SQI Diagnostics Inc.

Condensed Interim Consolidated Financial Statements

(Unaudited)

(Expressed in Canadian dollars)

For the Three and Nine Months Ended June 30, 2020 and 2019

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	**As at June 30, 2020**	As at September 30, 2019
Assets		
Current		
Cash	**$4,320**	$3,444
Accounts receivable	**520**	190
Prepaids and other assets	**145**	138
Inventory	**403**	711
Leases receivable	**-**	11
	5,388	4,494
Right-of-use assets (Notes 4 and 7)	**2,927**	-
Property and equipment (Note 5)	**1,219**	1,297
Patents and trademarks (Note 6)	**412**	481
	$9,946	$6,272
Liabilities		
Current		
Accounts payable and accrued liabilities	**$822**	$1,172
Contract Liabilities	**370**	338
Lease obligation (Notes 4 & 7)	**221**	93
Secured debentures (note 8)	**-**	3,108
	1,413	4,711
Long Term		
Lease obligation – long-term (Notes 4 & 7)	**2,791**	32
Secured debentures (Note 8)	**2,135**	-
	6,339	4,743
Shareholders' Equity		
Capital stock (Note 9)	**70,433**	64,729
Warrants (Note 10)	**12,698**	11,827
Contributed surplus	**21,076**	19,817
Deficit	**(100,600)**	(94,844)
	3,607	1,529
	$9,946	$6,272

Going concern (Note 2)

Approved by the Board

"Clive Beddoe"
Director **(Signed)**

"Rob Chioini"
Director **(Signed)**

See accompanying notes

SQI Diagnostics Inc.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Unaudited)
(Amounts are in thousands of Canadian dollars except per share amounts)

	Three Months Ended		Nine Months Ended	
	June 30, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
Revenue				
Product sales	**$266**	$313	**$528**	$846
Services revenue	**30**	227	**244**	405
	296	540	**772**	1,251
Expenses				
Cost of products sold	**107**	148	**165**	405
Corporate and general (Note 13)	**569**	448	**1,471**	1,234
Sales and marketing (Note 14)	**167**	334	**838**	1,003
Research and development (Note 15)	**787**	1,329	**3,507**	3,338
Interest and accretion expense (Notes 7 & 8)	**139**	169	**547**	485
	1,769	2,428	**6,528**	6,465
Net loss and comprehensive loss	**$(1,473)**	$(1,888)	**$(5,756)**	$(5,214)
Loss per share				
Basic and diluted	**$(0.01)**	$(0.01)	**$(0.02)**	$(0.03)
Weighted average number of common shares outstanding (thousands of shares)	**277,149**	186,609	**253,688**	170,948

SQI Diagnostics Inc.
Condensed Interim Consolidated Statements of Changes in Equity
(Unaudited)
(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
Issued in connection with private placement (Note 9b)	28,200	2,256	-	-	-	2,256
Allocated to warrants – private placement (Note 9b)	-	(997)	997	-	-	-
Share issuance costs (Note 9b)	-	(14)	(12)	-	-	(26)
Warrants exercised (Note 10)	5	1	-	-	-	1
Warrants expired (Note 10)	-	-	(4,250)	4,250	-	-
Revaluation of extended warrants (Note 10)	-	-	88	(88)	-	-
Stock-based compensation (Note 12)	-	-	-	429	-	429
Net loss and comprehensive loss	-	-	-	-	(5,214)	(5,214)
Balance as at June 30, 2019	186,612	$62,062	$9,684	$19,653	$(92,037)	$(638)
Balance as at September 30, 2019	**231,341**	**$64,729**	**$11,827**	**$19,817**	**$(94,844)**	**$1,529**
Issued in connection with private placements (Note 9c,d)	**45,444**	**4,100**	**-**	**-**	**-**	**4,100**
Allocated to warrants – private placement (Note 9c,d)	**-**	**(1,795)**	**1,795**	**-**	**-**	**-**
Share issuance costs (Notes 9c,d & 10)	**-**	**(36)**	**(21)**	**-**	**-**	**(57)**
Warrants issued (Note 8)	**-**	**-**	**345**	**-**	**-**	**345**
Warrants exercised (Note 10)	**29,011**	**3,381**	**(270)**	**-**	**-**	**3,111**
Warrants expired (Note 10)	**-**	**-**	**(978)**	**978**	**-**	**-**
Options exercised (Note 11)	**195**	**54**	**-**	**(24)**	**-**	**30**
Stock-based compensation (Note 12)	**-**	**-**	**-**	**305**	**-**	**305**
Net loss and comprehensive loss	**-**	**-**	**-**	**-**	**(5,756)**	**(5,756)**
Balance as at June 30, 2020	**305,991**	**$70,433**	**$12,698**	**$21,076**	**$(100,600)**	**$3,607**

See accompanying notes

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

	Three Months Ended		Nine Months Ended	
	June 30, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
Cash flows used in operating activities				
Net loss	**$(1,473)**	$(1,888)	**$(5,756)**	**$(5,214)**
Add items not affecting cash				
Amortization - patents and trademarks	**31**	35	**93**	107
- property and equipment	**75**	88	**221**	271
- right of use assets	**91**	-	**288**	-
Stock-based compensation	**70**	130	**305**	429
Loss on sale of equipment	**-**	9	**-**	9
Accretion on debenture	**12**	88	**148**	240
Bad debts written off	**-**	-	**26**	-
Write down of inventory	**95**	-	**95**	-
	(1,099)	(1,538)	**(4,580)**	(4,158)
Changes in non-cash working capital items				
Accounts receivable, prepaids and other assets	**(274)**	(74)	**(390)**	18
Lease receivable	**-**	11	**-**	71
Investment tax credit recoverable	**-**	245	**-**	-
Inventory	**96**	(131)	**114**	(488)
Accounts payable and accrued liabilities	**(130)**	561	**(127)**	507
Contract Liabilities	**149**	174	**32**	861
	(1,258)	(752)	**(4,951)**	(3,189)
Cash flows used in investing activities				
Purchase of property and equipment	**(35)**	(31)	**(113)**	(149)
Additions to patents and trademarks	**(19)**	(5)	**(24)**	(22)
Additions to right of use assets	**(1)**	-	**(1)**	-
	(55)	(36)	**(138)**	(171)
Cash flows from financing activities				
Proceeds from issuance of shares and exercise of warrants and options, net of share issuance costs	**3,133**	1	**7,185**	2,231
Repayment of debenture	**-**	-	**(1,000)**	-
Lease Obligations	**(51)**	(47)	**(220)**	(119)
	3,082	(46)	**5,965**	2,112
Net change in cash during the period	**1,769**	(834)	**876**	(1,248)
Cash at beginning of period	**2,551**	1,987	**3,444**	2,401
Cash at end of period	**$4,320**	$1,153	**$4,320**	$1,153
Cash is comprised of:				
Cash	**-**	745	**-**	745
Restricted cash	**-**	408	**-**	408
Non-cash transactions				
Equipment transferred from inventory and segregated for use by the company	**100**	-	**100**	-
Equipment acquired under finance lease	**11**	-	**11**	65
Return of inventory on lease	**-**	100	**-**	100
Cash Interest Paid	**67**	7	**294**	348

See accompanying notes

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 August 27, 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.

2. BASIS OF PRESENTATION AND GOING CONCERN (continued)

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.

The condensed interim consolidated financial statements are expressed in Canadian dollars which is the functional currency of the Company and its wholly owned subsidiary. All tabular amounts are reported in thousands of dollars except for per share data.

Basis of Consolidation

The condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, SQI Diagnostics Systems Inc.

Inter-company balances and transactions are eliminated upon consolidation.

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 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 amortization 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 with $389,000 of this amount being transferred back into property and equipment the quarter ended March 31, 2020 after ownership of the asset had transferred to the Company upon lease expiry and final lease payment being made.

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 amortized 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 loss and comprehensive loss as permitted by IFRS 16.

(Amounts are in Canadian dollars; tabular amounts 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)**	**-**	**-**	**-**	**-**	**(65)**
Transfers from inventory	**-**	**-**	**100**	**-**	**-**	**100**
Additions	**31**	**5**	**47**	**3**	**28**	**114**
June 30, 2020	**$425**	**$272**	**$5,676**	**$186**	**$293**	**$6,852**

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)**	**-**	**20**	**-**	**-**	**6**
Amortization expense	**12**	**13**	**192**	**2**	**2**	**221**
June 30, 2020	**$380**	**$248**	**$4,561**	**$179**	**$265**	**$5,633**

Net Book Value						
September 30, 2019	$77	$32	$1,180	$6	$2	$1,297
June 30, 2020	**$45**	**$24**	**$1,115**	**$7**	**$28**	**$1,219**

(Amounts are in Canadian dollars; tabular amounts in thousands)

6. PATENTS AND TRADEMARKS

Cost	
September 30, 2018	$2,221
Additions	31
Write-down of patents	(40)
September 30, 2019	$2,212
Additions	**24**
June 30, 2020	**$2,236**

Accumulated Amortization	
September 30, 2018	$1,611
Amortization expense	141
Write-down of patents	(21)
September 30, 2019	$1,731
Amortization expense	**93**
June 30, 2020	**$1,824**

Net Book Value	
September 30, 2019	$481
June 30, 2020	**$412**

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 4)	3,096	3,096
Additions during the fiscal year	11	11
Transfers from prepaid expenses	38	-
Transfers from property and equipment (note 5)	70	-
Amortization	(288)	-
Interest expense	-	187
Lease payments	-	(407)
Balance as at June 30, 2020	**$2,927**	**$3,012**
Less: current portion of lease obligations		**(221)**
Long-term lease obligations		**$2,791**

The Company’s lease obligations come due, as at June 30, 2020, as follows:

Less than 1 year	$221
1 - 3 years	751
4 - 5 years	335
More than 5 years	1,705
Total	**$3,012**

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 bore interest at a rate of 10% and were redeemable 60 months from the date of issuance. The Debentures matured during the quarter ended March 31, 2020 with $1,000,000 of the February tranche and $100,000 of accrued interest related to this amount being repaid by the Company. The maturity dates of the existing $2,236,000 Debentures were extended for an additional five years in agreement with the holders of these financial instruments. In addition, $223,600 of accrued interest was added to the principal amount of the existing debentures resulting in new principal amounts of $2,145,000 and $314,600 as of January 30, 2020 and February 20, 2020, respectively. Approximately 85% of the existing Debentures were originally 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 intangible assets. Additionally, a total of 3,559,600 warrants originally issued in connection with the secured debentures expired unexercised upon maturity. The Company issued an aggregate of 4,739,139 new common share purchase warrants in connection with the amended Debentures. The warrants issued in connection with the January and February tranches are exercisable at prices of $0.09 and $0.085, respectively. Each common share purchase warrant entitles the holder thereof to acquire one common share of the Company for 60 months from the date of issuance.

From time to time, the Company pursues amendments to its credit agreements based on prevailing market conditions. Such amendments, when completed, are considered by the Company to be debt modifications or extinguishments. The accounting treatment of a debt modification depends on whether the modified terms are substantially different than the previous terms. Terms of an amended debt agreement are considered to be substantially different based on qualitative factors, or when the discounted present value of the cash flows under the new terms discounted using the original effective interest rate, is at least ten percent different from the discounted present value of the remaining cash flows of the original debt. If the modification is not substantially different, it will be considered as a modification with any costs or fees incurred adjusting the carrying amount of the liability recorded through profit or loss at the date of modification. If the modification is substantially different, then the transaction is accounted for as an extinguishment of the old debt instrument with an adjustment to the carrying amount of the liability being recorded in the consolidated statements of operations immediately.

The Company determined that the amended terms of the Debentures constituted a substantial modification of the existing financial liability, and as result, the original debentures were extinguished with a new financial liability being recognized.

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.

The new Debentures were separated into their liability and equity components with the fair value of the liability component at the time of amendment calculated by deducting the fair value of the warrants from the face value of the debentures. The total fair value of the warrants was estimated at $345,000 using the Black-Scholes pricing model with the following assumptions: share price $0.09; dividend yield 0%; risk free interest rate 1.38%; volatility 117%; and an expected life of 5 years.

(Amounts are in Canadian dollars; tabular amounts in thousands)

The carrying value of the new Debentures are accreted to their face value of $2,459,600 using an effective interest rate of 13.9%.

The table below summarizes these changes:

	2020 Debentures	2015 Debentures
2015 Secured debentures (Face value)	**$-**	**$3,236**
2020 Secured debentures (Face value)	**2,460**	**-**
Issuance Costs	**-**	**(345)**
Equity component of secured debenture	**(345)**	**(858)**
	2,115	**2,033**
Accretion in carrying amount of debentures	**20**	**1,203**
Principal Repayment	**-**	**(1,000)**
Principal Extension	**-**	**(2,236)**
Balance as at June 30, 2020	**$2,135**	**$-**

9. CAPITAL STOCK

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

(b) On March 1 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 $26,000 and $12,000 was allocated to warrant capital.

(c) 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.

(Amounts are in Canadian dollars; tabular amounts in thousands)

(d) On February 14 and March 5, 2020, the Company completed a non-brokered private placement of an aggregate of 44,444,444 units of the Company at $0.09 per unit for gross proceeds of $4,000,000. Each unit comprises one common share of the Company and one common share purchase warrant. Each warrant is exercisable at a price of $0.12 and entitles the holder thereof to acquire one common share for a period of five years from the date of issuance, subject to accelerated expiry in certain circumstances. The proceeds from the issuance of units are allocated between capital stock and warrant capital based on their relative fair values, with $1,750,000 being allocated to warrant capital. The fair value of the warrants was estimated using the Black-Scholes pricing model with the following assumptions for each of the respective tranches: share prices of $0.08 and $0.075; dividend yield 0%; risk free interest rates of 1.41% and 0.75%; volatility 118%; and an expected life of 5 years. Expected volatility is based on historical volatility. The total share issuance costs were $46,000 and $20,000 was allocated to warrant capital.

10. WARRANTS

The Company had the following warrants outstanding at June 30, 2020:

Number of Warrants (000's)	Exercise Price	Maturity
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
3,200	$0.11	March 1 and 8, 2024
13,429	$0.17	July 12, 2024
32,300	$0.13	September 25 and October 22, 2024
106	$0.09	January 30, 2025
622	$0.085	February 20, 2025
44,444	$0.12	February 14, 2025 and March 5, 2025
185,022		

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 22, 2018 have been extended to December 22, 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.

On January 26, 2019 2,965,000 warrants issued in connection with a private placement in January of 2014 with an exercise price of $0.64 and an expiry date of January 26, 2019 expired unexercised. Accordingly, $1,338,000 was transferred from warrant capital to contributed surplus in the quarter.

On April 10, 2019, 8,400,000 warrants issued in connection with a public offering in April of 2014 with an exercise price of $0.64 and an expiry date of April 10, 2019 expired unexercised. Accordingly, $2,912,000 was transferred from warrant capital to contributed surplus in the nine months ended June 30, 2019.

(Amounts are in Canadian dollars; tabular amounts in thousands)

On June 6, 2019 5,000 warrants were exercised for gross proceeds of $1,000. The warrants were issued in connection with a private placement in August of 2018 with an exercise price of $0.20.

On January 30, 2020 and February 20, 2020, 3,559,600 warrants issued in connection with secured debentures in January and February 2015 expired unexercised. Accordingly, $978,000 was transferred from warrant capital to contributed surplus in the quarter.

During June 2020, a total of 29,011,117 warrants were exercised by certain insiders of the Company for total gross proceeds of $3,111,000. 25,000,005 of the warrants issued in connection with a March 2019 private placement were exercised at a price $0.11 per share while 4,011,112 warrants issued in connection with the debt refinancing conducted in this fiscal year's second quarter were exercised at a price $0.09 per share. The original value of the warrants was calculated using the Black-Scholes option pricing model. Accordingly, $270,000 was deducted from the Warrant Capital account and transferred to Share Capital upon exercise. Total share issuance costs were approximately $8,000.

Subsequent to quarter-end, 5,330,000 warrants issued in connection with the July 2015 private placement expired unexercised.

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 and executive management, generally vest in three equal installments over a period of 12 to 36 months.

The following summarizes the stock option activities under the Plan:

	Nine Months Ended			
	June 30, 2020		June 30, 2019	
	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	**1,373**	**$ 0.08**	3,252	$ 0.15
Exercised	**(195)**	**$ 0.15**		
Cancelled/Expired	**(723)**	**$ 0.27**	(339)	$ 0.42
Forfeited	**(700)**	**$ 0.17**	(418)	$ 0.20
Ending Balance	**11,522**	**$ 0.19**	11,782	$ 0.22
Exercisable	**8,428**	**$ 0.20**	5,576	$ 0.24

On June 10th, 195,000 options were exercised at a weighted average price $0.15 for gross proceeds of $30,000. Accordingly, the original value of the options of $24,000 calculated using the Black-Scholes option pricing model was deducted from Contributed Surplus and transferred to Share Capital upon exercise.

(Amounts are in Canadian dollars; tabular amounts in thousands)

The Company had the following stock options outstanding under the Plan at June 30th, 2020:

Number of Options (000's)	Range of Exercise Prices	Weighted average time to maturity
9,559	$0.07 - 0.25	3.25 years
1,785	$0.30	0.70 years
178	$0.40 - 0.60	0.21 years
11,522		

12. STOCK BASED COMPENSATION

The fair value of the options granted during the nine months ended June 30th, 2020 was $93,000 (nine months ended June 30th, 2019 - $382,000), which will be recognized over vesting periods of 6 to 36 months. The total compensation expense credited to contributed surplus for the nine months ended June 30th, 2020 was $305,000 (nine months ended June 30th, 2019 - $429,000).

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:

	Nine Months Ended	
	June 30, 2020	June 30, 2019
Dividend Yield	0%	0%
Expected Volatility (historical data basis)	123%	114%
Risk-free Interest Rate	0.58%	1.63%
Share price and exercise price	$0.08	$0.15
Expected Life (years)	5.00	5.00
Weighted average grant date fair value	$0.07	$0.12

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		Nine Months Ended	
	June 30, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
Salaries and wages	**$117**	$118	**$347**	$350
General and administrative	**208**	195	**391**	456
Professional and consulting	**198**	84	**592**	281
Stock-based compensation	**46**	51	**141**	147
Corporate and general expense by nature	**$569**	$448	**$1,471**	$1,234

(Amounts are in Canadian dollars; tabular amounts in thousands)

14. SALES AND MARKETING EXPENSE

	Three Months Ended		Nine Months Ended	
	June 30, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
Contractor fees	**$157**	$242	**$710**	$759
Travel and marketing	**4**	74	**95**	205
Stock-based compensation	**6**	18	**33**	39
Sales and marketing expense by nature	**$167**	$334	**$838**	$1,003

15. RESEARCH AND DEVELOPMENT COSTS

	Three Months Ended		Nine Months Ended	
	June 30, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
Salaries and wages	**$380**	**$727**	**$2,033**	**$ 2,215**
Laboratory costs and supplies	**332**	**418**	**881**	**717**
Investment tax credit recoverable	**(140)**	**-**	**(140)**	**(245)**
Professional fees	**-**	**-**	**-**	**30**
Amortization – patents and trademarks	**31**	**35**	**93**	**107**
Amortization – property and equipment	**75**	**88**	**221**	**271**
Amortization – right of use assets	**91**	**-**	**288**	**-**
Stock-based compensation	**18**	**61**	**131**	**243**
Research and development expense by nature	**$787**	**$1,329**	**$ 3,507**	**$ 3,338**

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 $545,000. 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 receivable 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. 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, accounts payable and accrued liabilities, lease obligations and secured debentures approximate their fair values.

18. FINANCIAL RISK MANAGEMENT (continued)

(e) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. At June 30, 2020, the Company had a working capital surplus of $3,979,000 (September 30, 2019 - working capital deficit of $217,000). The Company's liabilities consist of accounts payables and accrued liabilities which are due within one year of the balance sheet date, contract liabilities, lease obligations and the principal portion of secured debentures which require annual interest payments of $245,960 on the anniversary date and the principal amount of $2,459,600, due five years from the date of issuance. The Company believes it 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. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's financial state preparation. The amounts related to the lease obligations of the Company which were classified as operating activities in the cash flow statement of the comparative period. In this period's statement, the lease obligations have been classified under financing activities.