

SQI Diagnostics Inc.

Interim Consolidated Financial Statements

**For the Period From October 1, 2007 to
December 31, 2007**

NOTICE TO READER

The accompanying unaudited interim consolidated financial statements have been prepared by the company's management and the company's independent auditors have not performed a review of these consolidated financial statements.

SQI Diagnostics Inc.

Interim Consolidated Balance Sheets

	Note	December 31 2007	September 30 2007 (audited)
Assets			
Current			
Cash and short-term investments	5	\$ 2,474,904	\$ 3,399,601
Amounts receivable		188,122	191,662
Inventory		34,937	-
Prepays and deposits		58,711	83,529
		2,756,674	3,674,792
Due from related party	6	100,456	100,456
Property and equipment	7	2,588,979	2,379,250
Patents		363,424	369,306
		\$ 5,809,533	\$ 6,523,804

Liabilities

Current			
Accounts payable and accrued liabilities		\$ 507,637	\$ 240,364
Current portion of long-term debt	8	8,177	16,511
		515,814	256,875

Shareholders' Equity

Capital stock	10	14,118,395	14,113,145
Warrants	10	89,188	89,188
Employee share purchase loan		(10,000)	(10,000)
Contributed surplus	11	7,826,177	7,790,715
Deficit		(16,730,041)	(15,716,119)
		5,293,719	6,266,929
		\$ 5,809,533	\$ 6,523,804

Approved by the Board "Peter Winkley" Director "Claude Ricks" Director
(Signed) (Signed)

See accompanying notes.

SQI Diagnostics Inc.

Interim Consolidated Statements of Operations and Deficit

	Three Month Period Ended December 31, 2007	Three Month Period Ended December 31, 2006
Revenue		
Consulting fees	\$ 44,493	\$ 21,735
Expenses		
Salaries and wages	89,063	130,986
General and administrative	68,132	62,284
Professional and consulting fees	64,292	57,914
Stock-based compensation	35,462	55,091
Research and development costs	698,660	380,293
Interest income	(11,691)	(21,710)
Amortization - patents	19,374	19,009
Amortization - property and equipment	95,123	50,280
	1,058,415	734,147
Net loss	(1,013,922)	(712,412)
Deficit at beginning of period	(15,716,119)	(12,146,045)
Deficit at end of period	\$(16,730,041)	\$(12,858,457)
Weighted average number of shares	19,737,507	14,719,314
Basic and diluted loss per share	\$ (0.05)	\$ (0.05)

See accompanying notes.

SQI Diagnostics Inc.

Interim Consolidated Statements of Cash Flows

	Note	Three Month Period Ended December 31, 2007	Three Month Period Ended December 31, 2006
Cash flows from (used in) operating activities			
Loss for the period		\$ (1,013,922)	\$ (712,412)
Add items not affecting cash			
Amortization - patents		19,374	19,009
- property and equipment		95,123	50,280
Stock-based compensation		35,462	55,091
		(863,963)	(588,032)
Changes in non-cash working capital items			
Amounts receivable		3,540	(8,729)
Inventory		(34,937)	-
Prepays and deposits		24,818	(42,243)
Accounts payable and accrued liabilities		267,275	322,393
		(603,267)	(316,611)
Cash flows used in investing activities			
Purchase of property and equipment		(304,853)	(387,768)
Additions to patents		(13,493)	(20,721)
Short-term investments		1,000,000	1,000,000
		681,654	591,511
Cash flows from financing activities			
Repayment of long term debt		(8,334)	(24,373)
Proceeds from private placement and exercise of warrants, net of share issuance costs		5,250	(56,204)
		(3,084)	(80,577)
Increase in cash during the period		75,303	194,323
Cash at beginning of period		249,601	333,040
Cash at end of period	5	\$ 324,904	\$ 527,363

See accompanying notes.

SQL Diagnostics Inc.

Notes to Interim Consolidated Financial Statements

December 31, 2007

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 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., "Emblem") 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.

SQI Diagnostics Inc.

Notes to Interim Consolidated Financial Statements
December 31, 2007

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 SQI 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)
Net asset value	\$	595,571

SQL Diagnostics Inc.

Notes to Interim Consolidated Financial Statements

December 31, 2007

2. INTERIM REPORTING

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles. The disclosures contained in these unaudited interim consolidated financial statements do not include all requirements of Canadian generally accepted accounting principles for the presentation of annual financial statements. Notwithstanding, the unaudited interim financial statements follow the same accounting policies and methods of application as the audited financial statements of the Company for the period ended September 30, 2007. The unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the period ended September 30, 2007.

Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end. In the opinion of management, the accompanying unaudited interim consolidated financial statements include all adjustments of a normal recurring nature to present fairly the position of the Company as at December 31, 2007 and reflect the results of operations for the three month period then ended.

3. 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.

Notes to Interim Consolidated Financial Statements

December 31, 2007

3. 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.

Inventory

Inventory is valued at the lower of cost and net realizable value, with cost determined on a first-in, first-out basis.

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 \$416,899 (September 30, 2007 - \$397,525 (audited)).

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, 2008, 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.

SQI Diagnostics Inc.

Notes to Interim Consolidated Financial Statements

December 31, 2007

3. 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.

Notes to Interim Consolidated Financial Statements
December 31, 2007

3. 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 \$148,750 and a corresponding reduction in research and development costs. No additional investment tax credits were recorded in the current year.

Financial Instruments

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

Comprehensive Income

The Company has not presented a statement of comprehensive income as it has no other comprehensive income.

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.

SQL Diagnostics Inc.

Notes to Interim Consolidated Financial Statements
December 31, 2007

4. ADOPTION OF NEW ACCOUNTING POLICY

Capital disclosures

On December 1, 2006, the CICA issued new accounting standard: Capital Disclosures (Handbook Section 1535). This new standards became effective for the Company on October 1, 2007. Handbook Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by the new Handbook section in Note 16 to these interim consolidated financial statements.

5. CASH AND SHORT-TERM INVESTMENTS

	December 31, 2007	September 30, 2007 (audited)
Cash	\$ 324,904	\$ 249,601
Short-term investments (consists of cashable GICs)	2,150,000	3,150,000
	\$ 2,474,904	\$ 3,399,601

6. 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.

SQI Diagnostics Inc.

Notes to Interim Consolidated Financial Statements
December 31, 2007

7. PROPERTY AND EQUIPMENT

As at December 31, 2007:

	Cost	Accumulated Amortization	Net
Computer hardware	\$ 122,535	\$ 69,604	\$ 52,931
Computer software	121,189	64,700	56,489
Laboratory fixtures and equipment	3,067,875	785,010	2,282,865
Office equipment	145,656	85,479	60,177
Leasehold improvements	226,863	90,346	136,517
	\$ 3,684,118	\$ 1,095,139	\$ 2,588,979

As at September 30, 2007 (audited):

	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
	\$ 3,379,265	\$ 1,000,015	\$ 2,379,250

8. LONG-TERM DEBT

	December 31 2007	September 30 2007 (audited)
Note payable to supplier, non-interest bearing, payable in monthly installments of \$5,600	\$ 8,177	\$ 16,511
Less: Current portion	(8,177)	(16,511)
	\$ -	\$ -

SQI Diagnostics Inc.

Notes to Interim Consolidated Financial Statements December 31, 2007

9. 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 December 31, 2007 is \$12,020 (period ended December 31, 2006 - \$10,086), 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 \$15,405 (period ended December 31, 2006 - \$21,735) was earned from this corporation during the period ended December 31, 2007.

10. CAPITAL STOCK

Authorized - unlimited common shares

Issued - common shares

	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 SQI ascribed to issued shares (Note 1)	-	595,571
Share issuance costs	-	(128,107)
Warrants exercised	77,501	7,735
Proceeds from private placement ⁽ⁱ⁾	3,567,551	5,212,435
Amount allocated to warrants	-	(89,188)
Balance, September 30, 2007 (audited)	19,697,699	\$14,113,145
Warrants exercised	52,501	5,250
Balance, December 31, 2007	19,750,200	\$14,118,395

(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.

SQI Diagnostics Inc.

Notes to Interim Consolidated Financial Statements
December 31, 2007

11. CONTRIBUTED SURPLUS

The following summarizes the change in contributed surplus:

	December 31 2007	September 30 2007 (audited)
Balance, beginning of year	\$ 7,790,715	\$ 7,738,492
Stock-based compensation	35,462	52,223
Balance, end of year	\$ 7,826,177	\$ 7,790,715

SQL Diagnostics Inc.

Notes to Interim Consolidated Financial Statements
December 31, 2007

12. 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:

	Three Month Period Ended December 31, 2007		Three Month Period Ended December 31, 2006	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning balance	980,850	\$ 1.15	783,350	\$ 1.00
Granted	50,000	\$ 1.50	-	\$ -
Cancelled/expired	(50,001)	\$ -	-	\$ -
Ending balance	980,849	\$ 1.27	783,350	\$ 1.00
Exercisable	481,734	\$ 0.89	473,505	\$ 0.87

The Company had the following stock options outstanding under the Plan at December 31, 2008:

Number of Options	Exercise Price	Expiry Date
133,336	\$ 0.132	December 16, 2008
8,334	\$ 1.680	July 1, 2009
141,670	\$ 1.200	April 15, 2010
283,339	\$ 1.200	June 29, 2011
166,670	\$ 1.200	August 29, 2011
197,500	\$ 1.740	August 7, 2012
50,000	\$ 1.500	October 23, 2012
980,849		

The Company also had 966,683 options outstanding at December 31, 2007 that were not issued under the plan. All of these options were exercisable at December 31, 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.

SQI Diagnostics Inc.

Notes to Interim Consolidated Financial Statements
December 31, 2007

13. STOCK-BASED COMPENSATION

The compensation cost of the grants issued during the period ended December 31, 2007 was \$35,462 (period ended December 31, 2006 - \$55,091), which will be recognized over the 36 month vesting period. The total compensation expense for the period ended December 31, 2007 is \$NIL (period ended December 31, 2006 - \$NIL). The total amount credited to contributed surplus for the period ended December 31, 2007 was \$35,462 (year ended December 31, 2006 - \$55,091).

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:

	December 31 2007	December 31 2006
Dividend yield	0%	0%
Expected volatility	80%	0%
Risk-free interest rate	4.6%	4.5%
Expected life (years)	5.00	5.00
Weighted average grant date fair value	\$1.00	\$0.40

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

14. WARRANTS

The Company had the following warrants outstanding at December 31, 2007:

Number of Warrants	Purchase Price	Expiry Date
83,335	\$ 0.438	April 26, 2009
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
3,733,368		

SQL Diagnostics Inc.

Notes to Interim Consolidated Financial Statements
December 31, 2007

15. COMMITMENTS

The Company had the following lease commitments for premises and equipment at September 30, 2007 (audited):

2008	\$	69,369
2009		7,866
2010		7,866
	\$	85,101

16. Capital Risk Management

The Company's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders through the use of appropriate debt instruments commensurate with the level of risk and availability, to reduce the after-tax cost of capital.

Owing to the nature of the business and the Company's continuing operating losses it does not have access to debt instruments at this time.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, repurchase shares, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Company's objective is met by seeking and retaining adequate equity to provide for continued operating losses and will continue to do so until cash flows from assets are sufficient to meet future cash flow requirements.

17. 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.