SQI DIAGNOSTICS INC.

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

September 30, 2018

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

All amounts are expressed in Canadian dollars unless otherwise indicated.

This discussion and analysis was prepared by management using information available as at December 10, 2018.

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

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

A number of factors could cause actual events, performance or results, including those in respect of the foregoing items, to differ materially from the events, performance and results discussed in the forward-looking statements. Factors that could cause actual events,

performance or results to differ materially from those set forth in the forward-looking statements include, but are not limited to:

- *uncertain future capital needs and additional financing;*
- *history of losses;*
- *market competition;*
- *market acceptance of products;*
- *complex regulatory compliance requirements;*
- *rapidly changing technology and customer requirements;*
- *research and development activities;*
- *marketing and distribution;*
- *reliance on key suppliers;*
- *legislative or regulatory change;*
- *key personnel;*
- *development or manufacturing delays;*
- *unknown defects or errors;*
- *foreign exchange fluctuations;*
- *intellectual property protection; and*
- *volatility of share price and an active market for our shares.*
- *other risks detailed from time-to-time in our ongoing quarterly filings, annual information forms, annual reports and annual filings with applicable securities regulators, and those which are discussed under the heading "Risk Factors".*

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

COMPANY OVERVIEW

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

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

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

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

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

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

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

Becoming the vendor of choice for the clinical and consumer diagnostic testing markets.

The clinical markets are very large and are valued at over $11 billion per year for current tests that SQI could produce. The direct-to-consumer testing markets are small now, but they are growing quickly. Combined, the two markets present us with significant opportunities for major new recurring revenue streams. One is the direct-to-consumer testing market and another is diagnostic companies utilizing LDT (Lab Developed Tests). These tests are developed with our customers' individual tests using SQI's multiplexing technology and automated systems to deliver the benefits of automated running of a single patient blood sample to deliver many clinical results. SQI already has a presence in both of these markets.

We are working closely with our largest diagnostic customer, Predictive Health Diagnostics (PHD) of Irvine California, to deliver the PULS Cardiac Test which helps physicians and cardiologists predict the likelihood that their patients will experience a heart attack. PULS is not just another small advance on existing tests. It is a true disruptor: it helps determine a patient's current cardiac health status, it also predicts their heart health into the future. Being able to see five years into the future lets the patient work with their doctor to make the lifestyle changes needed to avoid heart disease, heart attacks and a range of complications related to heart disease.

This year, our customer in the Direct-to-Consumer market is also launching tests for Celiac and Rheumatoid Arthritis and is planning a range of other tests in areas which may include men's health, dementia and tests for cardiac health and food sensitivity.

Transplant medicine is an area with a high unmet need for diagnostic tests to advance decision making throughout the organ transplant process: harvest, transport, stability and ultimately transplant to recipient. SQI is partnering with a global clinical leader in transplant medicine to increase the utilization rates of available donor organs by implementing our advanced biomarker diagnostics technology. The societal and economic costs of transplant surgery are high, and we are confident that SQI technology will be impactful.

Meeting the growing needs of big pharma and biotech

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

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

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

One test, one sample, many results

We are building custom tests for customers in the diagnostic market that can deliver as many as 80 unique results from a single patient sample – all in one test. The benefits are clear and profound: we remove materially all of the work our customers would have needed to perform, validate and run 80 different tests. Our current technology has delivered from as few as 3 to as many as 80 results per test. On average, we deliver about 10 results from a single sample.

We transform our customer's single test content and apply our multiplexing and automation technology to deliver *one test, with many results, all at once.* Addressing the need for diagnostic companies to reduce their costs through multiplexing and automation has opened new opportunities for significant revenue growth for SQI. Our target diagnostic customers have existing and proven test content in place and are typically running a significant number of patient samples in their laboratories that will create immediate demand for our customized kits once they transition to SQI technology.

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

We are quickly expanding our pipeline of customers and products and are creating a diversified bundle of recurring revenue streams and future recurring revenues. Two examples of this trend are PHD, an existing customer that is buying more kits each quarter, and Microdrop LLC, referenced below, a new direct-to-consumer customer that is on-track to be a recurring revenue generator in calendar Q4.

Our progress this year

We now have eight customers that are generating revenue, including seven platforms installed, as well as four target customers that are actively engaged in the contracting stage. After the year-end, we shipped a sqid-X system to a Contract Research Organization (CRO) for a trial that we expect to run to the end of the year. In addition, we have many customers and partner opportunities in the pre-contracting or work-planning stage of our revenue pipeline.

All told, we have over 15 customers in that pipeline – up from seven at this time last year.

During the last quarter, we shipped two sqid**lite™** systems to one these high-potential customers. As previously disclosed, our agreement with Microdrop LLC creates an opportunity to take part in one of the fastest-growing markets: the direct-to-consumer retail segment. Our partnership with Microdrop will help consumers obtain a quick, easy-to-understand, and predictable ability to monitor their own health.

After this agreement closed, we installed and deployed the first two sqidlites, one a celiac test panel and the other a rheumatoid arthritis test panel. Both of these test products have

been validated by our customer's CLIA lab. These labs, named from the US regulatory standards called Clinical Laboratory Improvement Amendments, can buy test kits from a vendor such as SQI that has not been cleared by the FDA. This cuts the time and cost related to regulatory approvals and speeds up the time to market for our products.

We foresee three phases to our Microdrop partnership: the initial launch in the first CLIA lab (two sqid**lites**, first two tests); product expansion to additional high-value tests; and high-volume processing and operational expansion to a second CLIA laboratory. We were excited to work with Microdrop to fine-tune their operations during the last quarter of fiscal 2018. This allowed us to ensure that upon launch the integration of their in-coming sample processes, our sqidlite instruments and test kits and Microdrop's leading edge, automated reporting to their customers is as efficient as possible. They are anticipating significant demand for the first two products, particularly the celiac tests. This celiac test is being piloted with two programs that will reach half a million people with an interest in celiac disease and food intolerance. This pilot program alone will kick-start the demand for more test kits, resulting in recurring and growing sales for SQI in fiscal 2019.

Commercial Highlights for the Quarter

Revenues were up 40% year-over-year to $1.34 million for the twelve months ending September 30, 2018. Fourth quarter revenues in fiscal 2018 were up over 300% compared to the same quarter in 2017.

Sales in our last fiscal year confirmed our ability to drive strong growth in kits sales from our existing customers. A 10 times increase in kits sales compared to fiscal 2017 speaks to the success of this strategy. Even better, all of these kit sales are recurring revenues, the very kind of growth that we have been expecting in our diagnostic business segment.

As we progress along the route of commercialization, we expect a high degree of month-to-month variability in revenues. Platform sales will be periodic while recurring kit sales will show more consistent growth and represent higher profitability. For example, in Q4, our current reporting period, we recognized $351,000 in platform revenue.

Understanding the source of our income is extremely important in assessing our business, specifically the distinction between the number of sqid**lite** systems installed and the transition from development projects to kits sales. This transition is already showing strength in recurring kits sales and will continue to evolve over the coming quarters. We also enjoy continued growth in our customer base, most notably in the diagnostic segment of our business where we expect significant, growing and recurring kit sales in the coming year. During Q4, we delivered two sqid**lite** systems to Microdrop LLC on schedule. These systems have been validated for both SQI's celiac and rheumatoid arthritis kits in Microdrop's CLIA lab. Our diagnostic customers represent the best opportunities for near-term revenues and are also expected to provide a long-term base of recurring revenues.

During the twelve months ended September 30, 2018, we achieved the following milestones:

1. Best quarter and one of the best years ever in terms of total revenue.

This year, we reached a major commercial milestone in our business model with recurring kit sales to a significant customer whose volume of kit usage is growing. Our commercial success is anchored in our ability to grow the sales of platforms and kits to our customers and progress the contribution of revenue from service-based sales to recurring kit sales. We are now delivering on that model and there are many reasons we expect this trend to continue. We also expect that the number of kit sales to customers, including those run in our lab, will continue to grow as our customers gain confidence and expand their business.

2. Experienced the third consecutive quarter of growth in recurring kit sales starting from the first fiscal quarter of 2018 to Predictive Health Diagnostics (PHD) (PULStest.com) for their cardiac health predictive product.

From the first quarter, the number of patients being tested using our products has grown steadily. This has resulted in the growth in quarterly revenues from kit sales – from $24,000 in the first fiscal quarter of 2018 to $195,000 in the last fiscal quarter. In 2019, we foresee our customers undertaking marketing and regulatory initiatives that could significantly expand the number of patients using SQI-based tests and increasing the number of test kits sold to our customers. The majority of the growth in our quarterly kits sales came from the use of our customer's PULS cardiac test and in the last quarter the growth was also owing to kits sales to Microdrop for their imaware™ Celiac launch and imaware™ Rheumatoid arthritis product.

The PULS Cardiac test's predictive potential, as cited in leading scientific papers, has been shown to predict the likelihood that a patient will experience a heart attack (ACS event) up to five years in advance. The benefit is significant and obvious: doctors can now put in place potentially life-saving preventative measures to keep a heart attack from happening. Our customer reports building demand for its PULS product and we continue to believe that the number of recurring, monthly kits sales to be on-track to exit calendar 2018 at over 3,000 patient samples per month. We are working closely with this customer, as they grow their business to ensure we keep pace with the demand that they expect. In calendar 2019, we believe that the number of patient samples they will service could be 2 to 3 times their 2018 testing volume.

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

3. We achieved excellent progress during the quarter with Microdrop LLC that opens up the new direct-to-consumer market to SQI.

We delivered two sqid**lite™** instrument platforms to this customer during the quarter with training and validation activities occurring during the month of August. This customer's first kit purchases were a pair of SQI-proprietary autoimmune diagnostic tests that had previously been developed for *the in vitro* diagnostic (IVD) market. Subsequent to the quarter end, we announced the launch of the imaware™ at-home test for celiac disease by our partner, Microdrop. Run on SQI's automated systems and using SQI test kits, the imaware™ at-home test for celiac disease addresses a current unmet need in the market today. The second test for rheumatoid arthritis is expected to be launched in early calendar 2019. We are in active discussions with this customer to develop additional diagnostic test products for the direct-to-consumer market.

4. We sold 4 platforms during the year.

We ended the fourth quarter of fiscal 2018 with a total of eight customers that are now generating revenues. Subsequent to the quarter end, we installed a demonstration system to a large CRO to evaluate our cytokine multiplexed test kits. We had previously said that we would place five systems in calendar 2018 and should this fifth customer successfully complete its evaluation we will have achieved this major milestone.

5. We made significant progress with the organ transplant customer in our sales pipeline.

We expect to complete commercial agreements before the end of the year for this customer. The organ transplant market is high-value with a significant unmet need and the potential to significantly improve patient outcomes through advanced decision making throughout the organ transplant process: harvest, transport, stability and ultimately transplant to recipient. Current diagnostic approaches are limited by the lack of specific biomarker tests that can be run during the transplant process. Our multiplexing tests and automated systems will be used in this application to determine the viability of organs at harvest and throughout the journey to transplantation. The test's biomarkers and algorithm are proprietary and would significantly aid in the expansion of the number of donor organs available to recipients. The reality is that today, many organs go unutilized. What's more, existing methods of assessing organ health are highly subjective, even when performed by highly skilled surgeons. SQI's test has the potential to bring new rigour and 2-3x higher usage levels to this critically important medical market.

6. The large comparative study we reported last quarter with our DNA customer is on-going and we have identified new opportunities for the product.

SQI is working closely to support the efforts by this customer to expand its regulatory efforts and customer initiatives. We are currently manufacturing and delivering test kits on a monthly basis to support the on-going testing needs of this customer. We are in the process of planning for an expected increase in the customer's demand for test kits to be

used for new customer and expanded regulatory trials. The move by this customer from development, through clinical work to commercial launch has been much slower than we had initially forecast. However, we believe that the technology and the customer's use model to be robust. As such, we continue to support this customer's development and to support their clinical trial needs.

Outlook

As we have reported, we continue to advance customers through the revenue funnel from target customers, to product development, to commercial validation and product shipments.

From this success, we expect progress with 1 or 2 new customers per quarter and plan to start generating service revenue from them almost immediately. This will then be followed by generating revenues from either CRO-like services at our lab in Toronto, or a platform and kit sales.

We are operating in a market that requires major investments of time and capital. However, the rewards can be correspondingly large. For example, with our existing diagnostic customers we experience and target an average product revenue of approximately $15 for the consumable, per patient sample tested. The market for cardiac health screening could cover all adults over the age of 50. In North America, this is approximately 110 million potential tests. Clearly, there is significant opportunity here. Similarly, the market for consumer health testing is growing rapidly – the focus on food intolerance is also clear – celiac disease affects at least 3 million Americans and rheumatoid arthritis afflicts 1% of the world's population and 1.3 million prescriptions will be written this year.

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

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

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

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

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

We expect to launch our SQI-based CLIA testing service model in the first half of fiscal 2019. The impact of this business will increase the revenue that we can charge for each test kit. With a CLIA lab SQI can generate service revenues to provide the result to our customers, besides the cost of the kit. Like our customers who use our automated systems, we can benefit from the efficiency and low cost of operating our systems. Ultimately, we can generate more profit from each test kit sold.

We continue to work with the Faculty of Engineering at McMaster University on technological advances that will both enhance our existing process and expand our markets. The key area of focus is a specialized coating that has the potential to improve our existing kits and streamline our manufacturing process. As a result of potential technology hurdles and missed milestones by McMaster on the instant immunoassay project, SQI is currently exploring alternative technologies as we believe there is a significant market for rapid point of care devices. We will continue to work with McMaster to assess the rapid immunoassay technology's viability.

Finally, we are in the early stages of two high-potential initiatives.

First, we have entered into a number of partnerships with leading researchers in the fields of organ transplant, lung health and autoimmune diseases.

In addition to the organ transplant partnership reported earlier we have advanced negotiations for a partnership with one of North America's leading clinical centres and academic groups to develop a multiplexed test panel and algorithm to diagnose forms of pediatric lupus. We expect to start work on this project in calendar 2019.

CORPORATE FINANCING TRANSACTIONS

On October 25, 2016, 2,276,000 warrants issued in October 2011 in connection with a private placement with an exercise price of $2.50 expired unexercised. Accordingly, $1,410,000 was transferred from warrant capital to contributed surplus in fiscal 2017.

On March 10, 2017, the Company completed a non-brokered private placement of an aggregate of 22,970,000 units of the Company at $0.16 per unit for gross proceeds of $3,675,000. Each unit comprises one common share of the Company and one common share purchase warrant. Each warrant is exercisable at a price of $0.21 and entitles the holder thereof to acquire one common share for a period of five years from the date of issuance, subject to accelerated expiry in certain circumstances. The proceeds from the issuance of units are allocated between capital stock and warrant capital based on their relative fair values, with $1,631,000 being allocated to warrant capital. The fair value of the warrants was estimated using the Black-Scholes pricing model with the following assumptions: share price $0.16; dividend yield 0%; risk free interest 1.15%; volatility 120%; and an expected life of 5 years. Expected volatility is based on historical volatility. The total share issuance costs were $55,000.

On December 20, 2017, the Company completed a non-brokered private placement of an aggregate of 31,061,300 units of the Company at $0.15 per unit for gross proceeds of $4,659,000. Each unit comprises one common share of the Company and one common share purchase warrant. Each warrant is exercisable at a price of $0.20 and entitles the holder thereof to acquire one common share for a period of five years from the date of issuance, subject to accelerated expiry in certain circumstances. The proceeds from the issuance of units are allocated between capital stock and warrant capital based on their relative fair values, with $2,048,000 being allocated to warrant capital. The fair value of the warrants was estimated using the Black-Scholes pricing model with the following assumptions: share price $0.14; dividend yield 0%; risk free interest 1.75%; volatility 117%; and an expected life of 5 years. Expected volatility is based on historical volatility.

In connection with the private placement, the Company paid a finder's fee of $75,000 and issued 463,260 compensation warrants exercisable for 36 months from the closing of the private placement. Each compensation warrant is exercisable into one common share at a price of $0.20. The fair value of the compensation warrants was estimated at $40,000 using the Black-Scholes pricing model with the following assumptions: share price $0.14; dividend yield 0%; risk free interest 1.75%; volatility 112%; and an expected life of 3 years. Expected volatility is based on historical volatility. Broker warrants 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 $175,000 and $77,000 was allocated to warrant capital.

On January 14, 2016, the Company extended the expiry of 2,965,000 warrants that were issued in connection with a private placement in January 2014 with an exercise price of $0.65. The warrants were amended to extend the term of such warrants until January 26, 2017. On January 13, 2017, the Company further amended the warrants to extend the expiry until January 26, 2019. All other provisions of the warrants remain the same.

Accordingly, $129,000 was recorded in warrant capital with a corresponding reduction in contributed surplus in fiscal 2017.

On May 1, 2018, 5,126,044 warrants issued in May 2013 in connection with a private placement with an exercise price of $1.10 expired unexercised. Accordingly, $3,123,000 was transferred from warrant capital to contributed surplus in fiscal 2018.

On July 10, 2018 Company received approval to extend the expiry of 5,330,000 from July 16, 2018 to July 16, 2020. The warrants were issued in connection with a private placement in July of 2015. All other terms of the warrants remain unchanged. Accordingly, $182,000 was recorded in warrant capital with a corresponding reduction in contributed surplus in fiscal 2018.

On August 17, 2018 and August 24, 2018, the Company completed a non-brokered private placement of an aggregate of 23,471,101 units of the Company at $0.15 per unit for gross proceeds of $3,521,000. Each unit comprises one common share of the Company and one common share purchase warrant. Each warrant is exercisable at a price of $0.20 and entitles the holder thereof to acquire one common share for a period of five years from the date of issuance, subject to accelerated expiry in certain circumstances. The proceeds from the issuance of units are allocated between capital stock and warrant capital based on their relative fair values, with $1,553,000 being allocated to warrant capital. The fair value of the warrants was estimated using the Black-Scholes pricing model with the following assumptions: share price $0.15; dividend yield 0%; risk free interest 2.17%; volatility 117%; and an expected life of 5 years. Expected volatility is based on historical volatility. The total share issuance costs were $61,000 and $27,000 was allocated to warrant capital.

SELECTED FINANCIAL INFORMATION

The table below summarizes annual financial information for the fiscal years ended September 30, 2018 and 2017.

	Year ended September 30, 2018 (000s)	Year ended September 30, 2017 (000s)
Revenue	$ 1,335	$ 968
Net Loss	$ (7,437)	$ (5,929)
Net Loss Per Share	$ (0.06)	$ (0.06)
Weighted Average Shares	130,974	93,806

Revenues

Revenue for the year ended September 30, 2018 was $1,335,000 versus $968,000 for the year ended September 30, 2017. This is a 40% increase in revenues and more significantly is driven by significant commercial progress achieved with our customers in fiscal 2018. The table below is a break out of our revenue by category.

	Year ended September 30, 2018 (000s)	Year ended September 30, 2017 (000s)
Product sales - Kits	$ 454	$ 74
Product sales - Platforms	606	208
Service revenue	275	686
Total revenue	$ 1,335	$ 968

The table shows that our revenues in fiscal 2018 are heavily weighted towards kit and platform sales versus a heavier weighting in service revenue in fiscal 2017. In fiscal 2018 we sold four platforms and have growing recurring kit sales. More significantly, this is recurring kit sales to two customers for three products. We continue to add to this pipeline and expect to grow our base of installed platforms and customers who are regularly purchasing kits.

Net Loss

The net loss for the year ended September 30, 2018 was $7,437,000 ($0.06 net loss per share) as compared to $5,929,000 ($0.06 net loss per share) for the year ended September 30, 2017. The increase in net loss for the year ended September 30, 2018 compared with the loss for the year ended September 30, 2017 is a result of increased product commercialization and development costs and the increased marketing costs associated with the shift to a more sales-focused company.

The gross profit contribution from sales will vary depending on the mix of products and the type of product. The impact of planned but not yet completed manufacturing scale up and volume-based discounts with key vendors is expected to increase kit gross margins by up to 20%. Our plans to launch these scale up and cost reduction efforts were delayed by a product defect caused by a change in the manufacturing process by a vendor.

During the second half of fiscal 2018 we experienced a raw material defect originating at a vendor. This defect was resolved through changes made to our manufacturing processes and changes implemented by the vendor. The defect resulted in higher than normal rejection rates; a higher one-time negative impact on gross margins; development expenses to resolve the defect, and as a result, it impacted net income for the last two quarters of fiscal 2018 as we worked to produce finished goods that achieved our performance standards. We have now resolved the source of the defect and are working with this vendor to recover a significant portion of the losses incurred because of the defect. We are finalizing plans with our customer to confirm that these changes have returned the test to its previously high performance standards.

Operating Expenses

Research and development ("R&D") costs, excluding amortization and stock-based compensation were $3,717,000 for the year ending September 30, 2018. This compares to $3,030,000 for the year ending September 30, 2017. In fiscal 2018, R&D efforts were focused on development work for three customer projects in our Pharma and diagnostic businesses. R&D costs were higher for fiscal 2018 as compared to fiscal 2017 due to consumables purchased at a higher than normal level to ensure completion of critical projects to deliver finished products to our customers for their validation and commercial kit sales and higher personnel costs. In addition, the material defect referred to above impacted development costs as we actively explored mitigation efforts to return the product to its previous performance standards.

Corporate and general expenses include salaries and related expenses (including benefits and payroll taxes); general and administrative expenses; and professional consulting costs (legal, accounting, Board of Directors compensation, recruiting, administrative contractor, and investor relations).

Corporate and general expenses excluding stock-based compensation totalled $1,589,000 for the year ended September 30, 2018 and $1,332,000 for the year ended September 30, 2017. Corporate and general expenses were higher over the comparable periods due to

increased professional and recruiting fees as the Company made key personnel changes to assist in the transition to a commercial operation.

Sales and marketing expenses were primarily related to sales and marketing staff compensation and to travel related to selling activities. Sales and marketing expenses, excluding stock-based compensation, totalled $1,145,000 for the year ended September 30, 2018 compared to $1,067,000 for the year ended September 30, 2017. The increase in sales and marketing costs is a result of commissions paid on product sales.

Fourth Quarter Commentary

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

	September 30, 2018 (000s)	June 30, 2018 (000s)	March 31, 2018 (000s)	December 31, 2017 (000s)
Revenue	$ 563	$ 220	$ 176	$ 376
Net Loss	$ (1,976)	$ (2,042)	$ (1,631)	$ (1,788)
Net Loss Per Share	$ (0.01)	$ (0.02)	$ (0.01)	$ (0.02)
Weighted Average Shares	146,225	134,936	134,936	107,926
	September 30, 2017 (000s)	**June 30, 2017 (000s)**	**March 31, 2017 (000s)**	**December 31, 2016 (000s)**
Revenue	$ 126	$ 176	$ 251	$ 415
Net Loss	$ (1,536)	$ (1,607)	$ (1,289)	$ (1,497)
Net Loss Per Share	$ (0.01)	$ (0.02)	$ (0.01)	$ (0.02)
Weighted Average Shares	103,875	103,875	86,520	80,905

Revenues

During the three months ended September 30, 2018, the Company recorded revenue from the sale of custom kits and platforms, as well as service revenue to our Pharma and diagnostic customers. The table below provides a breakout of revenue by category:

	Quarter ended September 30, 2018 (000s)	Quarter ended September 30, 2017 (000s)
Product sales - Kits	$ 195	$ 9
Product sales - Platforms	351	-
Service revenue	17	117
Total revenue	$ 563	$ 126

The table shows that quarter over quarter sales increased by over 300%. This is largely attributable to the sale of two platforms to our newest diagnostic customer Microdrop LLC. In the fourth quarter of fiscal 2018 we also made recurring kit sales to both Predictive Health Diagnostics, and Microdrop, and expect volumes to gradually scale up. We continue to earn modest kit and service revenues from our DNA customer and we expect the sale of kits to them to grow.

Net Loss

For this quarter, the Company recorded a net loss of $1,976,000 ($0.01 net loss per share) as compared to the net loss of $1,536,000 ($0.01 net loss per share) for the quarter-ended September 30, 2017. Per share values are based on the weighted average shares outstanding in the relevant period. For the quarter-ended September 30, 2018, there was an average of 146,225,000 shares outstanding.

The increase in net loss for the three months ended September 30, 2018 as compared to the three months ended September 30, 2017 is a result of increased product commercialization and development costs.

During the quarter we continued to address a raw material defect originating at a vendor through changes made to our manufacturing process as well as changes implemented by the vendor. Additional work was done to address assay stability and the potential impact that the above changes could have on the results observed by our customer. This caused in a higher one-time negative impact on gross margins from development expenses to resolve the defect, and consequently, impacted net income for the quarter as we worked to produce finished goods that achieved our performance standards. As stated earlier, we have resolved the source of the defect and are working with this vendor to recover a significant portion of the losses incurred because of the defect.

Operating Expenses

R&D expenditures, excluding amortization and stock-based compensation, for the three months ended September 30, 2018 were $870,000 compared to $757,000 for the same period last year. The increase in R&D expenditures for the three-month period is a result of higher laboratory costs related mainly to consumables purchased at a higher than normal costs to ensure completion of two critical projects to meet internal deadlines and to deliver finished products to our customers for their validation and commercial kit sales. During the fourth quarter of fiscal 2018, two customer projects move into the commercial phase.

Corporate and general expenses excluding stock-based compensation, totaled $461,000 for the three months ended September 30, 2018 as compared to $383,000 for the three months ended September 30, 2017. Corporate and general expenses are higher for the three months ended September 30, 2018 compared to the same periods in the prior year due to higher professional fees for recruiting and legal fees.

Sales and marketing expenses were primarily related to sales and marketing consultant fees and to travel related to selling activities in the quarter. Sales and marketing expenses, excluding stock-based compensation, totaled $300,000 for the three months ended

September 30, 2018 compared to $258,000 for the three months ended September 30, 2017. Sales and marketing expenses were higher for the three months ended September 30, 2018 compared to the same period in the previous year, primarily due to the payment of commissions on product sales and additional travel for customer system installations and training.

Non-cash, stock-based compensation charges, totaled $129,000 for the three months ended September 30, 2018 (fiscal 2018 – $405,000) compared to $51,000 for the three months ended September 30, 2017 (fiscal 2017 – $265,000). The related stock option issuances are detailed later in this document.

Sources and Uses of Cash

Management expects further investments in product development and commercialization efforts for its pipeline of custom Ig_plex consumable kits, new products and platforms, and sales and marketing initiatives into 2019.

The Company has sufficient liquidity to meet its current obligations as they come due. The continuation of the Company's research, development and commercialization activities is dependent upon its ability to generate product or service revenues or to finance its operations through further equity and or debt financings. Capital expenditures to increase manufacturing capacity and the purchase of platforms in anticipation of customer demand will impact the Company's cash resources.

Operating activities for the year ended September 30, 2018, were financed by cash on hand and from financing initiatives closed during the year.

At September 30, 2018, current assets were $3,758,000 compared to $2,414,000 at September 30, 2017. As at September 30, 2018, the Company had a $2,691,000 working capital surplus compared to a surplus of $1,919,000 at September 30, 2017.

Cash used in investment activities for the quarter-ended September 30, 2018 was $49,000 (fiscal 2018 – $297,000) compared to $86,000 for the three months ended September 30, 2017 (fiscal 2017 – $211,000). The Company is making strategic laboratory equipment purchases and upgrading existing equipment in order to meet customer capacity requirements. During the year, the Company leased equipment that will effectively triple its array printing capacity.

Risks Related to Our Business and Strategy

Uncertain Future Capital Needs and Additional Financing

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

- maintain our current operations to address custom projects and to deliver on contracts currently in place;
- expand the commercialization of our products;
- manufacture SQI platforms and products; and
- further our research and development.

Our future liquidity and funding requirements are uncertain and depend on many internal and external factors.

If we raise additional funds by issuing equity securities, our shareholders may experience dilution. Debt financing, if available, may involve further covenants, pledges and restrictions. 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.

History of Losses

We have limited commercial history and have incurred significant losses in each fiscal year since inception. As of September 30, 2018, we had an accumulated deficit of $86.8 million. These losses have resulted principally from costs incurred in our research and development programs and from our sales, general and administrative expenses. Because of the numerous risks and uncertainties associated with our commercialization efforts and future product development, there is risk associated with the timing of achieving profitability, and we may never become profitable.

Market Competition

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 whom have significantly greater financial and human resources, research, development and marketing capabilities, intellectual property and name recognition than the Company.

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, which 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 operating results.

Market Acceptance of Products

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 menu of tests 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.

Complex Regulatory Compliance Requirements

We operate in a highly regulated industry and we are subject to the authority of certain regulatory agencies, including Health Canada, Centers for Medicare & Medicaid Services (CMS) and the FDA. As we enter new markets (e.g., Europe), we may become subject to additional regulatory requirements from applicable health authorities. These requirements encompass the design, development, testing, supply chain management, manufacturing, marketing and sale of our diagnostic products. Failure to maintain regulatory certification of our quality system or failure of our manufacturing facilities to meet regulatory standards could materially affect our ability to manufacture or 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.

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 anticipate changes in

technology and customer requirements and develop new products with improved performance and cost effectiveness in existing and new markets.

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. While we plan to continue to make improvements to our diagnostic processing equipment and consumable tests, we may not be able to successfully implement these improvements. Even if we successfully implement some or all of these 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 Activities

New diagnostic products, and improvements to existing diagnostic products, require significant research, development, testing and investment prior to any final commercialization. Our business depends on 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 broad menu of tests to potential customers.

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 tests. 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, to receive applicable regulatory clearances or approvals, produce the products in commercial quantities at reasonable costs, successfully market the products, or to enhance existing products 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.

Marketing and Distribution

As we are in the early stages of commercializing, selling, distributing, and marketing of products, in which we have limited experience. 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 on 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. 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.

Reliance on Key Suppliers

We rely on key suppliers for certain components and materials used in our platform technologies, including our sqidworks, sqid**lite** and sqid-X diagnostic platforms 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 are a limited number of suppliers who can manufacture the highly specialized equipment that forms a part of our systems. In addition, any change in any component that forms a part of our systems will require additional testing to ensure that it performs in a substantially similar manner to the existing component. 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.

Legislative or Regulatory Change

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. In some situations, 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.

Key Personnel

Our performance depends substantially upon the performance of our senior management and key scientific and technical personnel, including our Chief Executive Officer, Andrew Morris, and our Chief Scientific Officer, Dr. Eric Brouwer. 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 key scientific or technical staff, it could have a material adverse effect on our business, financial condition and results of operations.

Development or Manufacturing Delays

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 may 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 the 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.

Unknown Defects or Errors

Our products utilize complex technologies 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. 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 defective materials or workmanship are used in the manufacturing process, the reliability and performance of our products will be compromised. The occurrence of any one or more of the foregoing could negatively affect our business, financial condition and results of operations.

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

Intellectual Property Protection

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.

We may be involved in litigation or other proceedings 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, and the cost to the Company of any litigation or other proceedings, even if resolved in our favour, could be substantial.

Risks Related to *Our* Common Shares

Volatility of Share Price

Securities markets have a high level of price and volume volatility, and the market price of securities of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. As a result, the market price of our common shares at any given point in time may not accurately reflect the long-term value of the Company.

Active Market

There can be no assurance that an active market for the common shares will develop or be sustained. If an active public market for the common shares does not develop, the liquidity of a shareholder's investment may be limited and the share price may decline.

Dividends

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.

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

During the current reporting period, the Company earned service revenues and revenues from the sale of its diagnostic kits and platforms and we believe that a great deal of progress has been achieved in proving our value to several large global pharmaceutical and diagnostic customers. We continue to advance our relationships with these and other customers to the stage where we expect recurring sales of testing platforms and consumables to 'market-ready' customers. However, additional platform placements and commercial sales are required to reach a position of cash flow break-even. The continuation of the Company's research, development and commercialization activities along with investment in marketing and sales depends on the Company's ability to successfully manage its growth, investment in continued pipeline development and its cash

requirements.

We are exposed to market risks related to changes in interest rates and foreign currency exchange rates, which could affect the value of our current assets and liabilities. We do not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates relative to our cash investment, due to the prime-interest-rate-based nature of the investment.

We have not entered into any forward currency contracts or other financial derivatives to hedge foreign exchange risk. We are subject to foreign exchange rate changes that could have a material effect on future operating results or cash flows.

Management will continue to review the Company's financial needs and to seek additional capital as required from sources that may include equity financing, debt financing, collaborative projects and licensing arrangements; however, there can be no assurance that such additional funding will be available or if available, whether acceptable terms can be obtained. To date, we have mitigated our financing risks through the on-going financial support of three key insider shareholders who have invested in the success of the Company.

Outstanding Capital Stock

As at December 10, 2018, there were 158,407,237 common shares issued and outstanding.

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

The Company had the following warrants outstanding at December 10, 2018:

Number of Warrants	Exercise Price	Maturity
16,695	$0.64	January 26, 2019 - July 16, 2020
3,560	$0.59	January 30, 2020 and February 20, 2020
7,631	$0.52	December 15 and 21, 2018
22,970	$0.21	March 10, 2022
463	$0.20	December 20, 2020
54,532	$0.20	December 20, 2022 – August 24, 2023
105,851		

The Company had the following stock options outstanding under the Plan at December 10, 2018:

Number of Options	Range of Exercise Prices
6,748	$ 0.14 - 0.25
2,096	$ 0.26 – 0.39
442	$ 0.40 – 0.60
9,2874	

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

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

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

Revenue Recognition

Revenue from services rendered is recognized when services are performed.

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

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

Intangible Assets

Patents and trademarks comprise costs, including professional fees, incurred in connection with the creation and filing of patents and registration of trademarks related to the Company's core technology and trademarks. The costs relating to initial patent and trademark fees are deferred and amortized over 10 years on a straight-line basis. Patents and trademarks are recorded net of impairment losses, if any.

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

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.

Leases

Leases for which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases, and the Company is the lessee. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the income statement.

Leases for which the Company transfers substantially all the risks and rewards of ownership are classified as finance leases, and the Company is a lessor. Upon initial recognition, a receivable is recorded for the leased asset, at an amount equal to the net investment in the lease. The net investment in the lease is the minimum lease payments receivable by the Company and any unguaranteed residual value accruing to the Company, all discounted at the interest rate implicit in the lease. Subsequent to initial recognition, the lease payments received are apportioned between reduction of the receivable and finance income based on the effective interest rate method using the rate implicit in the lease. The sales revenue recognized at the commencement of the lease term is the fair value of the asset, or, if lower, the present value of the minimum lease payments accruing to the lessor, computed at a market rate of interest. The cost of sale recognized at the commencement of the lease term is the cost, or carrying amount if different, of the leased property less the present value of the unguaranteed residual value.

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 IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the period. Actual results could differ from those estimates. The following judgments and estimates are those deemed by management to be material to the Company's consolidated financial statements.

(i) Inventory

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

(ii) Property and Equipment and Patents and Trademarks

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

(iii) Impairment of non-financial assets

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

(iv) Stock-based compensation and warrants

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

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

(v) Deferred tax assets

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

(vi) Secured debentures

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

RECENT ACCOUNTING PRONOUNCEMENTS

In January 2016, the IASB issued the disclosure initiative amendments to IAS 7, Statement of Cash Flow. The amendment will require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash and non-cash changes.

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

IFRS 15, Revenue from Contracts with Customers, was issued by the IASB in May 2016 and supersedes existing standards and interpretations including IAS 18, Revenue, and IFRIC 13, Customer Loyalty Programmes. IFRS 15 introduces a single model for recognizing revenue from contracts with customers with the exception of certain contracts under other IFRSs such as IAS 17, Leases. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the expected consideration receivable in exchange for transferring those goods or services. This is achieved by applying the following five steps:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also provides guidance relating to the treatment of contract acquisition and contract fulfillment costs. The standard is effective for annual periods beginning on or after January 1, 2018.

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

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

Disclosure Controls and Procedures, and Internal Control Over Financial Reporting

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

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

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

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

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

(c) evaluated the design and effectiveness of the Company's DC&Ps as of September 30, 2018;

(d) have concluded that a material design weakness in the ICFRs may exist in terms of the inadequate segregation of certain duties, which is typical of development stage companies; mitigating factors, including dual-payment authorization policies and transparent internal financial transaction reporting processes, serve to minimize the risk that such design weakness could result in a material misstatement of results for the year-ended September 30, 2018; and

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

The financial statements include amounts that are based on the best estimates and judgments of management. The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The

Board of Directors exercises this responsibility principally through the Audit Committee. The Audit Committee consists of three directors, all of whom are independent and not involved in the daily operations of the Company. The Audit Committee meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the financial statements prior to their presentation to the Board of Directors for approval.

Glossary of Terms:

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

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

FDA: U.S. Food and Drug Administration

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

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

R&D: Research and development

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

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

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