



## **SQI Diagnostics Inc.**

**Condensed Interim Consolidated Financial Statements**

**(Unaudited)**

**(Expressed in Canadian dollars)**

**For the Three Months Ended December 31, 2021 and 2020**

### **Notice to Reader**

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

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

	As at December 31, 2021	As at September 30, 2021
<b>Assets</b>		
<b>Current</b>		
Cash	\$3,377	\$2,295
Accounts receivable	185	204
Prepays and other assets	257	241
Inventory (Note 4)	1,025	898
	<b>4,844</b>	<b>3,638</b>
<b>Non-current</b>		
Right-of-use assets (Note 7)	2,291	2,377
Property and equipment (Note 5)	3,084	2,658
Intangible Assets (Note 6)	360	391
	<b>\$10,579</b>	<b>\$9,064</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$1,640	\$2,474
Contract liabilities	230	237
Lease obligations (Note 7)	241	241
	<b>2,111</b>	<b>2,952</b>
<b>Non-current</b>		
Lease obligations – long-term (Note 7)	2,319	2,382
Debentures (Note 8)	2,220	2,204
<b>Total liabilities</b>	<b>6,650</b>	<b>7,538</b>
<b>Shareholders' Equity</b>		
Capital stock (Note 9)	88,693	85,908
Warrants (Note 10)	7,887	5,603
Contributed surplus	24,753	23,987
Deficit	(117,405)	(113,972)
Accumulated Other Comprehensive Income (Loss)	1	-
	<b>3,929</b>	<b>1,526</b>
	<b>\$10,579</b>	<b>\$9,064</b>

Basis of presentation (note 2)  
Capital risk management (Note 16)  
Financial risk management (Note 17)

Approved by the Board

“Clive Beddoe”  
Director (Signed)

“Andrew Morris”  
Director (Signed)

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

**SQI Diagnostics Inc.****Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (Unaudited)****For the three months ended December 31, 2021 and 2020**

(Amounts are in thousands of Canadian dollars except per share amounts)

	<b>Three Months Ended</b>	
	<b>December 31, 2021</b>	<b>December 31, 2020</b>
<b>Revenue</b>		
Services revenue	<b>\$43</b>	\$57
Product sales	<b>16</b>	104
	<b>59</b>	161
<b>Expenses</b>		
Cost of products sold	<b>5</b>	27
Corporate and general (Note 13)	<b>1,583</b>	1,688
Sales and marketing (Note 14)	<b>81</b>	194
Research and development (Note 15)	<b>1,696</b>	1,838
Finance costs	<b>127</b>	132
	<b>3,492</b>	3,879
<b>Net loss</b>	<b>\$(3,433)</b>	\$(3,718)
<b>Loss per share</b>		
Basic and diluted	<b>\$(0.01)</b>	\$(0.01)
<b>Weighted average number of common shares outstanding (thousands of shares)</b>	<b>380,144</b>	309,530
Net loss	<b>\$(3,433)</b>	\$(3,718)
Other Comprehensive Loss:		
Currency Translation Adjustment	<b>1</b>	8
<b>Comprehensive Loss</b>	<b>\$(3,432)</b>	\$(3,710)

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

**SQI Diagnostics Inc.**  
**Condensed Interim Consolidated Statements of Changes in Equity (Unaudited)**  
**For the three months ended December 31, 2021 and 2020**  
(Amounts are in thousands of Canadian dollars)

	Issued Capital Stock		Warrants	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income (Loss)	Total Equity
	Number of Shares (thousands of shares)	Amount					
Balance as at September 30, 2020	308,095	\$71,870	\$10,371	\$22,900	\$(103,415)	\$-	\$1,726
Warrants exercised (notes 9b,c)	21,323	5,970	(1,513)	-	-	-	4,457
Warrants expired (note 10)	-	-	(1,271)	1,271	-	-	-
Share issuance costs (notes 9b,c)	-	(468)	-	-	-	-	(468)
Stock-based compensation (note 12)	-	-	-	954	-	-	954
Currency translation adjustment	-	-	-	-	-	8	8
Net loss and comprehensive loss	-	-	-	-	(3,718)	-	(3,718)
Balance as at December 31, 2020	329,418	\$77,372	\$7,587	\$25,125	\$(107,133)	\$8	\$2,959
<b>Balance as at September 30, 2021</b>	<b>362,530</b>	<b>\$85,908</b>	<b>\$5,603</b>	<b>\$23,987</b>	<b>\$(113,972)</b>	<b>\$-</b>	<b>\$1,526</b>
Issued in connection with private placement (note 9d)	26,933	5,103	-	-	-	-	5,103
Allocated to warrants – private placement (note 9d)	-	(2,299)	2,299	-	-	-	-
Share issuance costs (notes 9d)	-	(18)	(15)	-	-	-	(33)
Stock-based compensation (note 12)	-	-	-	766	-	-	766
Currency translation adjustment	-	-	-	-	-	1	1
Net loss and comprehensive loss	-	-	-	-	(3,433)	-	(3,433)
Balance as at December 31, 2021	389,463	\$88,693	\$7,887	\$24,753	\$(117,405)	\$1	\$3,929

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

**SQI Diagnostics Inc.****Condensed Interim Consolidated Statements of Cash Flows (Unaudited)****For the three months ended December 31, 2021 and 2020**

(Amounts are in thousands of Canadian dollars)

	<b>Three Months Ended</b>	
	<b>December 31, 2021</b>	<b>December 31, 2020</b>
<b>Cash flows used in operating activities</b>		
Net loss	<b>\$(3,433)</b>	\$(3,718)
Add items not affecting cash		
Amortization – intangible assets	<b>30</b>	29
- property and equipment	<b>81</b>	66
- right-of-use assets	<b>87</b>	90
Stock-based compensation	<b>766</b>	954
Accretion on debenture	<b>16</b>	14
Currency translation adjustments	<b>1</b>	8
	<b>(2,452)</b>	(2,557)
Changes in non-cash working capital items		
Accounts receivable and prepaids	<b>3</b>	339
Lease receivable	<b>-</b>	-
Inventory	<b>(127)</b>	22
Accounts payable and accrued liabilities	<b>(834)</b>	722
Contract liabilities	<b>(7)</b>	71
	<b>(3,417)</b>	(1,403)
<b>Cash flows used in investing activities</b>		
Purchase of property and equipment	<b>(507)</b>	(35)
Additions to patents and trademarks	<b>-</b>	(7)
	<b>(507)</b>	(42)
<b>Cash flows from financing activities</b>		
Proceeds from issuance of shares net of share issuance costs	<b>5,069</b>	3,989
Lease payments – principal portion	<b>(63)</b>	(54)
	<b>5,006</b>	3,935
Net change in cash during the period	<b>1,082</b>	2,490
Cash at beginning of the period	<b>2,295</b>	2,596
<b>Cash at end of the period</b>	<b>\$3,377</b>	\$5,086
<b>Supplemental information</b>		
Cash interest paid	<b>50</b>	59

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

# **SQI Diagnostics Inc.**

## **Notes to Condensed Interim Consolidated Financial Statements (Unaudited)**

**As at December 31, 2021 and 2020 and for the three months ended December 31, 2021 and 2020**

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

---

### **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 center 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 EXACT COVID-19 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 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, 2021.

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors on February 25, 2022.

#### **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 improve in calendar year 2022 based on Management's internal forecast.

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

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

These condensed interim consolidated financial statements do not reflect the adjustments that might be necessary to the carrying amount of reported assets, liabilities, revenue, and expenses and the

## SQI Diagnostics Inc.

### Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

As at December 31, 2021 and 2020 and for the three months ended December 31, 2021 and 2020

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

statement of financial position classification used if the Company was unable to continue operations in accordance with this assumption. Such adjustments could be material.

#### Basis of Consolidation

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

The interim 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. 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, 2021 and 2020 and for the years ended September 30, 2021 and 2020.

### 4. INVENTORY

Inventory consists of platform instruments and assay inventory. Assay inventory includes finished goods and component parts that are to be used in the future production of SQI's diagnostics platforms and Ig\_plex consumable assays.

	Three months ended	
	December 31, 2021	September 30, 2021
Platform Inventory	727	732
Assay Inventory	298	166
<b>Total</b>	<b>1,025</b>	<b>898</b>

**SQI Diagnostics Inc.****Notes to Condensed Interim Consolidated Financial Statements (Unaudited)****As at December 31, 2021 and 2020 and for the three months ended December 31, 2021 and 2020**

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

**5. PROPERTY AND EQUIPMENT**

<b>Cost</b>	<b>Computer Hardware</b>	<b>Computer Software</b>	<b>Laboratory Fixtures and Equipment</b>	<b>Office Equipment</b>	<b>Leasehold Improvements</b>	<b>Total</b>
September 30, 2020	\$435	\$273	\$5,680	\$188	\$314	\$6,890
Additions	45	12	1,504	1	139	1,701
Disposals	-	-	(162)	-	-	(162)
Transfers from inventory	-	-	55	-	-	55
September 30, 2021	\$480	\$285	\$7,077	\$189	\$453	\$8,484
<b>Additions</b>	<b>10</b>	<b>-</b>	<b>495</b>	<b>2</b>	<b>-</b>	<b>507</b>
<b>December 31, 2021</b>	<b>\$490</b>	<b>\$285</b>	<b>\$7,572</b>	<b>\$192</b>	<b>\$453</b>	<b>\$8,991</b>

<b>Accumulated Amortization</b>	<b>Computer Hardware</b>	<b>Computer Software</b>	<b>Laboratory Fixtures and Equipment</b>	<b>Office Equipment</b>	<b>Leasehold Improvements</b>	<b>Total</b>
September 30, 2020	\$388	\$254	\$4,623	\$179	\$266	\$5,710
Amortization expense	33	19	219	1	5	277
Disposals	-	-	(162)	-	-	5
September 30, 2021	\$421	\$273	\$4,680	\$180	\$272	\$5,825
<b>Amortization expense</b>	<b>9</b>	<b>2</b>	<b>67</b>	<b>-</b>	<b>4</b>	<b>82</b>
<b>December 31, 2021</b>	<b>\$430</b>	<b>\$275</b>	<b>\$4,747</b>	<b>\$180</b>	<b>\$276</b>	<b>\$5,907</b>

<b>Net Book Value</b>						
September 30, 2021	\$59	\$12	\$2,397	\$9	\$181	\$2,658
<b>December 31, 2021</b>	<b>\$60</b>	<b>\$10</b>	<b>\$2,825</b>	<b>\$12</b>	<b>\$177</b>	<b>\$3,084</b>



**SQI Diagnostics Inc.****Notes to Condensed Interim Consolidated Financial Statements (Unaudited)****As at December 31, 2021 and 2020 and for the three months ended December 31, 2021 and 2020**

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

**6. INTANGIBLE ASSETS**

<b>Cost</b>	
September 30, 2020	\$2,233
Additions	131
September 30, 2021	\$2,364
Additions	-
December 31, 2021	<b>\$2,364</b>
<b>Accumulated Amortization</b>	
September 30, 2020	\$1,849
Amortization expense	124
September 30, 2021	\$1,973
<b>Amortization expense</b>	<b>31</b>
<b>December 31, 2020</b>	<b>\$2,004</b>
<b>Net Book Value</b>	
September 30, 2021	\$391
<b>December 31, 2021</b>	<b>\$360</b>

**7. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS**

	<b>Right-of-use-assets</b>	<b>Lease obligations</b>
Balance as at September 30, 2021	\$2,377	\$2,623
Amortization	(86)	-
Interest expense	-	50
Lease payments	-	(113)
<b>Balance as at December 31, 2021</b>	<b>\$2,291</b>	<b>\$2,560</b>
Less: current portion of lease obligations		(241)
Long-term lease obligations		<b>\$2,319</b>

The Company's lease obligations come due, as at December 31, 2020, as follows:

Less than 1 year	\$241
1 - 3 years	869
4 - 5 years	845
More than 5 years	605
Total	<b>\$2,560</b>

## **SQI Diagnostics Inc.**

### **Notes to Condensed Interim Consolidated Financial Statements (Unaudited)**

**As at December 31, 2021 and 2020 and for the three months ended December 31, 2021 and 2020**

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

---

#### **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 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.

## SQI Diagnostics Inc.

### Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

As at December 31, 2021 and 2020 and for the three months ended December 31, 2021 and 2020

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

#### 8. SECURED DEBENTURES (continued)

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

	December 31, 2021	September 30, 2021
Secured debentures	\$2,460	\$2,460
Equity component of secured debenture	(345)	(345)
	2,115	2,115
Accretion in carrying amount of notes	105	89
Balance end of period	\$2,220	\$2,204

#### 9. CAPITAL STOCK

- (a) The Company has authorized an unlimited number of common shares.
- (b) During the first quarter of fiscal 2021, a total of 2,248,260 common share purchase warrants were exercised for total gross proceeds of \$457,000. Of this total, 750,000 of the warrants, issued in connection with a March 2017 private placement, were exercised at a price of \$0.20 while 1,498,260 warrants issued in connection with a December 2017 private placement, were exercised at a price of \$0.21. The original value of the warrants was calculated using the Black-Scholes option pricing model. Accordingly, \$161,000 was deducted from the Warrant Capital account and transferred to Share Capital upon exercise. Total share issuance costs were approximately \$46,000.
- (c) On December 31, 2020, a total of 19,074,997 warrants were exercised by certain insiders of the Company for total gross proceeds of \$4,000,000. A total of 18,500,000 of the warrants issued in connection with a March 2017 private placement were exercised at a price \$0.21 per share while 574,997 warrants issued in connection with a December 2017 private placement were exercised at a price \$0.20 per share. The original value of the warrants was calculated using the Black-Scholes option pricing model. Accordingly, \$1,351,000 was deducted from the Warrant Capital account and transferred to Share Capital upon exercise. The total share issuance costs were approximately \$422,000.
- (d) On November 1 and November 8, 2021, the Company completed a non-brokered private placement of an aggregate of 26,932,895 units of the Company at \$0.19 per unit for gross proceeds of \$5,117,000. Each unit comprises one common share of the Company and one common share purchase warrant. Each warrant is exercisable at a price of \$0.25 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 \$2,299,000 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 \$0.18; dividend yield 0%; risk free interest 1.36%; volatility 125.13%; and an expected life of 5 years. Expected volatility is based on historical volatility. The total share issuance costs were \$33,000 and \$15,000 was allocated to warrant capital.

## SQI Diagnostics Inc.

### Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

As at December 31, 2021 and 2020 and for the three months ended December 31, 2021 and 2020

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

#### 10. WARRANTS

The Company had the following warrants outstanding at December 31, 2021:

<b>Number of Warrants</b>	<b>Exercise Price</b>	<b>Maturity</b>
1,388	\$0.21	March 10, 2022
26,018	\$0.20	December 20, 2022 – August 24, 2023
12,344	\$0.17	July 12, 2024
32,300	\$0.13	September 25 and October 22, 2024
622	\$0.085	February 20, 2025
44,444	\$0.12	February 14, 2025 and March 5, 2025
26,933	\$0.25	November 1, 2026 and November 8, 2026
<b>144,049</b>		

During the first quarter of fiscal 2021, a total of 7,630,945 warrants issued in connection with a private placement in December of 2015 with an exercise price of \$0.52 expired unexercised. Accordingly, \$1,271,000 was transferred from warrant capital to contributed surplus in the quarter.

#### 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 50,814,253. 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. In fiscal 2020, 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 time-based options granted to individual optionees generally vest in three equal installments over a period of 12 to 36 months. Performance based options are tied to specific milestones. The following summarizes the stock option activities under the Plan:

	<b>Three Months Ended</b>			
	<b>December 31, 2021</b>		<b>December 31, 2020</b>	
	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Beginning Balance	<b>27,275</b>	<b>\$ 0.19</b>	42,400	\$ 0.20
Granted	-	-	-	-
Cancelled/Expired	<b>(441)</b>	<b>\$ 0.18</b>	(123)	\$ 0.21
Forfeited	<b>(229)</b>	<b>\$ 0.24</b>	(183)	\$ 0.24
Ending Balance	<b>26,605</b>	<b>\$ 0.19</b>	42,094	\$ 0.20
Exercisable	<b>8,120</b>	<b>\$ 0.17</b>	7,977	\$ 0.20

## SQI Diagnostics Inc.

### Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

As at December 31, 2021 and 2020 and for the three months ended December 31, 2021 and 2020

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

#### 11. STOCK OPTIONS (continued)

The Company had the following stock options outstanding under the Plan at December 31, 2021:

Number of Options	Range of Exercise Prices	Weighted average time to maturity
1,372	\$ 0.07 - 0.14	3.16 years
23,778	\$ 0.15 - 0.22	3.84 years
1,455	\$ 0.23 - 0.30	8.66 years
26,605		

#### 12. STOCK-BASED COMPENSATION

The total compensation expense credited to contributed surplus for the quarter ended December 31, 2021 was \$766,000 (2020 - \$954,000).

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 or other option pricing models.

There were no stock options granted during the first quarters of fiscal 2022 and 2021.

#### 13. CORPORATE AND GENERAL EXPENSE

	Three Months Ended	
	December 31, 2021	December 31, 2020
Salaries and wages	\$604	\$264
Subsidies (CEWS)	(26)	(5)
General and administrative	183	83
Professional and consulting	244	473
Stock-based compensation	578	873
Total corporate and general expense by nature	\$1,583	\$1,688

## SQI Diagnostics Inc.

### Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

As at December 31, 2021 and 2020 and for the three months ended December 31, 2021 and 2020

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

#### 14. SALES AND MARKETING EXPENSE

	Three Months Ended	
	December 31, 2021	December 31, 2020
Contractor fees	\$68	\$185
Travel and marketing	11	6
Stock-based compensation	2	3
Total sales and marketing expense by nature	\$81	\$194

#### 15. RESEARCH AND DEVELOPMENT COSTS

	Three Months Ended	
	December 31, 2021	December 31, 2020
Salaries and wages	\$919	\$799
Subsidies (CEWS & Biotalent)	(174)	(94)
Laboratory costs and supplies	568	870
Amortization – intangible assets (note 6)	30	29
Amortization – property and equipment (note 5)	81	66
Amortization – right of use assets (note 7)	87	90
Stock-based compensation	185	78
Total research and development expense by nature	\$1,696	\$1,838

#### 16. 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 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.

#### 17. FINANCIAL RISK MANAGEMENT

##### (a) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and accounts receivables are exposed to credit risk. The maximum credit risk exposure is the carrying amount. The credit risk on cash is mitigated because the counterparties are Schedule 1 Canadian banks. The credit risk on accounts receivable is due to the concentration of accounts as a result of the few large customers that comprise the Company's international customer base. 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.

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.

## **SQI Diagnostics Inc.**

### **Notes to Condensed Interim Consolidated Financial Statements (Unaudited)**

**As at December 31, 2021 and 2020 and for the three months ended December 31, 2021 and 2020**

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

---

#### **17. 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 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 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 receivables and accounts payable and accrued liabilities, lease obligations and secured debentures approximate their fair values.

##### **(e) Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. At December 31, 2021, the Company had a working capital surplus of \$2,733,000 (2021 - working capital surplus of \$3,532,000). The Company's liabilities consist of accounts payable, accrued liabilities, contract liabilities, lease obligations and the principal portion of debentures. The Company has sufficient liquidity to meet its current obligations as they come due. The continuation of the Company's research, development and commercialization activities is dependent upon the Company's ability to generate product or service revenues or to finance its operations through further equity and or debt financings.

#### **18. SUBSEQUENT EVENTS**

##### *Acquisition of assets from Precision Biomonitoring Inc.*

On February 14, 2022, the Company completed its previously announced, asset acquisition of Precision Biomonitoring Inc.'s (PBI) human diagnostic COVID-19 PCR testing business and its TripleLock molecular diagnostic testing technology.

Pursuant to the terms of the definitive agreement, the Company acquired the Business through its wholly owned subsidiary, SQI Diagnostic Systems Inc., for aggregate consideration of \$6,825,000 consisting of \$6,145,000 in cash and 4,171,779 common shares in the capital of the Company at a deemed price of \$0.163 per share with an aggregate deemed value of \$680,000. The Consideration Shares are subject to a statutory four-month hold period from the closing of the transaction. In addition, on closing of the transaction, the Company acquired certain Business inventory for a total cash purchase price of \$616,243.

## **SQI Diagnostics Inc.**

### **Notes to Condensed Interim Consolidated Financial Statements (Unaudited)**

**As at December 31, 2021 and 2020 and for the three months ended December 31, 2021 and 2020**

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

---

#### **18. SUBSEQUENT EVENTS (continued)**

To assist the Company with the funding of the Transaction, the Company entered into a credit agreement with Pivot Financial, an arm's length third party, with respect to the extension of a short-term senior secured demand credit facility in the aggregate amount of \$7,500,000. Certain insiders of the Company also participated in funding the Credit Facility pursuant to the terms of a participation agreements entered into between Pivot and the Insider Lenders. The balance of the Credit Facility is being applied to general corporate and working capital purposes.

The Credit Facility matures two months from the date of closing and bears interest at a rate of 15% per annum. No commission or bonus was paid in connection with extension of the Credit Facility, and the Credit Facility is not convertible into any securities of the Company. The Credit Facility has been secured by a first charge general security interest over the Company, as borrower, and the Company's wholly owned subsidiary SQI Systems, as guarantor. In connection with the extension of the Credit Facility, the Lenders were paid a facility fee in the amount of \$320,000.