, its core science related to its microarray and analytic technologies, commercialization, and on the completion of the SQiDlite system.

During the year ended September 30, 2012 the Company's sales efforts focussed on generating multiple opportunities in the Diagnostic Tools and Services segment. These targets were progressed to varying degrees, including what the Company believes are proposals to significant opportunities, some of which resulted in site visits to SQI to assess the Company's platforms and capabilities to develop products on an OEM basis. A letter of intent was completed in the last quarter of fiscal 2012 with Celerion Inc., a leading CRO governing a collaboration for the development of a proof of concept immunogenicity assay ("Ig_PLEX") to detect, measure and

quantify multiple isotypes and sub-class antibodies to a therapeutic protein in a single assay. Other OEM opportunities where proposals have been submitted continue to progress and Management is optimistic that budget restrictions and complexities owing to legacy system retirement and marketing arrangements can be overcome in some, if not all, of the opportunities.

During the second half of fiscal 2012 and subsequent to the year-end our business development team was responsive and proactive in developing joint marketing initiatives with a variety of our hardware vendors of our platform systems components. The results of these efforts have led to the generation of multiple sales opportunities. Target customers have expressed an interest in our Diagnostic Tools and Services and in utilizing and applying our multiplexing technologies to their in-development products. Management believes this could also lead to sales and/or use of our systems upon commercialization of their products.

Subsequent to the year-end, the Company launched its SQiDlite system at AAPS targeting pharmaceutical companies and CROs with bioanalytical testing needs in the various phases of drug development and clinical trials. Also subsequent to the year-end the Company was invited to present at the European Bioanalysis Forum Open Symposium to provide pharmaceutical companies and CROs with the technical basis of our ability to multiplex and automate immunogenicity and other multi-biomarker tests and the economic benefits of using our technologies. Management believes that these and other direct sales efforts have been very successful and expects that they will result in either paid proof of concept projects and/or initiating turn-key RUO agreements for our Diagnostics Tools and Services products and services.

Our IVD sales efforts focussed on increasing product adoption at our existing customer. The Company also entered into a Letter of Intent with Integrated Sciences for the distribution of our IVD products in Australia and we expect this relationship to create additional sales opportunities that we expect will be leveraged by the completion of our next quantitative Celiac product for which we expect to file for regulatory clearances in the US, Canada and Europe in 2013.

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

(a) On July 16, 2012 the Company entered into a Diagnostic Tools and Services letter of intent with Celerion Inc. ("Celerion"). This agreement governs a collaboration for the development of a proof of concept immunogenicity assay ("Ig_PLEX") to detect, measure and quantify multiple isotypes and sub-class antibodies to a therapeutic protein in a single assay. The successful completion of the proof of concept assay is expected to lead to the completion of a commercial, fully automated multiplex assay to be sold to Celerion.

(b) On February 14, 2012 the Company announced that it entered into a Letter of Intent 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 Ig_PLEX Celiac DGP Panel. Additionally, a reciprocal Memorandum of Understanding between the Department of Health of Canada and the Australian Therapeutic Goods Administration, that was signed in 2007, is expected to reduce the regulatory burden to begin the marketing efforts in the Australian marketplace.

(c) The Company identified and developed a strong pipeline of prospective customers for its Diagnostic Tools and Services business. The prospects were generally grouped into the following categories: Immunology Diagnostic Manufacturers, Contract Research Organizations, Blood Bank Testing Manufacturers and Immunogenicity Testing focussed on pharmaceutical companies and CROs. Our Sales and Senior Management team participated in the AAPS annual conference in Chicago subsequent to the year end and is currently reacting to a very high level of response from prospective customers.

(d) Owing to initial success in presenting to customer prospects in the Diagnostic Tools and Services business management and our lead scientists were invited to present at and attend the European Bioanalysis Forum annual symposium in November 2012. This opportunity advanced our sales pipeline and generated multiple prospects including multinational drug and vaccine development companies.

(e) Subsequent to the year-end, SQI was asked to participate in the Emerging Technologies Action Program Committee (ETAPC). This is an industry working group comprising industry leaders and the Committee focuses on evaluating the potential of emerging technologies for biologics quantification beyond the technologies that are presently expanding in the pharmaceutical industry or technologies that represent progressive developments and that offer a competitive advantage to its partner companies in the pharmaceutical and drug development markets.

(f) The Company completed site due diligence visits with prospective customers for its Diagnostic Tools and Services segment. The Company expects that some or all of these prospects will be converted to Diagnostics Tools and Services customers. The Company believes that this could result in the generation of revenue from services related to the development of multiplexed products for these customers. Successful completion of development milestones is expected to result in milestone payments and revenue from the manufacture of products.

(g) We progressed a number of pipeline diagnostic tests through our discovery and development program:

(i) Completed the development of the quantitative Ig_PLEX Celiac DGP Panel and progressed this assay into the verification stage.

(ii) The Company's vasculitis assay continued to progress through the assay development pipeline, though focus on this assay was reduced as a result of the Company's previously announced business realignment. The Company completed the development of a new method for producing glomerular base membrane ("GBM"), a key marker on the panel. In addition, myeloperoxidease ("MPO") has been reformulated to better differentiate patients with active vasculitis from those in whom the disease is in remission. The successful results shown by data generated in this development work have been confirmed by our collaborators at the University of North Carolina.

(iii) During the year ended September 30, 2012 a white paper was published and is available on the Company's website detailing the performance of our 8-plex cytokine inflammation panel. The Company's 8-plex RUO antibody panel for the quantification of cytokines progressed to final development. Monitoring cytokine expression represents a major segment of the RUO immunoassay market and this is targeted as a demonstration panel for the Company's Diagnostic Tools and Services segment.

(iv) During the year ended September 30, 2012, the Company commenced work on a proof of concept assay which extends our antibody isotype detection to include the Ig subclass to meet the needs of customers who are required to demonstrate the biosafety of protein therapeutics. Subsequent to the year-end, the Company was invited to present at the European Bioanalysis Forum Open Symposium to provide pharmaceutical companies and CROs with the technical basis of our ability to multiplex and automate immunogenicity and other multi-biomarker tests and the economic benefits of using our technologies.

(v) The Company's quantitative lupus test panel, currently on hold, is in the assay development stage. The Company expects to re-initiate development of this product in the 2013 fiscal year.

(vi) 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 fiscal 2013.

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 at least 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 proceeds from the issuance of units are allocated between capital stock and warrant capital based on their relative fair values, with $794,000 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 $1.65; dividend yield 0%; risk free interest 1.10%; volatility 61%; and an expected life of 2 years. Expected volatility is based on historical volatility.

In connection with the private placement, the Company paid a finder's fee of $258,000 and issued 86,040 compensation warrants exercisable for 24 months from the closing of the private placement. Each compensation warrant is exercisable into one common share and one warrant at a price of $2.00. Each underlying warrant included in the compensation warrant is exercisable into one common share at a price of $2.50 for a two year period from the date of the private placement. The fair value of the compensation warrants was estimated at $53,000 using the Black-Scholes pricing model with the following assumptions: share price $1.91; dividend yield 0%; risk free interest 1.10%; volatility 61%; and an expected life of 2 years. Expected volatility is based on historical volatility. Broker warrants and related financings were not measured at the fair value of the services received as the fair value of such services was not reliably measurable. The total share issuance costs were $362,000.

Pursuant to a non-brokered private placement the Company issued 3,508,171 units at a price of $1.75 per unit for gross proceeds of $6,139,000. The private placement was completed in four tranches which closed on May 11, 2012, May 17, 2012, June 14, 2012 and June 20, 2012, respectively.

Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant will entitle the holder to purchase one common share at a price of $2.50 for a period of two years from the date of issuance. The proceeds from the issuance of units are allocated between capital stock and warrant capital based on their relative fair values, with $1,063,000 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 $1.45; dividend yield 0%; risk free interest 1.20%; volatility 67%; and an expected life of 2 years. Expected volatility is based on historical volatility.

In connection with the private placement, the Company paid a finder's fee of $368,000 and issued 210,491 compensation warrants expiring 24 months after issuance. Each compensation warrant is exercisable into one common share and one warrant at a price of $1.75. Each underlying warrant included in the compensation warrant is exercisable into one common share at a price of $2.50 expiring 24 months following the respective closing dates of the private placement. The fair value of the compensation warrants was estimated at $109,000 using the Black-Scholes pricing model with the following average assumptions: share price $1.55; dividend yield 0%; risk free interest 1.22%; volatility 67%; and an expected life of 2 years. Expected volatility is based on historical volatility. Broker warrants and related financings were not measured at the fair value of the services received as the fair value of such services was not reliably measurable. Total share issuance costs were $519,000.

During the year ended September 30, 2012 a total of 95,835 employee stock options were exercised at an average price of $1.24 for total proceeds of $119,000.

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 include the following:

Intangible Assets

Patents and trademarks comprise costs, including professional fees incurred in connection with the creation and filing of patents and registration of trademarks related to the Company's core technology and trademarks. The costs relating to initial patent and trademark fees are deferred and amortized over 10 years on a straight-line basis. Patents and trademarks are recorded net of impairment losses, if any. Research costs are charged to operations in the period in which they are incurred. Development costs are 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 September 30, 2012, the Company was developing Ig_PLEX diagnostics assays for celiac, vasculitis and an 8-plex cytokine panel. While not in active development other assays in the development pipeline include lupus (SLE), Crohn's (IBD), antiphospholipid syndrome, the second generation, fully quantitative Ig_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 stock-based payment awards granted is recognized as an expense with a corresponding increase in contributed surplus. The Company grants stock options with multiple vesting periods, with each vesting period being treated as a separate tranche and considered a separate grant for the calculation of fair value. Fair value is calculated using the Black-Scholes option pricing model and the resulting fair value is amortized over the vesting period of the respective tranches. In addition, stock-based compensation expense recognized reflects estimates of award forfeitures with any change in estimate thereof reflected in the period of the change. Consideration received upon the exercise of stock options is credited to capital stock at which time the related contributed surplus is transferred to capital stock.

In situations where non-employee stock-based compensation is issued and some or all of the goods or services received by the entity as consideration cannot be measured reliably, they are measured at the fair value of the stock-based payment.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets for unused tax losses, investment tax credits (ITCs) and deductible temporary differences are recorded in the financial statements, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

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 ITCs 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, 2015, 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 consolidated 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 adopted IFRS effective October 1, 2011. The Company's financial statements for the year ended September 30, 2012 are 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 of the consolidated financial statements have been applied in preparing the financial statements for the years ended September 30, 2012 and 2011 and in the preparation of the opening IFRS consolidated balance sheet as at October 1, 2010.

The Company has applied IFRS 1; First time Adoption of International Financial Reporting Standards (IFRS 1) in preparing these first IFRS consolidated statements. In preparing the opening IFRS consolidated balance sheet, the Company has adjusted amounts previously reported in financial statements prepared in accordance with Canadian GAAP. Note 24 to the 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, subject to certain

exemptions from full retrospective application of IFRS as described below.

IFRS optional exemptions

Business Combinations

The Company has elected to apply IFRS 3 – Business combinations 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 – Share-based payment 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

The impact of these changes on the consolidated balance sheet at October 1, 2010 and September 30, 2011 is an increase to contributed surplus and deficit of $114,000 and $111,000, respectively.

The impact on the statement of operations for the year ended September 30, 2011 is to decrease stock based compensation by $3,000.

SELECTED FINANCIAL INFORMATION

The table below summarizes annual financial information for the fiscal years ended September 30, 2012 and 2011.

	Year ended September 30, 2012 (000s)	Year ended September 30, 2011 (000s)
Revenue	$ 12	$ 36
Net Loss	$ 6,311	$ 10,744
Net Loss Per Share	$ (0.17)	$ (0.32)
Weighted Average Shares	37,406	33,874

The net loss for the year ended September 30, 2012 was $6,311,000 ($0.17 net loss per share) as compared to $10,744,000 ($0.32 net loss per share) for the year ended September 30, 2011. The decrease in net loss for the year ended September 30, 2012 as compared to the loss for the year ended September 30, 2011 was related to reduced costs for scientific discovery and development activities as a result of the Company's business realignment which was announced on November 30, 2011. The business realignment streamlined the product development portfolio as well as reducing the workforce by 14 positions. The realignment focussed the Company's R&D efforts more intensively on completing products currently in final development.

The decrease in the net loss for 2012 versus 2011 is also attributable to a one-time charge in 2011 relating to the write-off of lab equipment, and higher professional fees in 2011 relating to an abandoned acquisition and related US IPO.

Revenue for the year ended September 30, 2012 was $12,000 versus $36,000 for the year ended September 30, 2011. Revenues decreased in the fiscal 2012 year due to the reduction in consulting services provided to a related party; these services were discontinued in fiscal 2011 and are not related to any of the Company's diagnostics customers, products or services. Revenues further decreased due to reduced orders from the Company's customer Gamma Dynacare Medical Laboratories. During the last half of fiscal 2012 the Company experienced difficulty with the reproducibility of a manufactured source molecule for one of the biomarkers used in the production of its QuantiSpot RA test kits. Following discussions with this customer it was agreed that the Company would concentrate on the completion of the Ig_PLEX Celiac DGP Panel rather than divert resources to resolve the reproducibility of the manufactured source molecule. The customer continues to use QuantiSpot RA kits but, due to the reduced functionality of the one biomarker, limited numbers of these kits have been provided at no cost in order to maintain customer relations and to secure future orders for business including Ig_PLEX Celiac DGP Panel.

Research and development (R&D) costs, excluding amortization, and stock based compensation were $3,057,000 for the year ending September 30, 2012 compared to $5,456,000 for the year ending September 30, 2011. The decrease in R&D expenditures of $2,399,000 is a result of decreased personnel costs due to the headcount reductions and reduced laboratory and partnering expenditures due to the streamlined R&D activities resulting from the business realignment.

The head count reduction which commenced in November of 2011 resulted in reduced salary and related costs of $1,072,000 (from $3,604,000 in fiscal 2011 to $2,532,000 in fiscal 2012). The Company's focus on completing assays in the final development stage and placing products in earlier stages on hold resulted in a $1,123,000 reduction in laboratory consumables, consultants, and validation costs (from $2,152,000 in 2011 to $1,029,000 in 2012).

The Scientific Research and Experimental Development (SRED) cash refund received in the 2012 fiscal year was $504,000 compared to $300,000 received in fiscal 2011. In fiscal 2012, the Canada Revenue Agency completed an audit of the Company's SR&ED claims for the 2008, 2009, and 2010 fiscal years which resulted in an additional $204,000 investment tax credit being recorded in the year related to those periods.

Corporate and general expenses include 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. Also under corporate and general expenses are general and administrative costs. Corporate and general expenses decreased to $1,378,000 in fiscal 2012 as compared to $1,553,000 in fiscal 2011. The decrease of $175,000 is due to decreased travel and filing fees related to the 2011 acquisition and financing, improved exchange rates and other cost cutting measures implemented by the Company. These decreases were partially offset by increases in occupancy costs and salaries.

Professional and consulting fees decreased to $423,000 in the year ended September 30, 2012 from $2,083,000 in the year ended September 30, 2011. The fiscal 2011 expense included $956,000 of costs relating to the proposed financing and $697,000 of costs relating to the proposed acquisition.

Sales and marketing expense was primarily related to sales and marketing consultant fees and to travel related to selling activities. Sales and marketing expenses, excluding stock based compensation, totalled $273,000 for the year ended September 30, 2012 compared to $448,000 for the year ended September 30, 2011. The decrease in sales and marketing expense was primarily a result of a reduction in the number of sales contractors. With executive support, the sales team is targeting its efforts on the Diagnostic Tools and Services business and currently approved IVD products. In June of 2012 the Company engaged a senior sales contractor to lead the sales efforts of the Diagnostic Tools and Services and IVD businesses.

Fourth Quarter Commentary

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

	September 30, 2012 (000s)	June 30, 2012 (000s)	March 31, 2012 (000s)	December 31, 2011 (000s)
Revenue	$ -	$ -	$ 8	$ 4
Net Loss	$ 1,727	$ 1,584	$ 1,350	$ 1,650
Net Loss Per Share	$ (0.04)	$ (0.04)	$ (0.04)	$ (0.05)
Weighted Average Shares	39,822	37,877	36,280	35,637

	September 30, 2011 (000s)	June 30, 2011 (000s)	March 31, 2011 (000s)	December 31, 2010 (000s)
Revenue	$ 5	$ 9	$ 4	$ 18
Net Loss	$ 3,896	$ 2,648	$ 1,890	$ 2,310
Net Loss Per Share	$ (0.11)	$ (0.08)	$ (0.06)	$ (0.07)
Weighted Average Shares	33,946	33,936	33,852	33,759

Revenue for the quarter-ended September 30, 2012 was $NIL compared to $5,000 for the quarter-ended September 30, 2011. Revenue decreased for the three months ended September 30, 2012 compared to the three months ended September 30, 2011 as the Company's customer Gamma Dynacare Medical Labs (GDML) did not purchase the QuantiSpot RA test kits in the quarter for reasons noted above.

For the quarter-ended September 30, 2012, the Company recorded a net loss of $1,727,000 ($0.04 net loss per share) compared to a net loss of $3,896,000 ($0.11 net loss per share) for the quarter-ended September 30, 2011. Per share values are based on the weighted average shares outstanding in the period. For the quarter-ended September 30, 2012 there was an average 39,822,000 shares outstanding.

The net loss was lower for the three months ended September 30, 2012 compared to the three months ended September 30, 2011. The Company's business realignment reduced both personnel and R&D expenditures. The Company also reduced costs in general and administrative and professional fees.

R&D expenditures, excluding amortization and stock based compensation, for the quarter-ended September 30, 2012 were $820,000 compared to $1,400,000 for the quarter-ended September 30, 2011. With fewer projects in active development the Company reduced expenditures on salaries, lab consumables, scientific consultants, partnering and validation costs. In fiscal 2012, the Company moved the celiac quantitative assay, the vasculitis assay and the cytokines panel through the verification and/or final development stage. In fiscal 2011, the Company had six projects in various stages of active development, including products that are temporarily 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 and general expenses include 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. Corporate and general expenses also include general and administrative expenses which comprise occupancy costs, insurance costs, foreign exchange expenses, and other general operating costs. Corporate and general expenses were $323,000 for the three months ended September 30, 2012 compared to $497,000 for the three months ended September 30, 2011. Costs were reduced as a result of the corporate realignment and an improvement in exchange rates.

Professional consulting (legal, accounting, Board of Directors compensation, recruiting, administrative contractor, and investor relations) costs in the three months ended September 30, 2012 were $178,000 compared to $1,614,000 for the three months ended September 30, 2011. The decrease in professional and consulting costs in the three months ended September 30, 2012 was primarily related to reduced recruiting fess and professional fees relating to an abandoned acquisition and related US IPO.

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 $92,000 for the three months ended September 30, 2012 compared to $119,000 for the three months ended September 30, 2011. The decrease in sales and marketing expenses for the three months ended September 30, 2012 compared to the three months ended September 30, 2011 was primarily a result of a reduction in the number of sales contractors.

Non-cash stock based compensation charges totalled $125,000 for the three months ended September 30, 2012 (fiscal 2012 - $543,000) compared to $72,000 for the three months ended September 30, 2011 (fiscal 2011 - $472,000). The related stock option issuances are described further in the Outstanding Capital Stock section that follows.

Operational expenses were partially offset by interest income earned on short-term investments of $7,000 for the three months ended September 30, 2012 (fiscal 2012 - $11,000) compared to $5,000 for three months ended September 30, 2011 (fiscal 2011 - $61,000). The Company invests its cash in variable term cashable government investment certificates and short-term money market deposits.

OUTLOOK AND FUTURE PROSPECTS

The Company launched its Diagnostics Tools and Services business line and has been establishing a strong line-up of potential customers during fiscal 2012. This business is focussed on using our core IVD development technologies, software and platforms to enable diagnostic customers, laboratories and pharmaceutical companies and CROs involved in drug development with single test biomarker panels to move to multiplexed assays on the SQI technology platform. We believe that our unique technology is attractive to prospects that desire multiplexed assays but do not have the capability to commercialize multiplexed tests. We also believe that our multiplex automated platforms (SQiDworks and SQiDlite) and our semi-automated SQiD-X, 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 including: Diagnostic Tools and Services assay development fees; product revenue from the manufacture of

OEM kits; software revenues; and platform revenues from the sale of primarily SQiDlite units, but also SQiDworks and SQiD-X units. Management believes that the success of these potential diagnostic customers may result in 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 Ig_PLEX test kits, including our own IVD and RUO kits. From our initial customer prospecting, joint marketing efforts with some of our hardware vendors and market development focussed on introducing our technologies to new markets at trade shows, conferences and symposia, management believes that there are a significant number of potential customers recognizing the value of the Diagnostic Tools and Services offerings. The ideal customer targets are those that have either tried to apply competing bead-based multiplexing technologies or planar microarrays (or both) to antibody-based immunologic tests or panels requiring multiple biomarkers.

The Company is focussed on converting several of the 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 from a number of prospects that will generate revenues earlier in the product development cycle. Management believes that in the first half of fiscal 2013 it will generate early revenues from proof of concept or discovery projects leading to larger and longer term development and product revenue streams. Management believes that once recognized in the market for SQI's ability to deliver contract products that this will further accelerate our sales of additional Diagnostic Tools and Services projects and will also create sales synergies in our IVD markets. The benefits of the Diagnostic Tools and Services opportunities also include gaining access to developed revenue streams through the replacement of single-plex test sold by 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 2013 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. Subsequent to year-end, the Company announced that it had established a special committee to review strategic alternatives to maximize growth and shareholder value. Management expects to reduce losses in fiscal 2013 as it generates revenues and margin from a variety of Diagnostic Tools and Services customers. Upon validation and regulatory licensing (Canada, Australia and EU) and clearance in the U.S. the Company will focus on sales to reference laboratories in these jurisdictions and on placing SQiDworks systems in Canadian, Australian, US and European customers for system evaluation. Management believes some, or all, of these evaluation placements will lead to commercial acceptance and revenues from sales of consumable test kits in the 2013 fiscal year.

On February 14, 2012, the Company signed a Letter of Intent with Integrated Sciences of Australia for the exclusive distribution of SQI IVD products and platforms in Australia. 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 based on the licensing and expected market demand for the Ig_PLEX Celiac DGP Panel.

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. A letter of intent was completed during the fourth quarter of fiscal 2012 with Celerion Inc., a leading contract research organization, governing collaboration for the development of a proof of concept immunogenicity assay ("Ig_PLEX") to detect, measure and quantify multiple isotypes and sub-class antibodies to a therapeutic protein in a single assay.

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. Related party transactions have been listed below, unless they have been disclosed elsewhere in the financial statements.

Included in general and administrative expense for the year ended September 30, 2011 is $38,000 related to recovery of occupancy costs from a corporation in which an officer of the Company is also an officer. Consulting fee revenue for the year ended September 30, 2011 of $9,000 was earned from this corporation. At October 1, 2010, $1,000 due from this corporation is included in amounts receivable. Not transactions occurred with this related party in 2012 and no balance was outstanding at either September 30, 2011 or 2012.

Sources and Uses of Cash

Operational activities for the year ended September 30, 2012 were financed by cash on hand.

At September 30, 2012, current assets were $4,208,000 compared to $1,266,000 at September 30, 2011. Working capital as at September 30, 2012 was $3,190,000 compared to ($1,322,000) at September 30, 2011.

Cash used in investing activities for the year ended September 30, 2012 was $432,000 compared to $748,000 for the year September 30, 2011. The decreased investing activities during the year ended September 30, 2012 were a result of the Company's focus on cost cutting measures. Costs in the year ended September 30, 2011 were a result of the Company's investment 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 $2.00 per unit for gross proceeds of $4,552,000. In a second non-brokered private placement the Company issued 3,508,171 units at a price of $1.75 per unit for gross proceeds of $6,139,000. The private placement was completed in four tranches which closed on May 11, 2012, May 17, 2012, June 14, 2012 and June 20, 2012. Please refer to the Corporate Financing Transactions section for additional details.

During the year ended September 30, 2012, a total of 95,835 employee stock options were exercised at an average price of $1.24 for total proceeds of $119,000.

Management believes that the cash on hand will support our operations and commercialization plans for at least 8 months.

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 March 22, 2012, 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 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

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

We have a limited operating history and have incurred significant losses in each fiscal year since our inception, including net losses of $3.8 million, $5.9 million, $8.1 million, $10.7 million and $6.3 million during fiscal 2008, 2009, 2010, 2011 and 2012, respectively. As of September 30, 2012, we had an accumulated deficit of $50.6 million. These losses have resulted principally from costs incurred in our research and development programs and from our selling, general and administrative expenses. We expect to continue to incur operating and net losses and negative cash flow from operations, which may increase, for the foreseeable future due in part to anticipated increases in expenses for research and product development and expansion of our sales and marketing capabilities. We anticipate that our business will generate operating losses until we successfully implement our commercial development strategy and generate significant additional revenues to support our level of operating expenses. Because of the numerous risks and uncertainties associated with our commercialization efforts and future product development, we are unable to predict when we will become profitable, and we may never become profitable. Even if we do achieve profitability, we may not be able to sustain or increase our profitability.

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.

We believe that our existing cash and cash equivalents will be sufficient to meet our anticipated cash requirements for approximately the next 8 months. However, we may need to raise substantial additional capital to:

- expand the commercialization of our products;
- manufacture our platforms in advance of placing them with our customers;
- fund our operations; and
- further our research and development.

Our future funding requirements will depend upon many factors, including:

- development of new and existing products;
- market acceptance of our products;
- the cost of our research and development activities;
- the cost of potential licensing of technologies patented by others;
- the cost of filing and prosecuting patent applications;
- the cost of defending, in litigation or otherwise, any claims that we infringe third party patents or violate other intellectual property rights;
- the cost and timing of regulatory clearances or approvals;
- the cost and timing of establishing additional sales, marketing and distribution capabilities;
- the cost and timing of establishing additional technical support capabilities;
- the effect of competing technological and market developments; and
- the extent to which we acquire or invest in businesses, products and technologies, although we currently have no commitments or agreements relating to any of these types of transactions.

If we raise additional funds by issuing equity securities, our shareholders may experience dilution. Debt financing, if available, may involve covenants restricting our operations or our ability to incur additional debt. Any debt or additional equity financing may contain terms that are not favourable to us or our shareholders. If we raise additional funds through collaboration and licensing arrangements with third parties, it may be necessary to relinquish some rights to our technologies or our products, or grant licenses on terms that are not favourable to us.

If we do not have, or if we are unable to obtain additional funds on acceptable terms on a timely basis, or at all, we may have to delay development or commercialization of our products or license to third parties the rights to commercialize products or technologies that we would otherwise seek to commercialize. We also may have to liquidate some or all of our assets, reduce the scope of or eliminate some or all of our development programs, reduce marketing, customer support or other resources devoted to our products, or cease operations. Any of these factors could harm our business, financial condition and results of operations.

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

The markets for our products are characterized by rapidly changing technology, evolving industry standards, changes in customer needs, emerging competition, new product introductions and strong price competition. We compete with both established and development stage companies, universities, research institutions, governmental agencies and healthcare providers that design, manufacture and market similar diagnostic products. Many of our current competitors have significantly greater name recognition, greater financial and human resources,

broader product lines and product packages, larger sales forces, larger existing installed bases, larger intellectual property portfolios and greater experience and capabilities in researching, developing and testing products, in obtaining FDA and other regulatory approvals or clearances, and in manufacturing, marketing and distribution, than we have. For example, companies such as Bio-Rad Laboratories Inc., Phadia AB, Axis-Shield plc, and INOVA Diagnostics, Inc. have products that compete in certain segments of the market in which we sell our products, including immunoassays. In addition, a number of other companies and academic groups are in the process of developing novel products and technologies for diagnostics markets.

Our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. In light of these advantages, even if our technology is more effective than the product or service offerings of our competitors, current or potential customers might accept competitive products and services in lieu of purchasing our technology. We anticipate that we will face increased competition in the future as existing companies and competitors develop new or improved products and as new companies enter the market with new technologies. We may not be able to compete effectively against these organizations. Increased competition is likely to result in pricing pressures, which could harm our sales, profitability or market share. Our failure to compete effectively could materially and adversely affect our business, financial condition and results of operations.

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

We currently have one customer and our success depends, in part, upon our ability to develop and market products that are recognized and accepted as reliable, accurate, timely and cost effective by physicians, lab technicians and administrators. Most of our potential customers already use expensive diagnostic products and systems in their laboratories and may be reluctant to replace those systems. Market acceptance of our products and technologies will depend upon many factors, including our ability to provide a broad test menu of assays to potential customers, and our ability to convince potential customers that our systems are an attractive cost- and time-saving alternative to existing technologies. Compared to most competing technologies, our microarray assay technology is relatively new, and most potential customers have limited knowledge of, or experience with, our products. Prior to adopting our microarray assay technology, some potential customers may need to devote time and effort to testing and validating our systems. Any failure of our systems to meet these customer benchmarks could result in customers choosing to retain their existing systems or to purchase systems other than ours.

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 operate in a highly regulated industry and we are subject to the authority of certain regulatory agencies, including Health Canada, the FDA, European Conformity (CE) and applicable health authorities in other countries, with regard to the development, testing, manufacturing, marketing and sale of our diagnostic products. The process of obtaining such clearances or approvals can be costly and time-consuming, and if we are unable to obtain on a timely basis or to maintain regulatory clearances or approvals, it would have a material adverse effect on our business. Clearance by regulatory authorities can be suspended or revoked, or we could be fined, based on a failure to continue to comply with applicable standards. Any failure to obtain (or significant delay in obtaining) or maintain applicable regulatory clearances or

approvals (or, to a lesser extent, approval of applicable health authorities in other countries) for our new or existing products could materially affect our ability to market our products successfully and could therefore have a material adverse effect on our business. Additionally, the authority of the regulatory agencies or the application of certain regulations may be expanded or otherwise changed in such a manner that would place additional regulatory burdens on us or our customers. Such a change in our industry could have a material adverse effect on our business.

We must manufacture products in compliance with regulatory requirements, in sufficient quantities and on a timely basis, while maintaining product quality and acceptable manufacturing costs. If we or our suppliers are unable to manufacture or contract for such capabilities on acceptable terms, our plans for commercialization could be materially adversely affected.

Our manufacturing facilities are subject to periodic regulatory inspections by the regulatory agencies and these facilities are subject to quality standards requirements of the applicable regulatory authorities. We, or our contractors, may not satisfy such regulatory or standards requirements, and any failure to do so may have a material adverse effect on our business, financial condition and results of operations.

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.

The field of diagnostics is characterized by rapidly changing and developing technologies that include new products that could render our diagnostic processing equipment and consumable tests obsolete at any time and thereby adversely affect our financial condition and future prospects. Our success depends upon our ability to develop new products with improved performance and cost effectiveness in existing and new markets. New technologies, techniques or products could emerge that might offer better combinations of price and performance than our current or future product lines. It is critical to our success for us to anticipate changes in technology and customer requirements and to successfully introduce new, enhanced and competitive technology to meet our prospective customers' needs on a timely basis.

Developing and marketing new products and services will require us to incur substantial development costs and we may not have adequate resources available to be able to successfully introduce new versions of, or enhancements to, our products. We cannot guarantee that we will be able to maintain technological advantages over emerging technologies in the future. While we plan to continue to make improvements to our current and future cleared or approved and marketed diagnostic processing equipment and consumable tests, we may not be able to successfully implement these improvements. If we fail to keep pace with emerging technologies, demand for our products will not grow, and our business, revenue, financial condition and operating results could suffer materially. Even if we successfully implement some or all of these planned improvements, we cannot guarantee that potential customers will find our enhanced products to be an attractive alternative to existing technologies, including our current products.

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.

New diagnostic products, and improvements to existing diagnostic products, require significant research, development, testing and investment prior to any final commercialization. Our business depends upon the continued development and improvement of our existing products, our development of new products to serve existing markets and our development of new products to create new markets and applications that were previously not practical with existing systems. We

believe that the adoption of our platform by potential customers depends, in part, upon our ability to provide a test menu of assays to potential customers. To date, we have obtained regulatory approval for only a few diagnostic assays.

We intend to devote significant personnel and financial resources to research and development activities designed to advance the capabilities of our diagnostic technology and, in the case of our IVD business, to obtain regulatory approval of additional assays. In the past, our product development projects have been delayed. We may have similar delays in the future, and we may not obtain any benefits from our research and development activities. Any delay or failure by us to develop new products or enhance existing products would have a material adverse effect on our business and results of operations. If we are unable to successfully develop these products, accomplish such improvements, receive applicable regulatory clearances or approvals, produce the products in commercial quantities at reasonable costs, or successfully market the products, it would have a material adverse effect on our business and results of operations. Our long-term success must be considered in light of the expenses, difficulties and delays frequently encountered in connection with the development of new technology and the competitive and highly regulated environment in which we operate.

Our future success depends upon our ability to expand our customer base and introduce new products and services.

Our success will depend upon our ability to gain acceptance, and then increase our market share, among our customers, attract additional customers outside of our initial target markets, and bring to market new products and services. Attracting new customers and introducing new products and services requires substantial time and expense. For example, it may be difficult to identify, engage and market to customers who are unfamiliar with the benefits of our products and services. Any failure to establish and expand our existing customer base or launch new products or services would adversely affect our ability to increase our revenues.

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.

As we are in the early stages of commercializing and marketing our products, we have limited experience in marketing, selling and distributing our products. We may not be able to market, sell and distribute our products effectively enough to support our planned growth. We intend to market, sell and distribute our products directly through our own sales force in North America, Europe and elsewhere. Our future sales will depend in large part upon our ability to develop and substantially expand our direct sales force and to increase the scope of our marketing efforts.

Our products are technically complex and used for specialized applications. Our ability to market our products effectively will depend, in part, upon our ability to convince laboratories that our products will deliver accurate patient results in less time and with significantly reduced labour, consumables and other costs. As a result, we believe it is necessary to develop a direct sales force that includes people with specific scientific backgrounds and expertise and a marketing group with technical sophistication. Competition for such employees is intense. We may not be able to attract and retain personnel, or be able to build an efficient and effective sales and marketing force, which could negatively impact sales of our products, and reduce any future revenues and profitability.

If our sales, marketing and distribution efforts are not successful, our technologies and products may not gain market acceptance, which would materially impact our business operations.

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

We have entered into and may continue to enter into strategic partnerships with a number of medical institutions. For example, we have entered into strategic agreements with the Cleveland Clinic, Beth Israel Deaconess Medical Center, Hospital Clinic De Barcelona, University Hospital Maastricht, and The University of North Carolina at Chapel Hill. If any of our strategic partners were to change their business strategies or development priorities, they may no longer be willing or able to participate in such strategic partnerships which could have a material adverse effect on the timing of our future development efforts. In addition, we may not control the strategic partnerships in which we participate. We may also have certain obligations with regard to our strategic partnerships, in addition to the obligation to pay money, such as an obligation to publish the results of research.

If any of our strategic partners terminate their relationship with us or fail to perform their obligations in a timely manner, or if we fail to perform our obligations in a timely manner, the development or commercialization of our technology in potential products may be affected, delayed or terminated.

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.

We rely on key suppliers for certain components and materials used in our platform technologies, including our SQiDworks diagnostic platform and our microarrays. We do not have agreements with these key suppliers to supply us with components in the future. The loss of any of these key suppliers would require significant time and effort to locate and qualify an alternative source of supply. There is a limited number of suppliers who can manufacture the highly specialized equipment that forms a part of our SQiDworks system.

Our first set of assays being commercialized requires a highly specific mono-layer coating on the glass surface which is used to bond each of the microarray "spots". We have worked closely with these manufacturers to extend the capabilities of their standard products to support the unique needs of our platform technologies and microarray devices. Any change in any component that forms a part of our SQiDworks system will require additional testing to ensure that it performs in a substantially similar manner to the existing component.

Our reliance on these suppliers also subjects us to other risks that could harm our business, including the following:

- we may be subject to increased component costs;
- we may not be able to ensure that any component that we change performs in a substantially similar manner to the existing component;
- we may not be able to obtain adequate supply in a timely manner or on commercially reasonable terms;
- our suppliers may make errors in manufacturing components that could negatively affect the efficacy of our systems or cause delays in shipment of our systems; and

- our suppliers may encounter financial hardships unrelated to our demand for components, which could inhibit their ability to fulfill our orders and meet our requirements.

We may not be able to quickly establish additional or replacement suppliers, particularly for our single source components. Any interruption or delay in the supply of components or materials, or our inability to obtain components or materials from alternate sources at acceptable prices in a timely manner, could impair our ability to meet the demand of our strategic partners and future customers.

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

The healthcare regulatory environments in the jurisdictions in which we operate and plan to operate may change in a way that restricts our ability to market our diagnostic testing products due to medical coverage or reimbursement limits. Sales of our diagnostic systems will depend, in part, upon the extent to which the costs to patients of such tests are paid by health maintenance, managed care, and similar healthcare management organizations, or reimbursed by government health payor administration authorities, private health coverage insurers and other third party payors. These healthcare management organizations and third party payors are increasingly challenging the prices charged for medical products and services. The containment of healthcare costs has become a priority of governments. Accordingly, our potential products may not be considered cost effective, and reimbursement to the ultimate patient may not be available or sufficient to allow us to sell our products on a competitive basis.

Legislation and regulations affecting reimbursement for our products may change at any time and in ways that are difficult to predict and these changes may be adverse to us. For example, a reduction in U.S. Medicare, Medicaid or other third party payor reimbursements for diagnostic services could have a negative effect on our operating results. In June 2011, the FDA issued draft guidance that sets forth the FDA's proposed interpretation of laws regarding the marketing of IVD products labelled as RUO products that could be used for *in vitro* diagnostic purposes. Among other things, the draft guidance suggests that it is generally inappropriate for a manufacturer to sell RUO products to clinical laboratories that the manufacturer knows, or has reason to know, use the products for clinical diagnostic uses. We do not believe this guidance will materially impact our business as the Company plans to deliver products on an OEM basis requiring our customers to obtain regulatory approval or to be used internally for their own purposes.

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

Our performance depends substantially upon the performance of our senior management and key scientific and technical personnel, including our Chief Executive Officer, Claude Ricks, our Chief Financial Officer, Andrew Morris, and our Vice President of Research and Development, Dr. Jaymie Sawyer. Retaining these key personnel and recruiting additional qualified personnel in the future will be critical to our success. We believe there are only a limited number of individuals with the requisite skills to serve in many of our key positions. Competition for qualified personnel in the diagnostics industry is intense and recruiting and retaining qualified personnel with experience in our industry is very difficult. We compete for key personnel with other medical equipment and software manufacturers and technology companies, as well as universities and research institutions.

If we are unable to attract and retain skilled and experienced personnel, or if we lose the services of any member of our senior management or our scientific or technical staff, we could experience significant delays in, or we could be unable to, complete the development and commercialization of our products or achieve our other business objectives, and such a development could require our management to divert its attention to transition matters and identification of suitable replacements, if any. Such a development could have a material adverse effect on our business, financial condition and results of operations.

We do not maintain, and do not intend to obtain, key employee life insurance on any of our personnel.

A portion of our compensation to our key employees is in the form of stock option grants. A prolonged decline in our share price could make it difficult for us to retain our employees or recruit additional qualified personnel.

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

The placement of our products and the introduction of our technology into our customers' existing operations and on-going customer support can be complex. Accordingly, we need highly trained technical support personnel. To effectively support new customers, we will need to substantially expand our technical support staff. If we are unable to attract, train or retain the number of highly qualified technical services personnel that our business will require, our business, financial condition and results of operations will suffer.

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

We have been developing our core technologies in our facilities in Toronto, Canada, which we believe has adequate space to expand the manufacturing capacity to our expected needs for the foreseeable future. However, we may encounter unforeseen situations at this facility that would result in delays or shortfalls in our development and production. In addition, our development and production processes and assembly methods may have to change to accommodate any significant future expansion of our manufacturing capacity. If we are unable to keep up with development of or demand for our products, our revenue could be impaired, market acceptance for our products could be adversely affected and our customers might instead purchase our competitors' products. Our inability to successfully manufacture our products would have a material adverse effect on our business, financial condition and results of operations.

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 products utilize complex technology applied on a small scale, and our systems may develop or contain undetected defects or errors. As our production levels increase, material performance problems, defects or errors could arise. We may determine to correct any defects or errors in response to customer concerns, in order to preserve customer relationships, and to help foster continued adoption and use of our systems. The costs incurred in correcting any defects or errors may be substantial and could adversely affect our operating margins.

In manufacturing our products, we depend upon third parties for the supply of various components. Many of these components require a significant degree of technical expertise to produce. If our suppliers fail to produce components to specification, or if the suppliers, or we,

use defective materials or workmanship in the manufacturing process, the reliability and performance of our products will be compromised.

If our products contain defects, we may experience:

- a failure to achieve market acceptance or expansion of our product sales;
- loss of customer orders and delay in order fulfillment;
- damage to our brand reputation;
- increased cost of our warranty program due to product repair or replacement;
- product recalls or replacements;
- inability to attract new customers;
- diversion of resources from our manufacturing and research and development departments into our service department; and
- legal claims against us, including product liability claims, which could be costly and time consuming to defend and result in substantial damages.

The occurrence of any one or more of the foregoing could negatively affect our business, financial condition and results of operations.

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

We expect that a significant portion of our future revenues will be denominated in U.S. and European currencies, and, therefore, we will be subject to fluctuations in exchange rates. There is a risk that significant fluctuations in exchange rates would negatively affect our operating margins and would therefore have an adverse effect on our future results of operations.

Risks Related to Intellectual Property

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

Our commercial success depends in part upon our ability to protect our intellectual property and proprietary technologies. We rely on patent protection, where appropriate and available, as well as a combination of copyright, trade secret and trademark laws, and nondisclosure, confidentiality and other contractual restrictions to protect our proprietary technology. However, these legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep any competitive advantage. Our pending Canadian, U.S. and foreign patent applications may not issue as patents or may not issue in a form that will be sufficient to protect our proprietary technology and gain or keep our competitive advantage. To the extent our intellectual property, including licensed intellectual property, offers inadequate protection, or is found to be invalid or unenforceable, we are exposed to a greater risk of direct competition. If our intellectual property does not provide adequate protection against our competitors' products, our competitive position could be adversely affected, as could our business, financial condition and results of operations.

We may be involved in lawsuits to protect or enforce our patents and proprietary rights, to determine the scope, coverage and validity of others' proprietary rights, or to defend against third party claims of intellectual property infringement that could require us to spend significant time and money and could prevent us from selling our products or services or impact our share price.

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.

Our common shares are listed for trading on the TSX Venture Exchange ("**TSXV**"). We cannot predict the extent to which investor interest in our company will lead to the development of an active trading market on the TSXV, or how liquid that market might become. If an active trading market does not develop, you may have difficulty selling any of our common shares that you buy. The market price of our common shares on the TSXV, like the share prices of many publicly traded life sciences companies, has been highly volatile, and the trading price of our common shares may remain volatile in response to various factors, some of which are beyond our control.

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

To date, we have not paid any dividends and do not expect to do so in the foreseeable future. We currently intend to retain all future earnings for the operation and expansion of our business. Dividends on our common shares are declared at the discretion of our board of directors and will depend on our results of operations, capital requirements, financial condition, prospects, contractual arrangements and other factors that our board determines is relevant.

Please refer to our annual information form dated March 22, 2012 for a complete discussion of risks and uncertainties.

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 did not earn significant revenues from its test kits or SQiDworks platform. Management believes that it may generate revenues from a variety of Diagnostic Tools and Services customers in fiscal 2013 and the sale of approved IVD products; 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 Capital Stock

As at September 30, 2012, there were 39,826,000 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 September 30, 2012:

Number of Warrants (000s)	Purchase Price	Weighted average time to maturity
1,199	$4.00	0.18 years
1,140	$5.00	0.87 years
5,784	$2.50	1.36 years
86	$2.00	1.07 years
311	$1.75	1.36 years
8,520		

The Company had the following stock options outstanding under the Plan at September 30, 2012:

Number of Options (000s)	Range of Exercise Prices	Weighted average time to maturity
1,382	$1.30-$1.95	2.59 years
233	$1.96-2.60	2.81 years
160	$2.61-3.26	2.94 years
1,775		

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 IFRS;

(c) evaluated the design and effectiveness of the Company's DC&Ps as of September 30, 2012;

(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 September 30, 2012; 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.