

**SQI Diagnostics Inc.**  
(formerly Emblem Capital Inc.)

**Consolidated Financial Statements**

**For the Period From December 15, 2006 to  
September 30, 2007 and for the Year Ended  
December 14, 2006**

## AUDITORS' REPORT

To the Shareholders of  
**SQI Diagnostics Inc. (formerly Emblem Capital Inc.)**

We have audited the consolidated balance sheets of **SQI Diagnostics Inc. (formerly Emblem Capital Inc.)** as at **September 30, 2007** and **December 14, 2006** and the related consolidated statements of operations and deficit and cash flows for the period from December 15, 2006 to September 30, 2007 and for the year ended December 14, 2006. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at **September 30, 2007** and **December 14, 2006** and the results of its operations and its cash flows for the period from December 15, 2006 to September 30, 2007 and for the year ended December 14, 2006 in accordance with Canadian generally accepted accounting principles.

*DMCT, LLP*

**DMCT, LLP, Licensed Public Accountants**

November 20, 2007  
Toronto, Ontario

# SQL Diagnostics Inc.

(formerly Emblem Capital Inc.)

## Consolidated Balance Sheets

	Note	September 30 2007	December 14 2006
<b>Assets</b>			
<b>Current</b>			
Cash and short-term investments	4	\$ 3,399,601	\$ 1,667,719
Amounts receivable		191,662	668,380
Prepays and deposits		83,529	44,019
		<b>3,674,792</b>	<b>2,380,118</b>
Due from related party	5	100,456	97,000
Property and equipment	6	2,379,250	1,257,062
Patents		369,306	264,233
		<b>\$ 6,523,804</b>	<b>\$ 3,998,413</b>

## Liabilities

<b>Current</b>			
Accounts payable and accrued liabilities		\$ 240,364	\$ 354,315
Current portion of long-term debt	7	16,511	134,436
		<b>256,875</b>	<b>488,751</b>
Long-term debt	7	-	25,708
		<b>256,875</b>	<b>514,459</b>

## Shareholders' Equity

Capital stock	9	14,113,145	8,514,699
Warrants	9	89,188	-
Employee share purchase loan		(10,000)	(10,000)
Contributed surplus	10	7,790,715	7,738,492
Deficit		(15,716,119)	(12,759,237)
		<b>6,266,929</b>	<b>3,483,954</b>
		<b>\$ 6,523,804</b>	<b>\$ 3,998,413</b>

Approved by the Board "Peter Winkley" Director "Eric Schneider" Director  
(Signed) (Signed)

See accompanying notes.

# SQL Diagnostics Inc.

(formerly Emblem Capital Inc.)

## Consolidated Statements of Operations and Deficit

	Period From December 15, 2006 to September 30, 2007	Year Ended December 14, 2006
<b>Revenue</b>		
Consulting fees	\$ 71,550	\$ 146,684
<b>Expenses</b>		
Salaries and wages	391,602	521,314
General and administrative	228,807	224,214
Professional and consulting fees	296,899	248,173
Stock-based compensation	52,223	268,589
Research and development costs	1,849,891	368,466
Interest income	(64,539)	(74,391)
Amortization - patents	64,937	62,868
Amortization - property and equipment	208,612	180,325
	<b>3,028,432</b>	<b>1,799,558</b>
<b>Net loss</b>	<b>(2,956,882)</b>	<b>(1,652,874)</b>
<b>Deficit at beginning of period</b>	<b>(12,759,237)</b>	<b>(11,106,363)</b>
<b>Deficit at end of period</b>	<b>\$(15,716,119)</b>	<b>\$(12,759,237)</b>
<b>Weighted average number of shares</b>	<b>16,619,481</b>	<b>14,719,314</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.18)</b>	<b>\$ (0.11)</b>

See accompanying notes.

# SQL Diagnostics Inc.

(formerly Emblem Capital Inc.)

## Consolidated Statements of Cash Flows

	Note	Period From December 15, 2006 to September 30, 2007	Year Ended December 14, 2006
<b>Cash flows from (used in) operating activities</b>			
Loss for the period		\$ (2,956,882)	\$ (1,652,874)
Add items not affecting cash			
Amortization - patents		64,937	62,868
- property and equipment		208,612	180,325
Stock-based compensation		52,223	268,589
Interest accrual		(3,456)	-
		(2,634,566)	(1,141,092)
Changes in non-cash working capital items			
Amounts receivable		476,718	(297,757)
Prepays and deposits		(39,510)	(29,976)
Accounts payable and accrued liabilities		(125,290)	(67,015)
		(2,322,648)	(1,535,840)
<b>Cash flows used in investing activities</b>			
Purchase of property and equipment		(1,330,800)	(483,192)
Additions to patents		(170,010)	(29,776)
Short-term investments		(2,150,000)	(1,000,000)
		(3,650,810)	(1,512,968)
<b>Cash flows from financing activities</b>			
Advances (repayment) of long term debt		(143,633)	125,144
Repayment of amount due to related parties		-	(200,000)
Proceeds of convertible debentures, net of issue costs		-	3,692,493
Proceeds from private placement and exercise of warrants, net of share issuance costs		5,092,064	-
Cash acquired on reverse takeover	1	606,909	-
		5,555,340	3,617,637
<b>Increase (decrease) in cash during the period</b>		<b>(418,118)</b>	<b>568,829</b>
<b>Cash at beginning of period</b>		<b>667,719</b>	<b>98,890</b>
<b>Cash at end of period</b>	4	<b>\$ 249,601</b>	<b>\$ 667,719</b>

### Supplemental Disclosure

Cash paid for interest		\$ -	\$ 5,589
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See accompanying notes.

# SQL Diagnostics Inc.

(formerly Emblem Capital Inc.)

Notes to Consolidated Financial Statements

September 30, 2007 and December 14, 2006

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## 1. NATURE OF OPERATIONS AND AMALGAMATION

SQL Diagnostics Inc., (the "Company"), has its head office and development centre in Toronto, Ontario. The Company is a healthcare diagnostic technology company engaged in the business of providing laboratories testing human patient serum with a novel and patented diagnostic system that enables more rapid test results with significantly less labour than current diagnostic instrumentation.

While the Company currently does not market any diagnostic tests or platforms, its SQiDWorks™ automated analytical platform and its lead QuantiSpot™ test kits used to detect and quantify panels of biomarkers to aid in the diagnosis of Rheumatoid Arthritis (RA) and Thrombosis (TA) are being prepared for third party clinical validation studies. QuantiSpot™ tests are designed to run only on the SQiDWorks™ platform. In order to get our platform and QuantiSpot™ consumable tests approved for sale in the United States, the Food & Drug Administration ("FDA") typically requires the conduct of clinical validation studies to compare the performance of a new test to predicate tests currently approved for sale in the USA. Upon successful completion of the validation studies, the data derived is then presented to the FDA in the form of a 510(k) Pre-market Notification. It is typical for the external validation studies to take several months to complete and upon receipt of a completed 510(k) submission, the FDA may take up to four months to render an approval decision on the application. The Company has completed extensive internal testing of its QuantiSpot™ RA test panel using the SQiDWorks™ platform and has completed extensive development testing of its QuantiSpot™ TA test panel.

The Company has not earned revenues from its QuantiSpot™ test kits or SQiDWorks™ platform and is therefore considered to still be in the development stage. The continuation of the Company's research and development activities is dependent upon the Company's ability to successfully finance its cash requirements through the generation of revenue from its partners and potential customers, or to complete further equity financing. Management believes that it has sufficient cash reserves to complete validation studies related to its lead RA test and to await the expected response on its 510(k) pre-market notification from the FDA. Management believes it will be able to manage its cash flows through the third quarter of 2008 at current levels.

On April 26, 2007, an amalgamation between umedik Inc. ("umedik") and 670194 Canada Inc., a wholly-owned subsidiary of SQL Diagnostics Inc. (formerly Emblem Capital Inc.) was completed. This transaction was Emblem's Qualifying Transaction pursuant to the rules of the TSX Venture Exchange. The amalgamated company continued under the name SQL Diagnostics Inc. ("SQL"). Pursuant to the amalgamation of the Company and 670194 Canada Inc., the shareholders of umedik received an aggregate of 14,719,314 outstanding common shares of SQL in exchange for all of the outstanding common shares of umedik.

In addition, SQL issued replacement options and warrants to all holders of umedik's options and warrants who surrendered such securities pursuant to the Amalgamation Agreement. The replacement options and warrants issued by SQL are identical to umedik's options and warrants surrendered except in respect of the number of post-consolidation common shares to which a holder is entitled upon exercise and the exercise price, which terms were modified to give effect to the acquisition and share consolidation.

# **SQL Diagnostics Inc.**

(formerly Emblem Capital Inc.)

Notes to Consolidated Financial Statements

September 30, 2007 and December 14, 2006

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## **1. NATURE OF OPERATIONS AND AMALGAMATION (Cont'd)**

Prior to the completion of the Qualifying Transaction ("Emblem"), a Capital Pool Company, consolidated its common shares on a 6 for 1 basis.

Following the transaction, the former shareholders of umedik controlled SQL and consequently, the transaction was accounted for as a reverse takeover with umedik, Inc. as the acquirer and continuing company. Since Emblem did not constitute a business, the transaction was accounted for as a capital transaction, that is, a financing and recapitalization of umedik, Inc.

Accordingly:

- (i) the assets and liabilities of umedik are included in the balance sheet at their historic carrying value;
- (ii) the net assets of Emblem are included at fair value which equalled their carrying value;
- (iii) capital stock, contributed surplus and deficit of Emblem are eliminated;
- (iv) the comparative figures are those of umedik.

Emblem's net assets acquired are as follows:

Cash	\$	606,909
Accounts payable and accrued liabilities		(11,338)
<b>Net asset value</b>	<b>\$</b>	<b>595,571</b>

## **2. SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada, within the framework of the significant accounting policies summarized below:

### **Basis of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. Inter-company balances and transactions are eliminated upon consolidation.

# SQL Diagnostics Inc.

(formerly Emblem Capital Inc.)

Notes to Consolidated Financial Statements

September 30, 2007 and December 14, 2006

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## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Short-Term Investments

Short-term investments consist of highly liquid investments with original maturities greater than three months but less than one year when purchased and are carried at cost plus accrued interest.

### Property and Equipment

Property and equipment are recorded at cost and are amortized on the straight-line basis over their estimated useful lives as follows:

Computer hardware	- 3 years
Computer software	- 3 years
Laboratory fixtures and equipment	- 10 years
Office equipment	- 10 years
Leasehold improvements	- 10 years

### Patents

The costs relating to initial patent fees are deferred and amortized over 10 years on a straight-line basis. Patents are recorded net of accumulated amortization of \$397,525 (2006 - \$332,588).

### Research and Development Costs

Research costs are charged to earnings in the period in which they are incurred. Development costs are expensed as incurred or deferred if they meet the criteria for deferral under Canadian generally accepted accounting principles and are expected to provide future benefits with reasonable certainty.

At September 30, 2007, the Company was carrying out validation studies to determine viability of the diagnostic system. Deferral criteria have not been met, and accordingly, all development costs have been expensed.

# **SQL Diagnostics Inc.**

(formerly Emblem Capital Inc.)

Notes to Consolidated Financial Statements

September 30, 2007 and December 14, 2006

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## **2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

### **Impairment of Long-Lived Assets**

Long-lived assets comprise property and equipment and intangible assets with finite lives (patents). The Company recognizes an impairment loss for a long-lived asset when events or changes in circumstances cause its carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. An impairment loss is measured as the excess of the carrying value of the asset over its fair value.

### **Revenue Recognition**

The Company provides consulting services from time to time. Consulting fee revenue is recognized when services are completed, amounts are invoiced to customers and collectability is reasonably assured.

### **Accounting for Stock-Based Compensation and Other Stock-Based Payments**

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

### **Foreign Currency Translation**

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at rates of exchange in effect at each transaction date. Revenue and expenses are translated at the rate of exchange at each transaction date. Gains or losses on translation are included in operations.

### **Income Taxes**

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

# **SQL Diagnostics Inc.**

(formerly Emblem Capital Inc.)

Notes to Consolidated Financial Statements

September 30, 2007 and December 14, 2006

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## **2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

### **Investment Tax Credits**

Investment tax credits are accrued when qualifying expenditures are incurred and there is reasonable assurance that the credits will be realized. Investment tax credits earned with respect to current expenditures for qualified research and development activities are included in the statements of operations as a reduction of research and development costs. Investment tax credits associated with capital expenditures are reflected as reductions in the carrying amounts of capital assets.

During the prior year, the Company recorded an amount receivable relating to investment tax credits of \$611,087 and a corresponding reduction in research and development costs. No additional investment tax credits were recorded in the current year.

### **Use of Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the year. Actual results could differ from those estimates.

Significant areas requiring the use of management estimates relate to the determination of the useful lives of property and equipment and patents for amortization purposes, amounts recorded as accrued liabilities, valuation of stock options and warrants, valuation allowance on future tax assets and the fair values of financial instruments.

## **3. ADOPTION OF NEW ACCOUNTING POLICIES**

### **Financial Instruments**

Effective December 15, 2006 the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants Handbook Section 1530 - Comprehensive Income, Section 3251 - Equity, Section 3855 - Financial Instruments, Recognition and Measurements and Section 3861 - Financial Instruments – Disclosure and Presentation.

These recommendations establish standards for recognizing and measuring financial instruments, which include financial assets, financial liabilities, derivatives and embedded derivatives. Under these recommendations, all financial instruments are to be recorded initially at fair value. In subsequent periods, all financial instruments are re-measured based on the classification adopted for the financial instrument: held-to-maturity, loans and receivables, held for trading, available-for-sale or other liability.

# SQL Diagnostics Inc.

(formerly Emblem Capital Inc.)

Notes to Consolidated Financial Statements

September 30, 2007 and December 14, 2006

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## 3. ADOPTION OF NEW ACCOUNTING POLICIES (Cont'd)

### Financial Assets

#### Held for trading

Financial assets that are held with the intention of generating profits in the near term and derivative contracts that are financial assets, except for a derivative that is a designated and effective hedging instrument, are classified as held for trading. In addition, any other financial assets can be designated by the Company upon initial recognition as held for trading. These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net income during the period.

#### Held-to-maturity

Financial assets that have a fixed maturity date and which the Company has a positive intention and the ability to hold to maturity are classified as held-to-maturity, which are subsequently re-measured at amortized cost using the effective interest rate method.

#### Loans and receivables

Loans and receivables are non-derivative financial assets resulting from the delivery of cash or other assets in return for a promise to repay on a specified date, or on demand, usually with interest. Loans and receivables are subsequently re-measured at amortized cost using the effective interest rate method.

#### Available-for-sale

Available-for-sale assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Financial assets classified as available-for-sale are subsequently re-measured at fair value with the changes in fair value recorded in other comprehensive income.

### Financial Liabilities

#### Held for trading

Financial liabilities that are held with the intention of generating profits in the near term and derivative contracts that are financial liabilities, except for a derivative that is a designated and effective hedging instrument, are classified as held for trading. In addition, any other financial liabilities can be designated by the Company upon initial recognition as held for trading. These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net income during the period.

# SQL Diagnostics Inc.

(formerly Emblem Capital Inc.)

Notes to Consolidated Financial Statements

September 30, 2007 and December 14, 2006

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### 3. ADOPTION OF NEW ACCOUNTING POLICIES (Cont'd)

Other liabilities

Non-derivative financial liabilities that have not been designated as held for trading are classified as other liabilities, which are subsequently re-measured at amortized cost using the effective interest rate method.

The Company has classified its financial instruments as follows:

<u>Financial Instrument</u>	<u>Classification</u>
Cash and short-term investments	Held for trading
Amounts receivable	Loans and receivable
Due from related party	Loans and receivable
Accounts payable and accruals	Other financial liabilities
Long-term debt	Other financial liabilities

CICA Handbook Section 1530, Comprehensive Income, establishes new measurements of earnings in the financial statements. Other comprehensive income consists of changes to unrealized gains and losses on available-for-sale financial assets, changes to unrealized gains and losses on the effective portion of cash flow hedges and changes to foreign currency translation adjustments of self-sustaining foreign operations during the period. Comprehensive income measures net earnings for the period plus other comprehensive income. Amounts reported as other comprehensive income are accumulated in a separate component of shareholders' equity as Accumulated Other Comprehensive Income. The Company has not presented a statement of comprehensive income as its comprehensive income is NIL.

Section 3251 establishes standards for the presentation of equity and changes in equity.

### 4. CASH AND SHORT-TERM INVESTMENTS

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	<u>2007</u>	<u>2006</u>
Cash	\$ 249,601	\$ 667,719
Short-term investments (consists of cashable GICs)	3,150,000	1,000,000
	<u>\$ 3,399,601</u>	<u>\$ 1,667,719</u>

### 5. DUE FROM RELATED PARTY

The amount is due from an officer and director of the Company, bears interest at 4.25% and is due on December 14, 2008.

# SQL Diagnostics Inc.

(formerly Emblem Capital Inc.)

Notes to Consolidated Financial Statements

September 30, 2007 and December 14, 2006

## 6. PROPERTY AND EQUIPMENT

As at September 30, 2007:

	Cost	Accumulated Amortization	Net
Computer hardware	\$ 117,851	\$ 63,650	\$ 54,201
Computer software	109,225	59,364	49,861
Laboratory fixtures and equipment	2,781,665	710,526	2,071,139
Office equipment	145,656	81,768	63,888
Leasehold improvements	224,868	84,707	140,161
	<b>\$ 3,379,265</b>	<b>\$ 1,000,015</b>	<b>\$ 2,379,250</b>

As at December 14, 2006:

	Cost	Accumulated Amortization	Net
Computer hardware	\$ 74,894	\$ 52,626	\$ 22,268
Computer software	59,856	52,281	7,575
Laboratory fixtures and equipment	1,660,968	542,480	1,118,488
Office equipment	121,186	71,642	49,544
Leasehold improvements	131,561	72,374	59,187
	<b>\$ 2,048,465</b>	<b>\$ 791,403</b>	<b>\$ 1,257,062</b>

## 7. LONG-TERM DEBT

	September 30 2007	December 14 2006
Promissory note, bearing no interest until the due date of February 24, 2007, and 10% per annum thereafter	\$ -	\$ 35,000
Promissory note of U.S. \$50,000, bearing interest at 7% per annum, payable in monthly blended payments of U.S. \$2,239	-	32,929
Note payable to supplier, non-interest bearing, payable in monthly installments of \$5,600	16,511	92,215
	<b>16,511</b>	<b>160,144</b>
Less: Current portion	<b>(16,511)</b>	<b>(134,436)</b>
	<b>\$ -</b>	<b>\$ 25,708</b>

# SQL Diagnostics Inc.

(formerly Emblem Capital Inc.)

Notes to Consolidated Financial Statements

September 30, 2007 and December 14, 2006

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## 8. RELATED PARTY TRANSACTIONS

Transactions with related parties are incurred in the normal course of business and are measured at the exchange amount. 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 period ended September 30, 2007 is \$19,746 (year ended December 14, 2006 - \$26,950), related to recovery of occupancy costs, from a corporation in which an officer of the Company was also an officer. As well, consulting fee revenue of \$54,360 (year ended December 14, 2006 - \$75,249) was earned from this corporation during the period ended September 30, 2007.

## 9. CAPITAL STOCK

Authorized  
unlimited common shares

Issued - common shares

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	Number	Value
Emblem Shares outstanding at December 31, 2006	7,999,999	\$ 867,300
Share consolidation at 6 for 1	(6,666,666)	-
	1,333,333	867,300
Elimination of share capital due to reverse takeover	-	(867,300)
Shares issued to former shareholders of Umedik (Note 1)	14,719,314	8,514,699
Net asset value of SQL ascribed to issued shares (Note 1)	-	595,571
Share issuance costs	-	(128,107)
Warrants exercised	77,501	7,735
Proceeds from private placement <sup>(i)</sup>	3,567,551	5,212,435
Amount allocated to warrants	-	(89,188)
<b>Balance, September 30, 2007</b>	<b>19,697,699</b>	<b>\$14,113,145</b>

(i) Pursuant to a private placement, the Company issued 3,567,551 units at a price of \$1.60 per unit as follows:

(a) On June 29, 2007, 3,192,551 units were issued for a net amount of \$4,660,435;

(b) On July 3, 2007, 375,000 units were issued for a net amount of \$552,000.

Each issued unit is comprised of one common share and one-half common share warrant. Each whole warrant is exercisable at a price of \$2.40 per common share, expiring on June 29, 2009 and July 3, 2009, respectively.

# SQL Diagnostics Inc.

(formerly Emblem Capital Inc.)  
Notes to Consolidated Financial Statements  
September 30, 2007 and December 14, 2006

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## 10. CONTRIBUTED SURPLUS

The following summarizes the change in contributed surplus:

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	<b>September 30 2007</b>	December 14 2006
Balance, beginning of year	<b>\$ 7,738,492</b>	\$ 7,469,903
Stock-based compensation	<b>52,223</b>	268,589
Balance, end of year	<b>\$ 7,790,715</b>	\$ 7,738,492

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# SQL Diagnostics Inc.

(formerly Emblem Capital Inc.)

Notes to Consolidated Financial Statements

September 30, 2007 and December 14, 2006

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## 11. STOCK OPTIONS

The Company maintains a Stock Option Plan (the "Plan") for the benefit of directors, officers, employees and consultants. The aggregate number of common shares reserved for issuance under the Plan, together with any other employee stock option plans, options for services and employee share purchase plans, will not exceed 3,224,310 common shares. Options granted pursuant to the Plan will have terms not to exceed five years, and are granted at an option price which will not be less than the fair market price at the time the options are granted. Options issued under the plan generally vest within 18 to 36 months from the date of grant.

The following summarizes the stock option activities under the Plan:

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	September 30, 2007		December 14, 2006	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning balance	783,350	\$ 1.00	490,010	\$ 1.32
Granted	197,500	\$ 1.74	466,676	\$ 1.20
Cancelled/expired	-	\$ -	(173,336)	\$ 2.42
Ending balance	980,850	\$ 1.15	783,350	\$ 1.00
Exercisable	481,734	\$ 0.89	473,505	\$ 0.87

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The Company had the following stock options outstanding under the Plan at September 30, 2007:

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Number of Options	Exercise Price	Expiry Date
133,336	\$ 0.132	December 16, 2008
25,001	\$ 0.400	February 1, 2009
16,667	\$ 1.680	July 1, 2009
141,670	\$ 1.200	April 15, 2010
250,005	\$ 1.200	June 29, 2011
216,671	\$ 1.200	August 29, 2011
197,500	\$ 1.740	August 7, 2012
<b>980,850</b>		

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The Company also had 966,683 options outstanding at September 30, 2007 that were not issued under the plan. All of these options were exercisable at September 30, 2007. 133,333 options have an exercise price of \$0.90 and expire on October 14, 2009 and 833,350 options have an exercise price of \$0.60, expiring on April 15, 2010.

# SQL Diagnostics Inc.

(formerly Emblem Capital Inc.)

Notes to Consolidated Financial Statements

September 30, 2007 and December 14, 2006

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## 12. STOCK-BASED COMPENSATION

The compensation cost of the grants issued during the period ended September 30, 2007 was \$230,522 (year ended December 14, 2006 - \$107,319), which will be recognized over the 36 month vesting period. The total compensation expense for the period ended September 30, 2007 is \$52,223 (year ended December 14, 2006 - \$268,589). The total amount credited to contributed surplus for the period ended September 30, 2007 was \$52,223 (year ended December 14, 2006 - \$268,589).

The fair value of each option granted has been estimated at the date of grant or the date when it became measurable using the Black-Scholes option pricing model with the following weighted average assumptions at the measurement date:

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	September 30 2007	December 14 2006
Dividend yield	0%	0%
Expected volatility	80%	0%
Risk-free interest rate	4.6%	4.26%
Expected life (years)	5.00	5.00
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Weighted average grant date fair value	\$1.167	\$0.383

The Company has assumed no forfeiture rate as adjustments for actual forfeitures are made in the year they occur.

## 13. WARRANTS

The Company had the following warrants outstanding at September 30, 2007:

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Number of Warrants	Purchase Price	Expiry Date
52,502	\$ 0.006	October 26, 2007
83,335	\$ 0.438	October 26, 2007
50,001	\$ 0.132	April 26, 2009
20,834	\$ 1.200	April 26, 2009
89,147	\$ 2.502	April 26, 2009
1,076,867	\$ 0.600	April 26, 2009
344,004	\$ 1.200	April 26, 2009
285,404	\$ 1.600	June 29, 2009
1,783,776	\$ 2.400	June 29, 2009
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<b>3,785,870</b>		

# SQI Diagnostics Inc.

(formerly Emblem Capital Inc.)

Notes to Consolidated Financial Statements

September 30, 2007 and December 14, 2006

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## 14. INCOME TAXES

### (i) Income Tax Expense

The following table reconciles income taxes calculated at combined Canadian federal/provincial tax rates with the income tax expense in the financial statements:

	Period From December 15, 2006 to September 30, 2007	Year Ended December 14, 2006
Loss before income taxes	<b>\$(2,956,882)</b>	\$(1,652,874)
Statutory rate	<b>36.1 %</b>	36.1 %
Expected income tax recovery	<b>\$(1,067,434)</b>	\$(596,688)
Share issue costs incurred	<b>(268,847)</b>	(163,933)
Non-deductible expenses and other	<b>21,332</b>	85,200
Change in valuation allowance and future tax rates	<b>1,314,949</b>	675,421
Income tax expense	<b>\$ -</b>	\$ -

### (ii) Future Income Taxes

The temporary differences that give rise to future income tax assets and future income tax liabilities are presented below:

	September 30 2007	December 14 2006
Amounts related to tax loss and other credits carry forwards	<b>\$ 3,809,997</b>	\$ 2,675,722
Property and equipment and intangibles	<b>(326,525)</b>	29,485
Share issue costs	<b>304,406</b>	180,522
Net future tax asset	<b>3,787,878</b>	2,885,729
Less: Valuation allowance	<b>(3,787,878)</b>	(2,885,729)
	<b>\$ -</b>	\$ -

# SQL Diagnostics Inc.

(formerly Emblem Capital Inc.)

Notes to Consolidated Financial Statements

September 30, 2007 and December 14, 2006

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## 14. INCOME TAXES (Cont'd)

### (iii) Loss and Tax Credit Carryforwards

As at September 30, 2007, the Company has non-capital losses of \$5,592,200 expiring as follows:

2014	\$ 879,122
2015	765,800
2026	1,055,034
2027	2,892,244
	<b>\$ 5,592,200</b>

The Company has undeducted scientific research and experimental development costs of approximately \$3,985,958 and investment tax credit relating to scientific research and development costs of \$697,031 available to apply against future taxable income.

The potential tax benefit relating to the non-capital losses and tax credit carryforwards has not been reflected in these financial statements.

## 15. COMMITMENTS

The Company has the following lease commitments for premises and equipment:

2008	\$ 69,369
2009	7,866
2010	7,866
	<b>\$ 85,101</b>

## 16. FINANCIAL INSTRUMENTS

It is management's opinion that the fair value of cash and short-term investments, amounts receivable, amount due from related party, accounts payable and accrued liabilities and long-term debt approximates their carrying value due to the relatively short term maturities of these instruments.

# **SQL Diagnostics Inc.**

(formerly Emblem Capital Inc.)

Notes to Consolidated Financial Statements

September 30, 2007 and December 14, 2006

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## **17. COMPARATIVE FIGURES**

Effective in 2007, the Company changed its fiscal year-end from December 14 to September 30. Accordingly, the financial statements for 2007 are for the period from December 15, 2006 to September 30, 2007.

Certain comparative figures have been reclassified to conform with the current period's financial statement presentation.