



SQI Diagnostics Inc.

Condensed Interim Consolidated Financial Statements

(Unaudited)

(Expressed in Canadian dollars)

For the Three Months Ended December 31, 2020 and 2019

Notice to Reader

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

SQI Diagnostics Inc.**Condensed Interim Consolidated Statements of Financial Position (Unaudited)**

(Amounts are in thousands of Canadian dollars)

	As at December 31, 2020	As at September 30, 2020
Assets		
Current		
Cash	\$5,086	\$2,596
Accounts receivable	138	477
Prepays and other assets	231	231
Inventory	364	364
	5,797	3,668
Non-current		
Right-of-use assets (note 6)	2,748	2,838
Property and equipment (note 4)	1,149	1,180
Patents and trademarks (note 5)	362	384
	\$10,056	\$8,070
Liabilities		
Current		
Accounts payable and accrued liabilities	\$1,763	\$1,041
Contract liabilities	267	196
Lease obligations (note 6)	235	228
	2,265	1,465
Non-current		
Lease obligations – long-term (note 6)	2,670	2,731
Debentures (note 7)	2,162	2,148
Total liabilities	7,097	6,344
Shareholders' Equity		
Capital stock (note 8)	77,372	71,870
Warrants (note 9)	7,587	10,371
Contributed surplus	25,125	22,900
Deficit	(107,133)	(103,415)
Accumulated Other Comprehensive Income (Loss)	8	-
	2,959	1,726
	\$10,056	\$8,070

Basis of presentation (note 2)

Capital risk management (Note 15)

Financial risk management (Note 16)

Approved by the Board

“Clive Beddoe”
Director (Signed)

“Robert Chioini”
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, 2020 and 2019**

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

	Three Months Ended	
	December 31, 2020	December 31, 2019
Revenue		
Services revenue	\$57	\$60
Product sales	104	147
	161	207
Expenses		
Cost of products sold	27	38
Corporate and general (Note 12)	1,688	414
Sales and marketing (Note 13)	194	276
Research and development (Note 14)	1,838	1,269
Finance costs	132	224
	3,879	2,221
Net loss	\$(3,718)	\$(2,014)
Loss per share		
Basic and diluted	\$(0.01)	\$(0.01)
Weighted average number of common shares outstanding (thousands of shares)		
Weighted average number of shares	309,530	232,113
Net loss	\$(3,718)	\$(2,014)
Other Comprehensive Loss:		
Currency Translation Adjustment	8	-
Comprehensive Loss	\$(3,710)	\$(2,014)

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, 2020 and 2019
(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, 2019	231,341	\$64,729	\$11,827	\$19,817	(\$94,844)	\$-	\$1,529
Issued in connection with private placement (note 8b)	1,000	100	-	-	-	-	100
Allocated to warrants – private placement (note 8b)	-	(45)	45	-	-	-	-
Share issuance costs (note 8b)	-	(1)	(1)	-	-	-	(2)
Stock-based compensation (note 11)	-	-	-	127	-	-	127
Net loss and comprehensive loss	-	-	-	-	(2,014)	-	(2014)
Balance as at December 31, 2019	232,341	\$64,783	\$11,871	\$19,944	\$(96,858)	\$-	\$(260)
Balance as at September 30, 2020	308,095	\$71,870	\$10,371	\$22,900	\$(103,415)	\$-	\$1,726
Warrants exercised (notes 8c,d)	21,323	5,970	(1,513)	-	-	-	4,457
Warrants expired (note 9)	-	-	(1,271)	1,271	-	-	-
Share issuance costs (notes 8c,d)	-	(468)	-	-	-	-	(468)
Stock-based compensation (note 11)	-	-	-	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

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, 2020 and 2019**

(Amounts are in thousands of Canadian dollars)

	Three Months Ended	
	December 31, 2020	December 31, 2019
Cash flows used in operating activities		
Net loss	\$(3,718)	\$(2,014)
Add items not affecting cash		
Amortization - patents and trademarks	29	31
- property and equipment	66	71
- right-of-use assets	90	101
Stock-based compensation	954	127
Accretion on debenture	14	87
Currency translation adjustments	8	-
Bad debts written off	-	26
	(2,557)	(1,571)
Changes in non-cash working capital items		
Accounts receivable and prepaids	339	(89)
Lease receivable	-	-
Inventory	22	43
Accounts payable and accrued liabilities	722	(329)
Contract liabilities	71	(16)
	(1,403)	(1,962)
Cash flows used in investing activities		
Purchase of property and equipment	(35)	(29)
Additions to patents and trademarks	(7)	-
	(42)	(29)
Cash flows from financing activities		
Proceeds from issuance of shares net of share issuance costs	3,989	98
Lease payments – principal portion	(54)	(90)
	3,935	8
Net change in cash during the period	2,490	(1,983)
Cash at beginning of the period	2,596	3,444
Cash at end of the period	\$5,086	\$1,461
Supplemental information		
Cash interest paid	59	65

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, 2020 and 2019 and for the three months ended December 31, 2020 and 2019

(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 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 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, 2020.

These condensed interim consolidated financial statements were authorized for issuance by the Board of Directors on March 1, 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 condensed interim consolidated financial statements do not reflect the adjustments that might be necessary to the carrying amount of reported assets, liabilities, revenue, and expenses and the statement of financial position classification used if the Company was unable to continue operations in accordance with this assumption. Such adjustments could be material.

SQI Diagnostics Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

As at December 31, 2020 and 2019 and for the three months ended December 31, 2020 and 2019

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

2. BASIS OF PRESENTATION (continued)

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, 2020 and 2019 and for the years ended September 30, 2020 and 2019.

SQI Diagnostics Inc.**Notes to Condensed Interim Consolidated Financial Statements (Unaudited)****As at December 31, 2020 and 2019 and for the three months ended December 31, 2020 and 2019**

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

4. PROPERTY AND EQUIPMENT

Cost	Computer Hardware	Computer Software	Laboratory Fixtures and Equipment	Office Equipment	Leasehold Improvements	Total
September 30, 2019	\$459	\$267	\$5,529	\$183	\$265	\$6,703
Additions	41	6	51	5	49	152
Transfers from inventory	-	-	100	-	-	100
Transfers to ROU Assets	(65)	-	-	-	-	(65)
September 30, 2020	\$435	\$273	\$5,680	\$188	\$314	\$6,890
Additions	13	9	8	1	4	35
December 31, 2020	\$448	\$282	\$5,688	\$189	\$318	\$6,925

Accumulated Amortization	Computer Hardware	Computer Software	Laboratory Fixtures and Equipment	Office Equipment	Leasehold Improvements	Total
September 30, 2019	\$382	\$235	\$4,349	\$177	\$263	\$5,406
Amortization expense	21	19	254	2	3	299
Transfers to ROU Assets	(15)	-	20	-	-	5
September 30, 2020	\$388	\$254	\$4,623	\$179	\$266	\$5,710
Amortization expense	7	5	52	1	1	66
December 31, 2020	\$395	\$259	\$4,675	\$180	\$267	\$5,776

Net Book Value						
September 30, 2020	\$47	\$19	\$1,057	\$9	\$48	\$1,180
December 31, 2020	\$53	\$23	\$1,013	\$9	\$51	\$1,149

SQI Diagnostics Inc.**Notes to Condensed Interim Consolidated Financial Statements (Unaudited)****As at December 31, 2020 and 2019 and for the three months ended December 31, 2020 and 2019**

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

5. PATENTS AND TRADEMARKS

Cost	
September 30, 2019	\$2,212
Additions	30
Write off of patents	(9)
September 30, 2020	\$2,233
Additions	7
December 31, 2020	\$2,240
Accumulated Amortization	
September 30, 2019	\$1,731
Amortization expense	124
Write off of patents	(6)
September 30, 2020	\$1,849
Amortization expense	29
December 31, 2020	\$1,878
Net Book Value	
September 30, 2020	\$384
December 31, 2020	\$362

6. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS

	Right-of-use-assets	Lease obligations
Balance as at September 30, 2020	\$2,838	\$2,959
Amortization	(90)	-
Interest expense	-	59
Lease payments	-	(113)
Balance as at December 31, 2020	\$2,748	\$2,905
Less: current portion of lease obligations		(235)
Long-term lease obligations		\$2,670

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

Less than 1 year	\$235
1 - 3 years	791
4 - 5 years	359
More than 5 years	1,520
Total	\$2,905

SQI Diagnostics Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

As at December 31, 2020 and 2019 and for the three months ended December 31, 2020 and 2019

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

7. 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, 2020 and 2019 and for the three months ended December 31, 2020 and 2019

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

7. 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, 2020	September 30, 2020
Secured debentures	\$2,460	\$2,460
Equity component of secured debenture	(345)	(345)
	2,115	2,115
Accretion in carrying amount of notes	47	33
Balance end of period	\$2,162	\$2,148

8. CAPITAL STOCK

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

SQI Diagnostics Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

As at December 31, 2020 and 2019 and for the three months ended December 31, 2020 and 2019

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

9. WARRANTS

The Company had the following warrants outstanding at December 31, 2020:

Number of Warrants	Exercise Price	Maturity
3,220	\$0.21	March 10, 2022
51,384	\$0.20	December 20, 2022 – August 24, 2023
3,200	\$0.11	March 1 and 8, 2024
13,429	\$0.17	July 12, 2024
32,300	\$0.13	September 25 and October 22, 2024
106	\$0.09	January 30, 2025
622	\$0.085	February 20, 2025
44,444	\$0.12	February 14, 2025 and March 5, 2025
148,705		

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.

10. STOCK OPTIONS

The Company maintains a Stock Option Plan (the "Plan") for the benefit of employees, officers and directors. In August 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 options granted to individual optionees generally vest in three equal installments over a period of 12 to 36 months. 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.

The following summarizes the stock option activities under the Plan:

	Three Months Ended			
	December 31, 2020		December 31, 2019	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning Balance	42,400	\$ 0.20	11,767	\$ 0.20
Granted	-	-	65	\$ 0.07
Cancelled/Expired	(123)	\$ 0.21	(157)	\$ 0.36
Forfeited	(183)	\$ 0.24	(63)	\$ 0.19
Ending Balance	42,094	\$ 0.20	11,612	\$ 0.20
Exercisable	7,977	\$ 0.20	7,376	\$ 0.22

SQI Diagnostics Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

As at December 31, 2020 and 2019 and for the three months ended December 31, 2020 and 2019

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

10. STOCK OPTIONS (continued)

The Company had the following stock options outstanding under the Plan at December 31, 2020:

Number of Options	Range of Exercise Prices	Weighted average time to maturity
1,372	\$ 0.07 - 0.14	4.16 years
37,356	\$ 0.15 - 0.22	8.20 years
3,366	\$ 0.23 - 0.30	4.84 years
42,094		

11. STOCK-BASED COMPENSATION

The total compensation expense credited to contributed surplus for the quarter ended December 31, 2020 was \$954,000 (2019 - \$127,000).

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:

	Three Months Ended	
	December 31, 2020	December 31, 2019
Dividend Yield	-	0%
Expected Volatility (historical data basis)	-	121%
Risk-free Interest Rate	-	1.61%
Share price and exercise price	-	\$0.07
Expected Life (years)	-	5.00
Weighted average grant date fair value	-	\$0.06

There were no stock options granted during the first quarter of fiscal 2021.

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% based on the vesting period of the option.

12. CORPORATE AND GENERAL EXPENSE

	Three Months Ended	
	December 31, 2020	December 31, 2019
Salaries and wages	\$259	\$130
General and administrative	83	90
Professional and consulting	473	144
Stock-based compensation	873	50
Total corporate and general expense by nature	\$1,688	\$414

SQI Diagnostics Inc.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

As at December 31, 2020 and 2019 and for the three months ended December 31, 2020 and 2019

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

13. SALES AND MARKETING EXPENSE

	Three Months Ended	
	December 31, 2020	December 31, 2019
Contractor fees	\$185	\$212
Travel and marketing	6	47
Stock-based compensation	3	17
Total sales and marketing expense by nature	\$194	\$276

14. RESEARCH AND DEVELOPMENT COSTS

	Three Months Ended	
	December 31, 2020	December 31, 2019
Salaries and wages	\$705	\$778
Laboratory costs and supplies	870	228
Amortization – patents and trademarks (note 6)	29	31
Amortization – property and equipment (note 5)	66	71
Amortization – right of use assets (note 7)	90	101
Stock-based compensation	78	60
Total research and development expense by nature	\$1,838	\$1,269

15. 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.

16. 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. 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.

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Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

As at December 31, 2020 and 2019 and for the three months ended December 31, 2020 and 2019

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

(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, 2020, the Company had a working capital surplus of \$3,532,000 (2019 - working capital deficit of \$2,101,000). 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.