SQI Diagnostics Inc.

Condensed Interim Consolidated Financial Statements

(Unaudited)

(Expressed in Canadian dollars)

For the Three Months Ended December 31, 2019 and 2018

Notice to Reader

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

SQI Diagnostics Inc.
Condensed Interim Consolidated Statements of Financial Position (Unaudited)
(Amounts are in thousands of Canadian dollars)

		As at December 31, 2019		As at September 30, 2019
Assets				
Current				
Cash	**$**	**1,461**	$	3,444
Accounts receivable		**181**		190
Prepaids and other assets		**183**		138
Inventory		**668**		711
Lease receivable		**-**		11
Total current assets		**2,493**		4,494
Right-of-use assets (notes 4 and 7)		**3,473**		-
Property and equipment (note 5)		**815**		1,297
Patents and trademarks (note 6)		**450**		481
	$	**7,231**	$	6,272
Liabilities				
Current				
Accounts payable and accrued liabilities	**$**	**843**	$	1,172
Contract liabilities		**322**		338
Lease obligations (notes 4 and 7)		**234**		93
Secured debentures (note 8)		**3,195**		3,108
Total current liabilities		**4,594**		4,711
Lease obligations – long-term (notes 4 and 7)		**2,897**		32
Total liabilities		**7,491**		4,743
Shareholders' Equity				
Capital stock (note 9)		**64,783**		64,729
Warrants (note 10)		**11,871**		11,827
Contributed surplus		**19,944**		19,817
Deficit		**(96,858)**		(94,844)
		(260)		1,529
	$	**7,231**	$	6,272

Basis of presentation and going concern (note 2)
Commitments and contingencies (note 16)
Subsequent events (note 19)

Approved by the Board	**"Clive Beddoe"**	**"Andrew Morris"**
	Director **(Signed)**	Director **(Signed)**

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

SQI Diagnostics Inc.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (Unaudited)
For the three months ended December 31, 2019 and 2018
(Amounts are in thousands of Canadian dollars except per share amounts)

	Three Months Ended	
	December 31, 2019	December 31, 2018
Revenue		
Services revenue	**$ 60**	$ 46
Product sales	**147**	246
	207	292
Expenses		
Cost of products sold	**38**	109
Corporate and general (Note 13)	**414**	374
Sales and marketing (Note 14)	**276**	333
Research and development (Note 15)	**1,269**	1,082
Finance costs	**224**	152
	2,221	2,050
Net loss and comprehensive loss	**$ (2,014)**	$ (1,758)
Loss per share		
Basic and diluted	**$ (0.01)**	$ (0.01)
Weighted average number of common shares outstanding (thousands of shares)		
Weighted average number of shares	**232,113**	158,407

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

SQI Diagnostics Inc.
Condensed Interim Consolidated Statements of Changes in Equity (Unaudited)
For the three months ended December 31, 2019 and 2018
(Amounts are in thousands of Canadian dollars)

	Issued Capital Stock										
	Number of Shares (thousands of shares)		**Amount**		**Warrants**		**Contributed Surplus**		**Deficit**		**Total Equity**
Balance as at September 30, 2018	158,407	$	60,816	$	12,861	$	15,062	$	(86,823)	$	1,916
Revaluation of extended warrants (note 10)	-		-		88		(88)		-		-
Stock-based compensation (note 12)	-		-		-		130		-		130
Net loss and comprehensive loss	-		-		-		-		(1,758)		(1,758)
Balance as at December 31, 2018	158,407	$	60,816	$	12,949	$	15,104	$	(88,581)	$	288
Balance as at September 30, 2019	**231,341**	**$**	**64,729**	**$**	**11,827**	**$**	**19,817**	**$**	**(94,844)**	**$**	**1,529**
Issued in connection with private placement (note 9(e))	**1,000**		**100**		**-**		**-**		**-**		**100**
Allocated to warrants – private placement (note 9(e))			**(45)**		**45**		**-**		**-**		**-**
Share issuance costs (note 9(e))			**(1)**		**(1)**						**(2)**
Stock-based compensation (note 12)	**-**		**-**		**-**		**127**		**-**		**127**
Net loss and comprehensive loss	**-**		**-**		**-**		**-**		**(2,014)**		**(2,014)**
Balance as at December 31, 2019	**232,341**	**$**	**64,783**	**$**	**11,871**	**$**	**19,944**	**$**	**(96,858)**	**$**	**(260)**

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

SQI Diagnostics Inc.
Condensed Interim Consolidated Statements of Cash Flows (Unaudited)
For the three months ended December 31, 2019 and 2018
(Amounts are in thousands of Canadian dollars)

	Three Months Ended	
	December 31, 2019	December 31, 2018
Cash flows used in operating activities		
Net loss	**$ (2,014)**	$ (1,758)
Add items not affecting cash		
Amortization - patents and trademarks	**31**	37
- property and equipment	**71**	96
- right-of-use assets	**101**	-
Stock-based compensation	**127**	130
Accretion on debenture	**87**	71
Bad debts written off	**26**	-
	(1,571)	(1,424)
Changes in non-cash working capital items		
Accounts receivable and prepaids	**(89)**	343
Lease receivable	**-**	24
Inventory	**43**	(102)
Accounts payable and accrued liabilities	**(329)**	(141)
Contract liabilities	**(16)**	(4)
	(1,962)	(1,304)
Cash flows used in investing activities		
Purchase of property and equipment	**(29)**	(23)
Additions to patents and trademarks	**-**	(10)
	(29)	(33)
Cash flows from financing activities		
Proceeds from issuance of shares net of share issuance costs	**98**	-
Lease payments – principal portion	**(90)**	(26)
	8	(26)
Net change in cash during the period	**(1,983)**	(1,363)
Cash at beginning of the period	**3,444**	2,401
Cash at end of the period	**$ 1,461**	$ 1,038

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

1. NATURE OF OPERATIONS

SQI Diagnostics Inc., (the "Company"), is incorporated under the *Canada Business Corporations Act*, is listed on the TSX Venture Exchange under the symbol SQD and trades on the OTCQB under the symbol SQIDF. The Company's head office and development centre is located at 36 Meteor Drive, Toronto, Ontario. The Company is a life sciences company that develops and commercializes proprietary technologies and products for advanced multiplexing diagnostics. The Company's goal is to become a leader in the development and commercialization of multiplexed blood tests to enable simultaneous measurement of important molecules like proteins, antibodies and inflammatory biomarkers.

2. BASIS OF PRESENTATION AND GOING CONCERN

These interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard ("IAS") 34 - Interim Financial Reporting. Accordingly, certain information and disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. These interim condensed consolidated financial statements and the notes thereto should be read in conjunction with the audited consolidated financial statements of the Company for the year ended September 30, 2019, except for the adoption of IFRS 16, Leases, effective October 1, 2019. See note 4 for the impact of the adoption of IFRS 16.

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors on February 26, 2020.

Going concern

The condensed interim consolidated financial statements have been prepared using the historical cost basis, except for certain financial instruments that are measured at fair value, as explained in the accounting policies.

These condensed interim consolidated financial statements have been prepared on a going concern basis that presumes the realization of assets and the discharge of liabilities in the normal course of business.

Since inception, the Company has focused on product research, development and more recently on commercialization activities. The Company has a history of net losses and negative cash flows from operations, which are expected to continue in the near term.

The Company's ability to continue as a going concern and execute on its research, development and commercialization activities is dependent upon the Company's ability to successfully generate product or service revenues, or to finance its cash requirements through further equity and/or debt financings.

Based on the foregoing, the Company will continue to pursue commercial sales, strategic partnering activities and funding opportunities, however, no assurances can be given that it will be successful in generating revenues, or raising additional investment capital to generate sufficient cash flows to continue as a going concern. As a result, these material uncertainties cast significant doubt regarding the Company's ability to continue as a going concern.

These condensed interim consolidated financial statements do not reflect the adjustments that might be necessary to the carrying amount of reported assets, liabilities, revenue, and expenses and the statement of financial position classification used if the Company was unable to continue operations in accordance with this assumption. Such adjustments could be material.

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Company's interim condensed consolidated financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, and revenues and expenses at the end of the reporting period. However, uncertainty about these estimates, judgments and assumptions could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Management reviews, on a regular basis, the Company's accounting policies, assumptions, estimates and judgments in order to ensure that the condensed interim consolidated financial statements are presented fairly and in accordance with IFRS. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical accounting estimates and assumptions, as well as critical judgments used in applying accounting policies in the preparation of the Company's condensed interim consolidated financial statements, were the same as those found in note 3 to the Company's annual consolidated financial statements as of September 30, 2019 and 2018 and for the years ended September 30, 2019 and 2018, except for those related to the adoption of IFRS 16 as follows:

Critical judgments in determining the lease term and discount rate

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

In determining the appropriate discount rate, management identified the rate for the building based on the type and location of the Company's office and laboratory facility in Toronto, Ontario and, for equipment leases, used the risk-free rate, credit spread and lease specific adjustment for similar assets.

4. RECENT ACCOUNTING PRONOUNCEMENTS

Impact of adoption of significant new IFRS standards in 2020

The following new IFRS standards have been adopted by the Company effective October 1, 2019:

Impact of application of IFRS 16 – Leases

The Company adopted IFRS 16 Leases ("IFRS 16"), using the modified retrospective approach and accordingly the information presented for the 2019 reporting period has not been restated, as permitted under the specific transitional provisions in the standard.

IFRS 16 introduced significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset ("ROU asset") and a lease obligation at the lease commencement for all leases, except for short-term leases (lease terms of twelve months or less) and leases of low-value assets. In applying IFRS 16, the Company recognized ROU assets and lease obligations in the condensed interim consolidated statements of financial position, initially measured at the present value of future lease payments; recognized depreciation of ROU assets and interest on lease obligations in the condensed interim consolidated statements of loss and comprehensive loss; and separated the total amount of lease payments into a principal portion (presented in financing activities) and interest (presented within operating activities) in the condensed interim consolidated statements of cash flows. For short-term leases and leases of low-value assets, the Company has elected not to recognize right-of-use assets and lease obligations. The respective lease payments associated with these leases are recognized in the condensed interim consolidated statements of loss and comprehensive loss on a straight-line basis.

For leases that were classified as operating leases under IAS 17, lease obligations at transition have been measured at the present value of remaining lease payments, discounted at the Company's incremental borrowing rate of 8% as at October 1, 2019.

The Company has used the following practical expedients permitted by the standard:

- Applied the standard only to contracts that were previously identified as leases under IAS 17 at the date of initial application;
- Applied the recognition exemptions for low-value leases and leases that end within twelve months at the date of application, and accounted for them as low-value and short-term leases respectively;
- Accounted for non-lease components and lease components as a single lease component; and
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

On transition to IFRS 16 at October 1, 2019, the Company recognized ROU assets of $3,096,000 and associated lease obligations in relation to leases which had previously been classified as operating leases under IAS 17. Prepaid rent totaling $38,000, previously classified under prepaid expenses, and the carrying amounts of leased assets of $440,000, previously shown in property and equipment, were transferred to right-of-use assets on October 1, 2019.

At September 30, 2019, the minimum operating lease commitments of the Company were $1,477,000 as compared with the lease obligations of $3,096,000 at October 1, 2019 due to: (i) the impact of discounting the remaining lease payments; (ii) the inclusion of non-lease components in measuring the lease obligation; and (iii) the inclusion of extension options in the calculation of lease terms.

The following accounting policy is applicable from October 1, 2019:

At the inception of a contract, the Company determines whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration. The Company recognizes a ROU asset and a lease obligation on the date the leased asset is available for use by the Company (at the commencement of the lease).

Right-of-use assets

ROU assets are initially measured at cost, which is comprised of the initial amount of the lease obligation, any initial direct costs incurred and an estimate of costs to dismantle, remove or restore the underlying asset or site on which it is located, less any lease payments made at or before the commencement date. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, a recognized ROU asset is depreciated using the straight-line method over the shorter of its estimated useful life or the lease term. The ROU asset may be adjusted for certain remeasurements of the lease obligation and impairment losses.

Lease obligations

The lease obligation is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily available. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics. Lease payments include fixed payments less any lease incentives, and any variable lease payments where variability depends on an index or rate. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payment of penalties for termination of a lease. Each lease payment is allocated between the repayment of the principal portion of the lease obligation and the interest portion. The finance cost is charged to interest and accretion expense in the interim consolidated statements of loss and comprehensive loss over the lease period. Payments associated with short-term leases (lease term of 12 months or less) and leases of low-value assets are recognized on a straight-line basis as an expense in the interim consolidated statements of income as permitted by IFRS 16.

(Amounts are in Canadian dollars, unless otherwise noted; tabular amounts are in thousands)

5. PROPERTY AND EQUIPMENT

Cost	**Computer Hardware**	**Computer Software**	**Laboratory Fixtures and Equipment**	**Office Equipment**	**Leasehold Improvements**	**Total**
September 30, 2018	$ 385	$ 246	$ 5,434	$ 181	$ 265	$ 6,511
Additions	74	21	137	2	-	234
Dispositions	-	-	(42)	-	-	(42)
September 30, 2019	$ 459	$ 267	$ 5,529	$ 183	$ 265	$ 6,703
Transfers to ROU Assets	**(65)**	**-**	**(472)**	**-**	**-**	**(537)**
Additions	**4**	**-**	**14**	**-**	**11**	**29**
December 31, 2019	**$ 398**	**$ 267**	**$ 5,071**	**$ 183**	**$ 276**	**$ 6,195**

Accumulated Amortization	**Computer Hardware**	**Computer Software**	**Laboratory Fixtures and Equipment**	**Office Equipment**	**Leasehold Improvements**	**Total**
September 30, 2018	$ 352	$ 217	$ 4,077	$ 174	$ 260	$ 5,080
Amortization expense	30	18	305	3	3	359
Dispositions	-	-	(33)	-	-	(33)
September 30, 2019	$ 382	$ 235	$ 4,349	$ 177	$ 263	$ 5,406
Transfers to ROU assets	**(14)**	**-**	**(83)**	**-**	**-**	**(97)**
Amortization expense	**3**	**5**	**61**	**1**	**1**	**71**
December 31, 2019	**$ 371**	**$ 240**	**$ 4,327**	**$ 178**	**$ 264**	**$ 5,380**

Net Book Value						
September 30, 2019	$ 77	$ 32	$ 1,180	$ 6	$ 2	$ 1,297
December 31, 2019	**$ 27**	**$ 27**	**$ 744**	**$ 5**	**$ 12**	**$ 815**

(Amounts are in Canadian dollars, unless otherwise noted; tabular amounts are in thousands)

6. PATENTS AND TRADEMARKS

Cost		
September 30, 2018	$	2,221
Additions		31
Write off of patents		(40)
September 30, 2019 and December 31, 2019	**$**	**2,212**
Accumulated Amortization		
September 30, 2018	$	1,611
Amortization expense		141
Write off of patents		(21)
September 30, 2019	$	1,731
Amortization expense		**31**
December 31, 2019	**$**	**1,762**
Net Book Value		
September 30, 2019	$	481
December 31, 2019	**$**	**450**

7. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS

	Right-of-use-assets	Lease obligations
Balance as at September 30, 2019	-	125
Additions upon adoption of IFRS 16 (note 2)	3,096	3,096
Transfers from prepaid expenses	38	-
Transfers from property and equipment (note 5)	440	-
Amortization	(101)	-
Interest expense	-	65
Lease payments	-	(155)
Balance as at December 31, 2019	**3,473**	**3,131**
Less: current portion of lease obligations		**(234)**
Long-term lease obligations		**2,897**

The Company's lease obligations come due, as at December 31, 2019, as follows:

	$
Less than 1 year	234
1 - 3 years	742
4 - 5 years	276
More than 5 years	1,879
Total	**3,131**

8. SECURED DEBENTURES

On January 30, 2015 and February 20, 2015 the Company issued secured debentures (the "Debentures") with a principal amount of $1,950,000 and $1,286,000, respectively. The debentures bear interest at a rate of 10% and are redeemable 60 months from the date of issuance. Approximately 60% of the Debentures were subscribed to by individuals who subsequently became board members and are thus considered related parties. The Debentures are secured by a general security agreement over all the present and future assets of the Company including intangibles. The Company also issued an aggregate of 3,236,000 common share purchase warrants. Each warrant is exercisable at a price of $0.60 and entitles the holder thereof to acquire one common share for 60 months from the date of issuance. The Debentures may be redeemed in whole or in part, at face value and without premium or penalty, at the option of the Company if at any time following the first anniversary of the date of issuance of the debentures, and prior to the maturity date of such debentures, the volume weighted average closing price of the Company's shares on the TSXV (or any other stock exchange on which such shares are then traded) is equal to or greater than $1.00 per share for twenty (20) consecutive trading days.

(Amounts are in Canadian dollars, unless otherwise noted; tabular amounts are in thousands)

The carrying value of the Debentures are accreted to their face value of $3,236,000 using the effective interest rate of 23.4%

	December 31, 2019	**September 30, 2019**
Secured debentures	**$ 3,236**	$ 3,236
Equity component of secured debenture	**(858)**	(858)
Issuance costs	**(345)**	(345)
	2,033	2,033
Accretion in carrying amount of notes	**1,162**	1,075
Balance end of period	**$ 3,195**	$ 3,108

See note 19 - subsequent events concerning the amendment of the debentures after December 31, 2019.

9. CAPITAL STOCK

(a) The Company has authorized an unlimited number of common shares.

(b) On March 1, 2019 and March 8, 2019, the Company completed a non-brokered private placement of an aggregate of 28,200,005 units of the Company at $0.08 per unit for gross proceeds of $2,256,000. Each unit comprises one common share of the Company and one common share purchase warrant. Each warrant is exercisable at a price of $0.11 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 $997,000 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 $0.08; dividend yield 0%; risk free interest 1.58%; volatility 116%; and an expected life of 5 years. Expected volatility is based on historical volatility. The total share issuance costs were $25,000 and $11,000 was allocated to warrant capital.

(c) On July 12, 2019, the Company completed a non-brokered private placement of an aggregate of 13,428,849 units of the Company at $0.13 per unit for gross proceeds of $1,746,000. Each unit comprises one common share of the Company and one common share purchase warrant. Each warrant is exercisable at a price of $0.17 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 $776,000 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 1.49%; volatility 115%; and an expected life of 5 years. Expected volatility is based on historical volatility. The total share issuance costs were $27,000 and $13,000 was allocated to warrant capital.

(Amounts are in Canadian dollars, unless otherwise noted; tabular amounts are in thousands)

(d) On September 25, 2019, the Company completed a non-brokered private placement of an aggregate of 31,300,000 units of the Company at $0.10 per unit for gross proceeds of $3,130,000. Each unit comprises one common share of the Company and one common share purchase warrant. Each warrant is exercisable at a price of $0.13 and entitles the holder thereof to acquire one common share for a period of five years from the date of issuance. The proceeds from the issuance of units are allocated between capital stock and warrant capital based on their relative fair values, with $1,396,000 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 $0.10; dividend yield 0%; risk free interest 1.42%; volatility 120%; and an expected life of 5 years. Expected volatility is based on historical volatility. The total share issuance costs were $40,000 and $17,000 was allocated to warrant capital.

(e) On October 22, 2019, the Company closed the second tranche of a non-brokered private placement of an aggregate 1,000,000 units of the Company at $0.10 per unit for gross proceeds of $100,000. Each unit comprises one common share of the Company and one common share purchase warrant. Each warrant is exercisable at a price of $0.13 and entitles the holder thereof to acquire one common share for a period of five years from the date of issuance. The proceeds from the issuance of units were allocated between capital stock and warrant capital based on their relative fair values, with $45,000 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 $0.10; dividend yield 0%; risk free interest 1.53%; volatility 122%; and an expected life of 5 years. Expected volatility is based on historical volatility. The total share issuance costs were $2,700 and $1,200 was allocated to warrant capital.

See note 19 - subsequent events concerning the private placements which closed after December 31, 2019.

10. WARRANTS

The Company had the following warrants outstanding at December 31, 2019:

Number of Warrants	Exercise Price	Maturity
3,560	$0.59	January 30, 2020 and February 20, 2020
5,330	$0.64	July 16, 2020
7,631	$0.52	December 15 and 21, 2020
463	$0.20	December 20, 2020
22,970	$0.21	March 10, 2022
54,527	$0.20	December 20, 2022 – August 24, 2023
28,200	$0.11	March 1 and 8, 2024
13,429	$0.17	July 12, 2024
32,300	$0.13	September 25 and October 22, 2024
168,410		

On December 6, 2018, the Company received approval to extend the expiry of 7,630,945 warrants that were issued in connection with a private placement in December of 2015. 7,480, 945 warrants that were to expire on December 15, 2018 have been extended to December 15, 2020, and 150,000 warrants that were to expire on December 21, 2018 have been extended to December 21, 2020. All other terms of the warrants remain unchanged. Accordingly, $88,000 was recorded in warrant capital with a corresponding reduction in contributed surplus in the quarter.

(Amounts are in Canadian dollars, unless otherwise noted; tabular amounts are in thousands)

11. STOCK OPTIONS

The Company maintains a Stock Option Plan (the "Plan") for the benefit of employees, officers and directors. The maximum 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 10% of the issued and outstanding shares at the time of the option grant. 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. All options granted to individual optionees, other than consultants, generally vest in three equal installments over a period of 12 to 36 months.

The following summarizes the stock option activities under the Plan:

	Three Months Ended			
	December 31, 2019		December 31, 2018	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Beginning Balance	**11,767**	**$ 0.20**	9,287	$ 0.23
Granted	**65**	**$ 0.07**	-	$ -
Cancelled/Expired	**(157)**	**$ 0.36**	(100)	$ 0.60
Forfeited	**(63)**	**$ 0.19**	(30)	$ 0.21
Ending Balance	**11,612**	**$ 0.20**	9,157	$ 0.22
Exercisable	**7,376**	**$ 0.22**	4,495	$ 0.25

The Company had the following stock options outstanding under the Plan at December 31, 2019:

Number of Options	**Range of Exercise Prices**	**Weighted average time to maturity**
9,468	$ 0.07 - 0.25	3.52 years
1,911	$ 0.26 – 0.39	1.20 years
233	$ 0.40 – 0.60	0.67 years
11,612		

12. STOCK-BASED COMPENSATION

The fair value of the options granted during the quarter ended December 31, 2019 was $3,800 (2018 - nil), which will be recognized over vesting periods of 18 to 36 months. The total compensation expense credited to contributed surplus for the quarter ended December 31, 2019 was $127,000 (2018 - $130,000).

(Amounts are in Canadian dollars, unless otherwise noted; tabular amounts are in thousands)

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 inputs and assumptions at the measurement date:

	Three Months Ended	
	December 31, 2019	December 31, 2018
Dividend Yield	**0%**	-
Expected Volatility (historical data basis)	**121%**	-
Risk-free Interest Rate	**1.61%**	-
Share price and exercise price	**$ 0.07**	$ -
Expected Life (years)	**5.00**	-
Weighted average grant date fair value	**$ 0.06**	$ -

The Company estimates forfeiture rates based on historic experience with any change in estimate thereof reflected in the year they occur. The Company assumes a forfeiture rate of 20% to 40% based on the vesting period of the option.

13. CORPORATE AND GENERAL EXPENSE

	Three Months Ended	
	December 31, 2019	December 31, 2018
Salaries and wages	**$ 130**	$ 111
General and administrative	**90**	98
Professional and consulting	**144**	115
Stock-based compensation	**50**	50
Total corporate and general expense by nature	**$ 414**	$ 374

14. SALES AND MARKETING EXPENSE

	Three Months Ended	
	December 31, 2019	December 31, 2018
Contractor fees	**$ 212**	$ 254
Travel and marketing	**47**	71
Stock-based compensation	**17**	8
Total sales and marking expense by nature	**$ 276**	$ 333

15. RESEARCH AND DEVELOPMENT COSTS

	Three Months Ended	
	December 31, 2019	December 31, 2018
Salaries and wages	**$ 778**	$ 756
Laboratory costs and supplies	**228**	121
Amortization – patents and trademarks (note 6)	**31**	37
Amortization – property and equipment (note 5)	**71**	96
Amortization – right of use assets (note 7)	**101**	-
Stock-based compensation	**60**	72
Total research and development expense by nature	**$ 1,269**	$ 1,082

16. COMMITMENTS AND CONTINGENCIES

In the normal course of operations, the Company may become involved in various claims and legal proceedings related to, for example, contract terminations and employee-related and other matters.

In the first quarter of 2020, the Company issued Statements of Claim against a former customer in the jurisdictions of Ontario, Canada and California, USA for the recovery of invoiced amounts relating to kit sales and instrument lease arrangements with the Company for approximately $535,000. Such amounts were fully provisioned as at September 30, 2019 and the Company continues to pursue payment in full.

17. CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern so that it can complete its lead assay commercialization efforts and receive the required regulatory approvals to sell and market its products and provide returns for shareholders and benefits for other stakeholders.

The capital structure of the Company consists of shareholders' equity and secured debentures. The Company is not subject to externally imposed capital requirements.

18. FINANCIAL RISK MANAGEMENT

(a) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and accounts receivables are exposed to credit risk. The maximum credit risk exposure is the carrying amount. The credit risk on cash is mitigated because the counterparties are Schedule 1 Canadian banks. The credit risk on accounts receivable is due to the concentration of accounts as a result of the few large customers that comprise the Company's international customer base. As at December 31, 2019, five customers accounted for 100% of the accounts receivable (as at September 30, 2019 – five customers). The Company is also exposed to counterparty risk on accounts receivable. Credit risk on accounts receivable is managed by ongoing review of the amount and aging of accounts receivable.

(b) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its fixed and variable interest rate financial instruments. Fixed-rate instruments subject the Company to a fair value risk while the variable-rate instruments subject it to a risk of changes in cash flow. The Company's cash is exposed to cash flow interest rate risk as the Company invests cash at floating rates of interest in highly liquid instruments. Fluctuations in interest rates would not significantly impact interest income due to the short term nature of the Company's investments. The Company's Debentures are subject to a fixed interest rate of 10%.

(c) Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is not exposed to significant currency risk.

(d) Fair Value Risk

The carrying amount of accounts receivables and accounts payable and accrued liabilities, lease obligations and secured debentures approximate their fair values.

(e) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. At December 31, 2019, the Company had a working capital deficit of $2,101,000 (2018 - working capital surplus of $1,230,000). This change in position is primarily due to debentures maturing in January and February of 2020 being reclassified to current liabilities. See note 19 – subsequent events for further details. The Company's liabilities consist of accounts payable, accrued liabilities, contract liabilities, lease obligations and the principal portion of debentures. 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 the Company's ability to generate product or service revenues or to finance its operations through further equity and or debt financings.

19. SUBSEQUENT EVENTS

Debenture Extensions

Subsequent to quarter-end, on January 30, 2020, the Company announced the extension of $1,950,000 principal amount of 10% secured non-convertible debentures of the Company maturing on January 30, 2020 (the "Debentures") for a period of five years (the "Extension"). Interest in the amount of $195,000 payable by the Company to the holders of the Debentures on the original maturity date was re-advanced to the Company on such date, and such amount increased the principal amount of the Debentures being extended from $1,950,000 to $2,145,000 (the "Advance"). Of this amount, an aggregate of $1,900,000 principal amount of Debentures held by certain insiders, who are also control persons of the Company, was extended, and interest in the amount of $190,000 was re-advanced to the Company by such insiders.

The maturity dates of the Debentures were extended from January 30, 2020 to January 30, 2025. The Debentures, as amended, continue to be secured by a general security agreement over all of the present and future assets of the Company, including intangibles, and continue to bear interest at a rate of 10% per annum on the principal amount outstanding.

In consideration for the Extension and the Advance, the Company issued 4,116,667 common share purchase warrants ("Warrants"), of which an aggregate of 4,011,111 Warrants were issued to the insiders described above. Each Warrant entitles the holder to purchase one common share at a price of $0.09 for a period of five years from the date of issuance.

The Extension, the Advance and the issuances of Warrants to insiders (the "Transactions") are considered related party transactions and the Company relied on exemptions from the formal valuation and minority approval requirements in respect of such insider participation on the basis of financial hardship.

The Warrants are subject to a hold period expiring June 1, 2020, in accordance with applicable Canadian securities law. In connection with the Extension with non-insiders of the Company, the Company paid a cash commission of $3,500 to Regent Capital Partners Inc.

Similarly, on February 20, 2020, the Company announced that holders of $286,000 principal amount of 10% secured non-convertible debentures of the Company maturing on February 20, 2020 (the "February Debentures") have agreed to extend the maturity date of the Debentures for a period of five years (the "February Extension"). Holders of the February Debentures have agreed that interest in the amount of $28,600 payable by the Company to them on the original maturity date shall be re-advanced to the Company on such date, and such amount shall increase the principal amount of the February Debentures being extended from $286,000 to $314,600 (the "February Advance").

The February Debentures were issued pursuant to a private placement of the Company completed in two tranches on January 30, 2015 and February 20, 2015. The maturity dates of the February Debentures will be extended from February 20, 2020 to February 20, 2025. The February Debentures, as amended, continue to be secured by a general security agreement over all of the present and future assets of the Company, including intangibles, and continue to bear interest at a rate of 10% per annum on the principal amount outstanding.

In consideration for the February Extension and the February Advance, the Company has agreed to issue 622,471 common share purchase warrants ("February Warrants"). Each February Warrant entitles the holder to purchase one common share at a price of $0.085 for a period of five years from the date of issuance.

The February Extension and the issuance of the Warrants is subject to all necessary regulatory and stock exchange approvals. The February Warrants will be subject to a hold period expiring June 21, 2020, in accordance with applicable Canadian securities law. In connection with the February Extension, the Company will pay a commission in cash equal to 7% of the principal amount of February Debentures being extended to Regent Capital Partners Inc.

Private Placements

Subsequent to quarter-end, on January 31, 2020, the Company announced that it intended to complete a non-brokered private placement (the "Private Placement") of up to units ("Units") of the Company at a price of $0.09 per Unit for gross proceeds of up to $4,000,000, subject to regulatory and stock exchange approval. Each Unit will consist of one common share and one common share purchase warrant. Each common share purchase warrant will entitle the holder to purchase one common share at a price of $0.12 for a period of five years from the date of issuance, subject to accelerated expiry in certain circumstances.

On February 18, 2020, the Company announced that it had completed the first tranche of a non-brokered private placement (the "Private Placement") of 29,629,630 units ("Units") of the Company at a price of $0.09 per Unit for gross proceeds of approximately $2.67 million. Each Unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at a price of $0.12 for a period of five years from the date of issuance, subject to accelerated expiry in certain circumstances.

All of the Units issued under the first tranche of the Private Placement were purchased by certain insiders of the Company, who are also control persons of the Company. The issuances of Units to such insiders. The Company relied on exemptions from the formal valuation and minority approval requirements on the basis of financial hardship.

The Company intends to complete the second tranche of the Private Placement on or about March 6, 2020 by issuing up to an additional 14,814,814 Units at a price of $0.09 per Unit, for additional gross proceeds of up to approximately $1.33 million.

The Private Placement is subject to all necessary regulatory and stock exchange approvals. The securities issued pursuant to the first tranche of the Private Placement will be subject to a hold period expiring June 15, 2020, in accordance with applicable Canadian securities law.

SQI intends to use the net proceeds of the Private Placement to repay approximately $1,000,000 of the principal amount of certain 10% secured non-convertible debentures of the Company, plus accrued and unpaid interest thereon, maturing on February 20, 2020, and to fund the Company's product commercialization and manufacturing programs, sales and marketing and for general working capital purposes.