SQI Diagnostics Inc.

Consolidated Financial Statements

(Expressed in Canadian dollars)

For the Years Ended September 30, 2020 and 2019

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of SQI Diagnostics Inc.

Opinion

We have audited the consolidated financial statements of SQI Diagnostics Inc., and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at September 30, 2020 and September 30, 2019 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, and a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at September 30, 2020 and September 30, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended September 30, 2020 and September 30, 2019 in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that SQI Diagnostics Inc. has a history of net losses and negative cash flows from operations, which are expected to continue in the near term. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that material uncertainties exist that cast significant doubt regarding the Company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises information included in the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Stephen McCourt.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
January 27, 2021
Toronto, Ontario

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

	As at September 30, 2020	As at September 30, 2019
Assets		
Current assets		
Cash	**$2,596**	$3,444
Accounts receivable	**477**	190
Prepaids and other assets	**231**	138
Inventory (Note 5)	**364**	711
Lease receivable	**-**	11
	3,668	4,494
Non-current assets		
Property and equipment (Note 6)	**1,180**	1,297
Patents and trademarks (Note 8)	**384**	481
Right-of-use assets (Note 7)	**2,838**	-
Total assets	**$8,070**	$6,272
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$1,041**	$1,172
Contract liabilities	**196**	338
Lease obligations (Note 7)	**228**	93
Secured debentures (Note 10)	**-**	3,108
	1,465	4,711
Non-Current liabilities		
Lease obligations (Note 7)	**2,731**	32
Secured debentures (Note 10)	**2,148**	-
Total liabilities	**6,344**	4,743
Shareholders' Equity		
Capital stock (Note 11)	**71,870**	64,729
Warrants (Note 12)	**10,371**	11,827
Contributed surplus	**22,900**	19,817
Deficit	**(103,415)**	(94,844)
Total equity	**1,726**	1,529
Total liabilities and equity	**$8,070**	$6,272

Going concern (Note 2)
Subsequent events (Note 23)

Approved by the Board **"Clive Beddoe"** Director **(Signed)** **"Rob Chioini"** Director **(Signed)**

See accompanying notes

SQI Diagnostics Inc.
Consolidated Statements of Loss and Comprehensive Loss
(Amounts are in thousands of Canadian dollars except per share amounts)

	Year Ended	
	September 30, 2020	September 30, 2019
Revenue		
Services revenue	**$357**	$746
Product sales	**666**	1,145
	1,023	1,891
Expenses		
Cost of products sold	**232**	608
Corporate and general (Note 15)	**3,102**	1,851
Sales and marketing (Note 16)	**1,004**	1,235
Research and development (Note 17)	**4,577**	5,028
Provision for doubtful accounts (Note 20a)	**-**	534
Interest and accretion expense (Notes 7 and 10)	**679**	656
	9,594	9,912
Net loss and comprehensive loss	**$(8,571)**	$(8,021)
Loss per share		
Basic and diluted	**$(0.03)**	$(0.04)
Weighted average number of common shares outstanding (thousands of shares)		
Weighted average number of shares	**266,943**	178,391

SQI Diagnostics Inc.
Consolidated Statements of Changes in Equity
(Amounts are in thousands of Canadian dollars)

	Issued Capital Stock: Number of Shares (thousands of shares)	Issued Capital Stock: 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 11b, 11c, 11d)	72,929	7,132	-	-	-	7,132
Allocated to warrants – private placement (Note 11b, 11c, 11d)	-	(3,169)	3,169	-	-	
Share issuance costs (Note 11b, 11c, 11d)	-	(51)	(41)	-	-	(92)
Warrants exercised (Note 12)	5	1	-	-	-	1
Warrants expired (Note 12)	-	-	(4,250)	4,250	-	-
Revaluation of extended warrants (Note 12)	-	-	88	(88)	-	-
Stock-based compensation (Note 14)	-	-	-	593	-	593
Net loss and comprehensive loss	-	-	-	-	(8,021)	(8,021)
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 11e, 11f)	**45,444**	**4,100**	**-**	**-**	**-**	**4,100**
Allocated to warrants – private placement (Note 11e, 11f)	**-**	**(1,795)**	**1,795**	**-**	**-**	**-**
Share issuance costs (Note 11e, 11f)	**-**	**(78)**	**(21)**	**-**	**-**	**(99)**
Options exercised (Note 11g, 11h)	**266**	**77**	**-**	**(34)**	**-**	**43**
Warrants exercised (Note 12)	**31,044**	**4,837**	**(1,314)**	**-**	**-**	**3,523**
Warrants expired (Note 12)	**-**	**-**	**(2,261)**	**2,261**	**-**	**-**
Warrants Issued (Note 12)	**-**	**-**	**345**	**-**	**-**	**345**
Stock-based compensation (Note 14)	**-**	**-**	**-**	**856**	**-**	**856**
Net loss and comprehensive loss	**-**	**-**	**-**	**-**	**(8,571)**	**(8,571)**
Balance as at September 30, 2020	**308,095**	**$71,870**	**$10,371**	**$22,900**	**$(103,415)**	**$1,726**

SQI Diagnostics Inc.
Consolidated Statements of Cash Flows
(Amounts are in Canadian dollars; tabular amounts in thousands)

	Year Ended	
	September 30, 2020	September 30, 2019
Cash flows from (used in) operating activities		
Net loss	**$(8,571)**	$(8,021)
Add items not affecting cash		
Amortization - patents and trademarks	**124**	141
- property and equipment	**299**	359
- right-of-use assets	**377**	-
Stock-based compensation	**856**	593
Loss on sale of equipment	**-**	9
Write down of inventory	**250**	-
Write down of patents	**3**	19
Bad debts	**26**	534
Accretion on debentures	**161**	327
	(6,475)	(6,039)
Changes in non-cash working capital items		
Accounts receivable, prepaids, and other assets	**(433)**	148
Lease receivable	**-**	80
Inventory	**(3)**	(419)
Accounts payable and accrued liabilities	**92**	276
Contract liabilities	**(142)**	320
Cash used in operating activities	**(6,961)**	(5,634)
Cash flows used in investing activities		
Purchase of property and equipment	**(151)**	(169)
Additions to patents and trademarks	**(30)**	(31)
Additions to right of use assets	**(1)**	-
Cash used in investing activities	**(182)**	(200)
Cash flows from (used in) financing activities		
Proceeds from issuance of shares net of share issuance costs	**7,568**	7,041
Repayment of debenture	**(1,000)**	-
Lease obligation	**(273)**	(164)
Cash from financing activities	**6,295**	6,877
Net change in cash during the year	**(848)**	1,043
Cash at beginning of year	**3,444**	2,401
Cash at end of year	**$2,596**	$3,444
Non-cash investing activities		
Equipment transferred from inventory and segregated for use by the company	**100**	-
Right-of-use assets acquired	**11**	65
Return of inventory on lease	**-**	100
Supplemental information		
Cash interest paid	**354**	324

1. NATURE OF OPERATIONS

SQI Diagnostics Inc., (the "Company"), is incorporated under the *Canada Business Corporations Act*, is listed on the TSX Venture Exchange (the "TSXV") 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.

The Company is now expanding its business model into the rapid diagnostic testing market. Initially, we will be focusing on three business units targeting organ transplant, autoimmune disease and serological testing. Under serological testing, we have an immediate priority to commercialize our developmental direct-to-consumer COVID-19 At-Home Antibody Test Kit and the RALI-Dx™ and RALI-fast™ Point-of-Care (POC) Tests, to triage COVID-19 patients for respiratory distress.

2. BASIS OF PRESENTATION

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and their interpretations adopted by the International Accounting Standards Board ("IASB"). Our accounting policies have been applied consistently within our consolidated financial statements.

These consolidated financial statements were authorized for issuance by the Board of Directors on January 19, 2021.

Basis of Presentation and Going Concern

The consolidated financial statements have been prepared using the historical cost basis and 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 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.

2. BASIS OF PRESENTATION (continued)

Basis of Presentation and Going Concern (continued)

Impact of COVID-19 on Our Results:

During the year, the Company's kit sales were negatively impacted by COVID-19 as one of its main customers temporarily discontinued operations. It is anticipated that these revenues will continue to be adversely impacted through the first half of fiscal 2021 until restrictions are lifted and the customer's operations return to normal.

During the year ended September 30, 2020, the Company participated in the Canada Employment Wage Subsidy program, where payments of $681,000 received under this program served to partially offset employee wages during the period. Additionally, management continued to implement other cost reduction initiatives to conserve cash, without impacting critical R&D and manufacturing programs.

Basis of Consolidation

The consolidated financial statements are expressed in Canadian dollars with all amounts being reported in thousands of dollars except for per share data.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, SQI Diagnostics Systems Inc. & SQI US Inc. The Company's functional and presentation currency is Canadian dollars. The functional currencies of its two subsidiaries, SQI Diagnostics Systems Inc and SQI US Inc., are the Canadian and U.S. dollars, respectively.

Inter-company balances and transactions are eliminated upon consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

Inventory

Inventory is valued at lower of cost or net realizable value, with cost determined on a first-in, first-out basis. Net realizable value is the estimated selling price less estimated cost of completion.

Property and Equipment

Property and equipment are recorded at cost less accumulated amortization and accumulated impairment losses, if any. Property and equipment are initially recorded at cost. Where an item of property and equipment comprises major components with different useful lives, the components are accounted for as separate items of property and equipment. Amortization is provided on the straight-line basis over the items' estimated useful lives as follows:

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Leasehold improvements	-	10 years

The asset residual values, useful lives and amortization methods are reviewed and adjusted at each annual reporting date.

Leases

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 right-of-use ("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 lease payments made at or before the commencement date less any lease incentives received, 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. 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 obligations 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 consolidated statements of loss and comprehensive loss over the lease period. The Company has elected not to recognize a right-of-use asset and corresponding lease obligation for short-term leases with terms of 12 months or less and leases of low-value assets. 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 consolidated statements of loss and comprehensive loss as permitted by IFRS 16.

Lease obligations are measured at amortized cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease obligation is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

As a practical expedient, IFRS 16 permits a lessee to not separate non-lease components, but instead account for any lease and associated non-lease components as a single arrangement. The Company has applied this practical expedient.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Determining the lease term of contracts with renewal or termination options

The lease term includes the non-cancellable term of the lease including extension and termination options if the Company is reasonably certain to exercise the option. The Company applies judgment in evaluating whether it is reasonably certain to exercise the options. All relevant factors that create an economic incentive for it to exercise the renewal are considered. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option.

Intangible Assets

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

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

Impairment of Long-lived Assets

Long-lived assets comprise property and equipment and intangible assets with finite lives (patents and trademarks). The Company reviews the carrying value of its long-lived assets with finite lives annually to determine whether there is any indication that those assets have suffered impairment. If any such indication exists the asset is tested for impairment. The recoverable amount of the asset is estimated in order to determine the extent of impairment. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risk specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying value, the carrying value of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying value of the asset (or CGU) is increased to the revised estimate of its recoverable amount, so that the increased carrying value does not exceed the carrying value that would have been determined had no impairment loss been recognized for the asset (CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

The Company generates revenue from the sale of goods, and by services rendered. Revenue is measured based on the consideration specified in a contract with a customer. Revenue is recognized as performance obligations are satisfied and the Company transfers control over a product to a customer. With respect to incremental costs such as sales commissions incurred in obtaining a contract, the Company has elected to apply the practical expedient to expense these costs when incurred as the term of the Company's contracts are typically one year or less.

Product Sales

Product sales consist of contracts to provide customers with consumable test kits and diagnostic platforms. The Company generally considers these types of contracts to contain a single performance obligation satisfied at a point in time. The following factors are considered in determining when to recognize revenue:

- whether the Company has a present right to payment
- whether the buyer has legal title to the asset, if physical possession of the asset has transferred to the buyer and whether the buyer has the significant risks and rewards of ownership
- whether the buyer has accepted the asset

Generally, the buyer obtains control at the time goods have been delivered. However, platform contracts typically include installation and training services to be performed by the Company in addition to delivering the finished platform. Since these performance obligations are not considered distinct, revenue is recognized once all the associated services have been completed.

Services Rendered

Service contracts are either executed separately or bundled together with platform sale contracts. Where these contracts are bundled together, they are regarded as separate performance obligations, as each of the promises are capable of being distinct and are separately identifiable. Accordingly, a portion of the transaction price is allocated to each performance obligation relative to standalone selling prices.

A service contract can include research and development services, maintenance services, training, onsite support, field service, remote support, and consulting services. The Company generally considers service contracts to contain one performance obligation which is satisfied over time. However, for customer contracts that contain multiple performance obligations, each element is treated separately for revenue recognition purposes with the total transaction price allocated to each obligation based on its relative stand-alone selling price. Revenue is then recognized for each obligation based on the following methods:

- For research and development contracts, the stage of completion is measured through appraisals and evaluations of results achieved in relation to preestablished milestones.
- The stage of completion of fixed-price contracts to provide an indeterminable number of services over a specified period is measured based on contract term elapsed as a percentage of the full contract term.
- The stage of completion of time and material contracts is measured using the right to invoice practical expedient – revenue is recognized at the contractual rates as labour hours are delivered and direct expenses are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

Revenue Related Assets and Liabilities

Trade Receivables:
A trade receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract Liabilities:
Contract liabilities represents the obligation to transfer goods and services to a customer for which the Company has received consideration from the customer. Revenue is recognized when the Company performs under the contract.

Stock-Based Compensation and Other Stock-Based Payments

The Company offers a share option plan for its directors, officers, employees, and contractors. The fair value of stock-based payment awards granted is recognized as an expense with a corresponding increase in contributed surplus. The Company grants stock options with multiple vesting periods, with each vesting period being treated as a separate tranche and considered a separate grant for the calculation of fair value. Fair value is calculated using the Black-Scholes option pricing model and the resulting fair value is amortized over the vesting period of the respective tranches. In addition, stock-based compensation expense recognized reflects estimates of award forfeitures with any change in estimate thereof reflected in the period of the change. Consideration received upon the exercise of stock options is credited to capital stock at which time the related contributed surplus is transferred to capital stock.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency 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 the statement of loss and comprehensive loss.

The assets and liabilities of foreign operations are translated into Canadian dollars at period-end exchange rates, and their revenue and expense items are translated at exchange rates prevailing at the dates of the transactions. The resulting exchange differences are recognized in other comprehensive loss.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets for unused tax losses, investment tax credits ("ITCs") and deductible temporary differences are recorded in the financial statements to the extent that it is probable that future taxable profits will be available against which they can be utilized.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment Tax Credits

ITCs are recorded when qualifying expenditures are incurred and there is reasonable assurance that the credits will be realized. ITCs are recorded in the statement of loss and comprehensive loss as a reduction of research and development costs.

Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

The Company's financial instruments are measured initially at fair value and thereafter based on their classification. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics, and the Company's designation of such instruments. At initial recognition financial instruments are classified in the following categories depending on the nature and purpose for which the instruments were acquired:

(i) Financial Assets and Liabilities at Fair Value through Profit or Loss ("FVTPL")

Financial assets and financial liabilities purchased or incurred, respectively, with the intention of generating earnings in the near term are classified as FVTPL. For items classified as FVTPL, the Company initially recognizes such financial assets or liabilities on the consolidated balance sheet at fair value and recognizes subsequent changes in the consolidated statements of operations. Transaction costs incurred are expensed in the consolidated statements of operations. The Company does not currently hold any assets or liabilities designated as FVTPL.

(ii) Financial Assets at Fair Value through Other Comprehensive Income (FVTOCI)

Equity investments that are held for trading are classified as FVTPL. For other equity investments, on the day of acquisition the Company can make an irrevocable election to designate them as FVTOCI. Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive income (loss). The Company does not currently hold any assets or liabilities designated as FVTOCI.

(iii) Amortized Cost

The Company classifies financial assets held to collect contractual cash flows at amortized cost, including cash, and accounts receivable. The Company initially recognizes the carrying amount of such assets on the consolidated balance sheet at fair value plus directly attributable transaction costs, and subsequently measures these at amortized cost using the effective interest rate method, less any impairment losses.

(iv) Other Financial Liabilities

This category represents financial liabilities that are not classified as FVTPL and includes accounts payable and accrued liabilities and secured debentures. These financial liabilities are recorded at amortized cost on the consolidated statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Impairment of Financial Assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. The Company shall recognize in the consolidated statements of operations, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Derecognition

Financial Assets:
The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in profit or loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

Financial Liabilities:
The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets, is recognized in profit or loss.

Net Income (Loss) Per Share

Basic net income (loss) per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted average number of common and potential common shares outstanding during the period. The dilutive effect of outstanding stock options and warrants on earnings per share is calculated by determining the proceeds for the exercise of such securities which are then assumed to be used to purchase common shares of the Company. The outstanding share options and warrants are not included in the diluted net loss per share as they are anti-dilutive for all years presented.

Provisions

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Warrants

Proceeds from issuances by the Company of units consisting of shares and warrants are allocated on a pro-rata basis as determined by the fair value of each element. The fair value of the warrants is estimated using the Black-Scholes option pricing model. In circumstances where finder's warrants are issued coincidentally with a unit offering, the finder's warrants are valued using the Black-Scholes option pricing model. The Company's policy is to value warrant modifications and record an adjustment to the change in fair value as a result of revisions made to warrant terms with a corresponding reduction in contributed surplus.

Critical Accounting Estimates and Judgments

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

(i) Inventory

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

(ii) Revenue

Some of the Company's service contracts are complex and include promises to transfer multiple products and services. For these complex arrangements, each good or service is evaluated to determine whether it represents a distinct performance obligation. Measurement and recognition of revenue requires the Company to make estimates of transaction price, stand-alone selling prices and progress towards complete satisfaction of performance obligations.

(iii) Property and Equipment and Patents and Trademarks

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

(iv) Impairment of non-financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Critical Accounting Estimates and Judgments (continued)

(v) Stock-based compensation and warrants

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

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

(vi) Deferred tax assets

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

(vii) Secured debentures

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

Debt restructurings also require the Company to assess qualitative and quantitative factors in order to determine whether the restructuring constitutes a debt modification or debt extinguishment.

(viii) Impairment of financial instruments

The Company uses assumptions to determine its best estimate of the impairment in accounts receivable.

(ix) ROU Assets and Lease Obligations

The Company uses assumptions about extension and termination options to determine the appropriate lease terms used in valuing its ROU assets and lease obligations. In determining the discount rate to apply to its leases, the Company also exercises significant judgement regarding inputs such as risk-free rates of return, financing spread adjustments and lease-specific adjustments.

4. RECENT ACCOUNTING PRONOUNCEMENTS

Impact of adoption of significant new IFRS standards in fiscal 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 fiscal 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 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 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 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 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 during the year after ownership of the asset had transferred to the Company upon lease expiry and final lease payment being made.

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

4. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

At September 30, 2019, the minimum operating lease commitments of the Company were $1,447,000 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; (iii) the inclusion of extension options in the calculation of lease terms; (iv) the inclusion of previously unrecognized operating leases; and (v) exclusion of a prepayment.

Please see the below reconciliation of these amounts:

Operating lease commitments as at Sep. 30, 2019	$1,447
Adjustments:	
Prepayment	(29)
Impact of discounting remaining lease payments	(220)
Inclusion of non-lease components	374
Inclusion of lease term extension options	1,506
Inclusion of previously unrecognized operating leases	18
Lease obligations recognized at Oct. 1, 2019	**$3,096**

5. INVENTORY

Inventory consists of finished goods and component parts that are to be used in the future production of SQI's diagnostics platforms and Ig_plex consumable assays.

During the year, the Company wrote-down $250,000 of inventory. Approximately $150,000 of this amount related to raw materials which expired during the year. The remaining $100,000 relates to an instrument being held at a former customer's location for which litigation has been taken to reclaim the balance owing for this instrument.

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

6. 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	**41**	**6**	**51**	**5**	**49**	**152**
September 30, 2020	**$435**	**$273**	**$5,680**	**$188**	**$314**	**$6,890**

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	**(15)**	**-**	**20**	**-**	**-**	**5**
Amortization expense	**21**	**19**	**254**	**2**	**3**	**299**
September 30, 2020	**$388**	**$254**	**$4,623**	**$179**	**$266**	**$5,710**

Net Book Value						
September 30, 2019	$77	$32	$1,180	$6	$2	$1,297
September 30, 2020	**$47**	**$19**	**$1,057**	**$9**	**$48**	**$1,180**

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

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 6)	70	-
Amortization	(377)	-
Interest expense	-	247
Lease payments	-	(525)
Balance as at September 30, 2020	**$2,838**	**$2,959**
Less: current portion of lease obligations		**(228)**
Long-term lease obligations		**$2,731**

ROU assets, as of September 30, 2020, consisted of leases for the Company's building, information technology and office equipment.

The Company's lease obligations come due, as at September 30, 2020, as follows:

Less than 1 year	$228
1 - 3 years	771
4 - 5 years	346
More than 5 years	1,614
Total	**$2,959**

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

8. PATENTS AND TRADEMARKS

Cost	
September 30, 2018	$2,221
Additions	31
Write off of patents	(40)
September 30, 2019	$2,212
Additions	**30**
Write off of patents	(9)
September 30, 2020	**$2,233**

Accumulated Amortization	
September 30, 2018	$1,611
Amortization expense	141
Write off of patents	(21)
September 30, 2018	$1,731
Amortization expense	**124**
Write off of patents	**(6)**
September 30, 2020	**$1,849**

Net Book Value	
September 30, 2019	$481
September 30, 2020	**$384**

During the year, certain patents that are not critical to the business expired. Accordingly, patents with a net book value of $3,000 were written off as at September 30, 2020 (September 30, 2019 - $19,000).

9. RELATED PARTY TRANSACTIONS

Compensation of key management

Key management includes the Company's Officers and Directors. Compensation of key management includes:

	Year Ended	
	September 30, 2020	September 30, 2019
Salaries and short-term employee benefits	**$874**	$927
Stock-based compensation	**556**	325
	$1,430	$1,252

Certain board members also hold $2,145,000 of debentures (principal amount) refinanced during the year (please see note 10).

10. 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 fiscal 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 remaining $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 a period of 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 and a gain/loss recognized upon extinguishment.

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 calculated using a market rate of interest without warrants with the residual value allocated to the warrants. The amount allocated to the warrants was estimated at $345,000.

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

10. SECURED DEBENTURES (continued)

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

Old Debentures

	September 30, 2020	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	**1,203**	**1,075**
Balance as of Feb. 2020	**$3,236**	**-**
Principal Repayment	**(1,000)**	**-**
Principal Extension	**(2,236)**	**-**
Balance end of year	**$ -**	**$3,108**

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%.

New Debentures

	September 30, 2020
Secured debentures	**$2,460**
Equity component of secured debenture	**(345)**
	2,115
Accretion in carrying amount of debentures	**33**
Balance end of year	**$2,148**

11. 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 such unit is comprised of 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.

11. CAPITAL STOCK (continued)

(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 such unit comprised of 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.

(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 such unit is comprised of 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 such unit is comprised of 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 $0.09 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.

(f) 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 such unit is comprised of 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.

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

11. CAPITAL STOCK (continued)

(g) On June 10th, 2020, a total of 195,000 options were exercised at prices of $0.15 and $0.16 per share for total gross proceeds of $30,000. The original value of the options was calculated using the Black-Scholes option pricing model. Accordingly, $24,000 was deducted from the Contributed Surplus account and transferred to Share Capital upon exercise.

(h) On September 17th, 2020, a total of 70,778 options were exercised at prices $0.16 and $0.20 per share for total gross proceeds of $12,000. The original value of the options was calculated using the Black-Scholes option pricing model. Accordingly, $10,000 was deducted from the Contributed Surplus account and transferred to Share Capital upon exercise.

12. WARRANTS

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

Number of Warrants	Exercise Price	Maturity
7,631	$0.52	December 15 and 21, 2020
22,470	$0.21	March 10, 2022
463	$0.20	December 20, 2020
52,994	$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, 2024 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
177,659		

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. A total of 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 fiscal 2019.

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

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 expired unexercised. Accordingly, $2,912,000 was transferred from warrant capital to contributed surplus in fiscal 2019.

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 fiscal 2020. Additionally, a total of 4,739,139 warrants were issued in connection with the refinancing associated with these debentures. Please see note 11 for further details on the terms of these warrants.

12. WARRANTS (continued)

On July 2, 2020, a total of 29,011,117 warrants were exercised by certain insiders of the Company for total gross proceeds of $3,111,000. A total of 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 January 2020 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, $1,178,000 was deducted from the Warrant Capital account and transferred to Share Capital upon exercise. The total share issuance costs were $9,000.

On July 16, 2020, 5,330,000 warrants issued in connection with a private placement in July of 2015 with an exercise price of $0.64 expired unexercised. Accordingly, $1,282,000 was transferred from warrant capital to contributed surplus in the quarter.

During September 2020, a total of 2,033,333 warrants were exercised for gross proceeds of $411,000. 1,533,333 of the warrants issued in connection with a December 2017 private placement were exercised at a price of $0.20 per share while 500,000 warrants issued in connection with a March 2017 private placement were exercised at a price of $0.21 per share. The original value of the warrants was calculated using the Black-Scholes option pricing model. Accordingly, $136,000 was deducted from the Warrant Capital account and transferred to Share Capital upon exercise. Total share issuance costs were $41,000.

13. 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 15% of the issued and outstanding shares at the time of the option grant. Options granted pursuant to the Plan are granted at an option price which will not be less than the fair market price at the time the options are granted. During the year, the Company received conditional approval from the TSXV to amend its existing Plan increasing the maximum term for options granted from 5 to 10 years. All options granted to individual optionees generally vest in three equal installments over a period of 12 to 36 months.

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

13. STOCK OPTIONS (continued)

The following summarizes the stock option activities under the Plan:

	Year Ended			
	September 30, 2020		September 30, 2019	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Beginning Balance	**11,767**	**$ 0.16**	9,287	$ 0.23
Granted*	**33,015**	**$ 0.19**	3,252	$ 0.15
Exercised+	**(265)**	**$ 0.16**	-	$ -
Cancelled/Expired	**(1,205)**	**$ 0.28**	(354)	$ 0.41
Forfeited	**(912)**	**$ 0.16**	(418)	$ 0.20
Ending Balance	**42,400**	**$ 0.20**	11,767	$ 0.16
Exercisable	**10,089**	**$ 0.20**	6,576	$ 0.23

*On August 17, 2020, the Company granted to Mr. Rob Chioini (CEO) an aggregate of 29,835,062 stock options to purchase common shares in the capital of the Company for a period of ten years, at an exercise price of $0.195 per share, subject to earlier termination in certain circumstances. The options vest and become exercisable as to one-third on each of the first, second and third anniversaries of the date of the grant, subject to certain conditions and subject to accelerated vesting in certain circumstances. The CEO option grant is subject to disinterested shareholder approval (i.e., excluding the votes attached to shares beneficially owned by the CEO and his associates) and the final approval of the TSXV.

+The fair value of the options exercised was $54,000.

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

Number of Options	**Range of Exercise Prices**	**Weighted average time to maturity**
1,388	$ 0.07 – 0.14	4.40 years
37,115	$ 0.15 – 0.22	8.43 years
3,497	$ 0.23 – 0.30	5.25 years
42,400		

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

14. STOCK-BASED COMPENSATION

The fair value of the options granted during the year ended September 30, 2020 was $6,172,000 (2019 - $382,000), which will be recognized over vesting periods of 12 to 36 months. The total compensation expense credited to contributed surplus for the year ended September 30, 2020 was $856,000 (2019 - $593,000).

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:

	Year Ended	
	September 30, 2020	September 30, 2019
Dividend Yield	**0%**	0%
Expected Volatility (historical data basis)	**131%**	114%
Risk-free Interest Rate	**0.33%**	1.63%
Share price and exercise price	**$0.19**	$0.16
Expected Life (years)	**9.79**	5.00
Weighted average grant date fair value	**$0.19**	$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 10% to 40% (2019 - 20% to 40%) based on the vesting period of the option.

15. CORPORATE AND GENERAL EXPENSE

	Year Ended	
	September 30, 2020	September 30, 2019
Salaries and wages	**$481**	$538
General and administrative	**638**	646
Professional and consulting	**1,325**	451
Stock-based compensation	**658**	216
Total corporate and general expense by nature	**$3,102**	$1,851

16. SALES AND MARKETING EXPENSE

	Year Ended	
	September 30, 2020	September 30, 2019
Contractor fees	**$868**	**$946**
Travel and marketing	**98**	**228**
Stock-based compensation	**38**	**61**
Total sales and marking expense by nature	**$1,004**	**$1,235**

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

17. RESEARCH AND DEVELOPMENT COSTS

	Year Ended	
	September 30, 2020	September 30, 2019
Salaries and wages	**$2,650**	**$3,134**
Laboratory costs and supplies	**1,107**	**1,293**
Professional fees	**-**	**30**
Investment tax credits	**(140)**	**(245)**
Amortization – patents and trademarks (Note 7)	**124**	**141**
Amortization – right of use assets (Note 8)	**377**	**-**
Amortization – property and equipment (Note 9)	**299**	**359**
Stock-based compensation	**160**	**316**
Total research and development expense by nature	**$4,577**	**$5,028**

18. INCOME TAXES

(a) Income Tax Expense

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

	Year Ended	
	September 30, 2020	September 30, 2019
Loss before income taxes	**$(8,568)**	$(8,021)
Statutory rate	**26.5%**	26.5%
Expected income tax recovery	**$(2,271)**	$(2,125)
Effect on income taxes of unrecognized deferred income tax assets relating to deductible temporary differences on:		
Change in deferred taxes not recognized	**3,588**	1,815
Impact of ITCs	**(238)**	65
Non-deductible expenses and other items	**(1,079)**	245
Income tax expense	**$-**	$-

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

18. INCOME TAXES (continued)

(b) Deferred Income Taxes

The temporary differences that give rise to deferred income tax assets which are not recognized are presented below:

	Year Ended September 30, 2020	September 30, 2019
Amounts related to tax loss and undeducted SRED costs	**$86,728**	$80,197
Property and equipment and patents and trademarks	**3,803**	3,333
Share issue costs	**631**	719
Deferred tax asset not recognized	$**91,162**	$84,249

(c) Loss and Tax Credit Carryforwards

As at September 30, 2020, the Company has non-capital losses of approximately $60,891,000 expiring as follows:

2025	$	119
2026		1,542
2027		1,154
2028		2,815
2029		3,619
2030		5,211
2031		6,613
2032		3,897
2033		3,707
2034		4,704
2035		3,626
2036		3,462
2037		3,776
2038		4,213
2039		5,480
2040		6,958
	$	60,891

In addition, the Company has undeducted scientific research and experimental development (“SRED”) costs of approximately $25,837,000 available to apply against future taxable income, as well as, federal investment tax credits relating to scientific research and development costs of approximately $5,764,000 and provincial investment tax credits relating to scientific research and development costs of approximately $1,149,000 available to reduce future taxes payable.

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

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

19. 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.

20. 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. In fiscal 2020 and 2019, five customers accounted for 96% of the revenue. 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 balances.

Allowance for doubtful accounts and past due receivables are reviewed by Management at each balance sheet date. The Company updates its estimate of the allowance for doubtful accounts based on the evaluation of the recoverability of receivable balances from each customer taking into account historic collection trends of past due accounts. Receivables are written off once determined not to be collectible. Management made a provision of $534,000 at the end of fiscal 2019 against one customer receivable. The Company has engaged US legal counsel and is actively pursuing collection of this amount.

The below table presents the Company's aged receivable listing:

Trade Receivables – aged by due date as at:	**September 30, 2020**
Current	$126
1-30 days	8
31-60 days	22
61-90 days	11
Over 90 days	310
Total	**$477**

Subsequent to year-end, the Company collected all outstanding amounts owing.

20. FINANCIAL RISK MANAGEMENT (continued)

(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.

(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 exposed to a higher currency risk due to its expanded US operations; however this risk does not present a material concern for the Company at this time.

(d) Fair Value Risk

The carrying amount of accounts receivable, 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 September 30, 2020, the Company had a working capital surplus of $2,203,000 (2019 - working capital deficit of $217,000). The Company's liabilities consist of accounts payables and accrued liabilities, and the short-term portion of its outstanding lease obligations which are due within one year of the statement of financial position date. The Company's remaining liabilities consist of the long-term portion of its outstanding lease obligations and secured debentures which require annual interest payments of $245,960 on the anniversary dates and the principal amount of $2,459,600 due in 2025. 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.

21. SEGMENT INFORMATION

The Company has one operating segment. The executive management team regularly evaluates the Company's performance, makes operating decisions, and allocates resources based on financial data consistent with the presentation in these financial statements.

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

22. GEOGRAPHIC INFORMATION

The Company operates in three principle geographic areas: the United States, Canada and Europe. The Company's revenues and non-current assets by location are detailed below. Due to the IFRS 16 changes, right of use assets are now included as Non-current assets.

	Revenues		**Non-current Assets**	
	September 30, 2020	September 30, 2019	**September 30, 2020**	September 30, 2019
United States	**$583**	$1,133	**$-**	$-
Canada	**407**	743	**4,409**	1,778
Europe	**33**	-	**-**	-
Rest of World	**-**	15	**-**	-
Total	**$1,023**	$1,891	**$4,409**	$1,778

23. SUBSEQUENT EVENTS

Subsequent to year end, in October and December 2020, a total of 2,248,260 common share purchase warrants of the Company were exercised for gross proceeds of $457,000.

On December 3, 2020, the Company entered into an agreement to acquire three major capital assets for total consideration of approximately $1.5 million excluding installation charges. Delivery is currently anticipated to be at various times during calendar year 2021. These assets, which are referred to as systems, will be used to increase the Company's manufacturing capacity. The systems are an automated liquid dispensing solution for high throughput production of multiple tests for diagnostics and life science use. The systems are used to print biologicals e.g proteins, antibodies, DNA onto a surface which becomes the basis of the SQI assay kit.

The Company also raised $4.0 million in December 2020 through the exercise of 19,074,997 warrants at prices of $0.20 and $0.21. These warrants were held by the Company's three major shareholders who are members of the board of directors of the Company and are also control persons of the Company.