



## **SQI Diagnostics Inc.**

**Condensed Interim Consolidated Financial Statements**

**(Unaudited)**

**(Expressed in Canadian dollars)**

**For the Three and Nine Months Ended June 30, 2022, and 2021**

### **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 June 30, 2022	As at September 30, 2021
<b>Assets</b>		
<b>Current</b>		
Cash	\$3,958	\$2,295
Accounts receivable	311	204
Prepays and other assets	349	241
Inventory (Note 4)	1,635	898
	<b>6,253</b>	<b>3,638</b>
<b>Non-current</b>		
Right-of-use assets (Note 7)	2,118	2,377
Property and equipment (Note 5)	3,482	2,658
Intangible assets (Note 6)	5,624	391
<b>Total Assets</b>	<b>\$17,477</b>	<b>\$9,064</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$2,681	\$2,474
Contract liabilities	230	237
Lease obligations (Note 7)	252	241
Loan payable (Note 9)	7,500	-
	<b>10,663</b>	<b>2,952</b>
<b>Non-current</b>		
Lease obligation – long-term (Note 7)	2,190	2,382
Secured debentures (Note 8)	6,283	2,204
<b>Total Liabilities</b>	<b>\$19,136</b>	<b>\$7,538</b>
<b>Shareholders' Equity</b>		
Capital stock (Note 10)	89,373	85,908
Warrants (Note 11)	7,787	5,603
Contributed surplus	25,829	23,987
Deficit	(124,614)	(113,972)
Accumulated Other Comprehensive Income (Loss)	(34)	-
<b>Total Shareholders' Equity</b>	<b>(1,659)</b>	<b>1,526</b>
<b>Total Liabilities and Shareholder's Equity</b>	<b>\$17,477</b>	<b>\$9,064</b>

*Basis of Presentation and Going concern (Note 2)*

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 and nine months ended June 30, 2022, and 2021

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

	Three months ended		Nine Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
<b>Revenue</b>				
Product sales	\$1,201	\$138	\$6,764	\$392
Service revenue	36	158	136	382
	<b>1,237</b>	296	<b>6,900</b>	774
<b>Expenses</b>				
Cost of products sold	795	44	3,463	127
Corporate and general (Note 14)	1,512	(1,467)	5,477	1,609
Sales and marketing (Note 15)	232	219	464	610
Research and development (Note 16)	1,704	1,994	5,709	5,900
Amortization – intangible assets (Note 6)	1,183	32	1,638	93
Interest and accretion expense (Notes 7 & 8)	419	132	792	392
	<b>5,845</b>	954	<b>17,543</b>	8,731
<b>Net loss</b>	<b>\$(4,608)</b>	\$(658)	<b>\$(10,643)</b>	\$(7,957)
<b>Loss per share</b>				
Basic and diluted	<b>\$(0.01)</b>	\$(0.00)	<b>\$(0.03)</b>	\$(0.02)
<b>Weighted average number of common shares outstanding (thousands of shares)</b>	<b>393,635</b>	346,521	<b>388,401</b>	330,340
Net Loss	<b>\$(4,608)</b>	\$(658)	<b>\$(10,643)</b>	\$(7,957)
Other Comprehensive Loss:				
Currency Translation Adjustment	<b>(38)</b>	(1)	<b>(35)</b>	12
<b>Comprehensive Loss</b>	<b>\$(4,646)</b>	\$(659)	<b>\$(10,678)</b>	\$(7,945)

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 and nine months ended June 30, 2022, and 2021

(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 10b,c,d)	52,912	13,959	(3,498)	-	-	-	10,461
Options exercised (Note 10e)	1,523	782	-	(329)	-	-	453
Warrants expired (Note 11a)	-	-	(1,271)	1,271	-	-	-
Share issuance costs (Notes 10b,c,d,e)	-	(738)	-	-	-	-	(738)
Stock-based compensation (Note 13)	-	-	-	(186)	-	-	(186)
Currency translation adjustment	-	-	-	-	-	12	12
Net loss	-	-	-	-	(7,957)	-	(7,957)
Balance as at June 30, 2021	362,530	\$85,873	\$5,602	\$23,656	\$(111,372)	\$12	\$3,771
<b>Balance as at September 30, 2021</b>	<b>362,530</b>	<b>\$85,908</b>	<b>\$5,602</b>	<b>\$23,987</b>	<b>\$(113,971)</b>	<b>\$1</b>	<b>\$1,527</b>
Issued in connection with private placement (Note 10f)	26,933	5,103	-	-	-	-	5,103
Issued in connection with PBI asset acquisition (Note 10g)	4,172	680	-	-	-	-	680
Allocated to warrants – private placement (Note 10f)	-	(2,299)	2,299	-	-	-	-
Share issuance costs (Notes 10f)	-	(19)	(15)	-	-	-	(34)
Warrants expired (Note 11b)	-	-	(99)	99	-	-	-
Stock-based compensation (Note 13)	-	-	-	1,743	-	-	1,743
Currency translation adjustment	-	-	-	-	-	(35)	(35)
Net loss and comprehensive loss	-	-	-	-	(10,643)	-	(10,643)
Balance as at June 30, 2022	393,635	\$89,373	\$7,787	\$25,829	\$(124,614)	\$(34)	\$(1,659)

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 and nine months ended June 30, 2022, and 2021

(Amounts are in thousands of Canadian dollars)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>June 30, 2022</b>	June 30, 2021	<b>June 30, 2022</b>	June 30, 2021
<b>Cash flows used in operating activities</b>				
Net loss	<b>\$(4,608)</b>	\$(658)	<b>\$(10,643)</b>	\$(7,957)
Add items not affecting cash				
Amortization – intangible assets	<b>1,183</b>	32	<b>1,638</b>	93
- property and equipment	<b>94</b>	72	<b>263</b>	208
- right of use assets	<b>87</b>	86	<b>260</b>	265
Stock-based compensation	<b>352</b>	(2,084)	<b>1,743</b>	(186)
Accretion on debenture	<b>(3)</b>	14	<b>28</b>	41
Currency translation adjustment	<b>(38)</b>	(1)	<b>(35)</b>	12
	<b>(2,933)</b>	(2,539)	<b>(6,746)</b>	(7,524)
Changes in non-cash working capital items				
Accounts receivable, Prepays and other assets	<b>1,054</b>	(2)	<b>(215)</b>	(56)
Inventory	<b>(24)</b>	(335)	<b>(737)</b>	(313)
Accounts payable and accrued liabilities	<b>417</b>	434	<b>207</b>	718
Contract Liabilities	-	(119)	<b>(7)</b>	(91)
	<b>(1,486)</b>	(2,561)	<b>(7,498)</b>	(7,266)
<b>Cash flows used in investing activities</b>				
Additions to property and equipment	<b>(9)</b>	(58)	<b>(1,087)</b>	(199)
Additions to intangible assets	<b>1</b>	(28)	<b>1</b>	(131)
Acquisition of PBI Assets			<b>(6,872)</b>	
	<b>(8)</b>	(86)	<b>(7,958)</b>	(330)
<b>Cash flows from financing activities</b>				
Proceeds from issuance of shares, net of issuance costs	-	3,929	<b>5,749</b>	10,176
Proceeds from debt financing	<b>4,051</b>	-	<b>11,551</b>	-
Lease payments	<b>(58)</b>	(58)	<b>(181)</b>	(168)
	<b>3,993</b>	3,871	<b>17,119</b>	10,008
Net change in cash during the period	<b>2,499</b>	1,224	<b>1,663</b>	2,412
Cash at beginning of period	<b>1,459</b>	3,784	<b>2,295</b>	2,596
<b>Cash at end of period</b>	<b>\$3,958</b>	\$5,008	<b>\$3,958</b>	\$5,008
<b>Cash Interest Paid</b>	<b>724</b>	54	<b>774</b>	169
<b>Non-Cash investing activities:</b>				
Acquisition of lab equipment through non-monetary exchange of goods/services	-	198	-	198

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 June 30, 2022 and 2021 and for the three months ended June 30, 2022 and 2021**

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

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#### **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 develops and manufactures respiratory health and precision medicine tests that run on SQI's fully automated systems. The Company's tests simplify and improve COVID19 antibody monitoring, Rapid Acute Lung Injury testing, donor organ transplant informatics, and immunological protein and antibody testing. SQI Diagnostics is driven to create and market life-saving testing technologies that help more people in more places live longer, healthier lives.

#### **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 August 26, 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 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 June 30, 2022 and 2021 and for the three months ended June 30, 2022 and 2021

(Amounts are in Canadian dollars; tabular amounts 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, 2021, and 2020 and for the years ended September 30, 2021 and 2020.

## 4. INVENTORY

Inventory consists of platform instruments, assay inventory and COVID-19 PCR and antigen testing products. 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. Last quarter, the Company acquired the certain assets of Precision Biomonitoring Inc. (PBI) which included raw materials and finished goods inventory for the COVID-19 PCR and antigen testing distribution business.

	Nine months ended	
	June 30, 2022	September 30, 2021
Platform Inventory	\$534	\$732
Assay Inventory	497	166
COVID-19 PCR & Antigen Testing Inventory	604	-
<b>Total</b>	<b>\$1,635</b>	<b>\$898</b>

## SQI Diagnostics Inc.

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

As at June 30, 2022 and 2021 and for the three months ended June 30, 2022 and 2021

(Amounts are in Canadian dollars; tabular amounts 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
Transfers from inventory	-	-	55	-	-	55
Dispositions	-	-	(162)	-	-	(162)
September 30, 2021	\$480	\$285	\$7,077	\$189	\$453	\$8,484
<b>Additions</b>	<b>41</b>	<b>4</b>	<b>897</b>	<b>6</b>	<b>-</b>	<b>948</b>
<b>Transfers from inventory</b>	<b>-</b>	<b>-</b>	<b>140</b>	<b>-</b>	<b>-</b>	<b>140</b>
<b>June 30, 2022</b>	<b>\$521</b>	<b>\$289</b>	<b>\$8,114</b>	<b>\$195</b>	<b>\$453</b>	<b>\$9,572</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
Dispositions	-	-	(162)	-	-	(162)
September 30, 2021	\$421	\$273	\$4,680	\$180	\$272	\$5,825
<b>Amortization expense</b>	<b>30</b>	<b>6</b>	<b>213</b>	<b>1</b>	<b>14</b>	<b>264</b>
<b>June 30, 2022</b>	<b>\$451</b>	<b>\$279</b>	<b>\$4,893</b>	<b>\$181</b>	<b>\$287</b>	<b>\$6,089</b>

<b>Net Book Value</b>						
September 30, 2021	\$59	\$12	\$2,397	\$9	\$181	\$2,658
<b>June 30, 2022</b>	<b>\$70</b>	<b>\$10</b>	<b>\$3,220</b>	<b>\$15</b>	<b>\$167</b>	<b>\$3,482</b>



## SQI Diagnostics Inc.

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

As at June 30, 2022 and 2021 and for the three months ended June 30, 2022 and 2021

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

#### 6. INTANGIBLE ASSETS

Intangible Assets include Patents & Trademarks, costs incurred in developing the company's website and acquired intangible assets.

<b>Cost</b>	
September 30, 2020	\$2,233
Additions	131
September 30, 2021	\$2,364
<b>Additions<sup>1</sup></b>	<b>6,872</b>
<b>June 30, 2022</b>	<b>\$9,236</b>
<b>Accumulated Amortization</b>	
September 30, 2020	\$1,849
Amortization expense	124
September 30, 2021	\$1,973
<b>Amortization expense</b>	<b>1,639</b>
<b>June 30, 2022</b>	<b>\$3,612</b>
<b>Net Book Value</b>	
September 30, 2021	\$391
<b>June 30, 2022</b>	<b>\$5,624</b>

<sup>1</sup>The additions above include costs spent in developing the Company's website, acquiring licenses & patents and additions from the acquisition of assets from PBI.

SQI applied IFRS 3 to identify all the intangible assets acquired. SQI measured the cost of the acquisition at the fair value of the consideration paid and allocated the cost to the acquired identifiable assets on the basis of their fair values using income and cost methodologies. The remaining cost was allocated to goodwill. The intangible assets acquired comprised of the following:

#### PBI Assets acquired:

Licenses: Biomeme & Quidel	915
Customer Lists	3,387
TripleLock (IP)	807
Non-Compete Agreements	18
Workforce	639
Goodwill	1,059
Website	35
Other Licenses	12
<b>Total intangible additions</b>	<b>\$6,872</b>

The useful life of all the assets acquired from PBI is assumed to be 15 months and the amortization is calculated on a straight-line basis over the useful life. Goodwill is not amortized and is tested for impairment annually.

**SQI Diagnostics Inc.****Notes to Condensed Interim Consolidated Financial Statements (Unaudited)****As at June 30, 2022 and 2021 and for the three months ended June 30, 2022 and 2021**

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

**7. RIGHT-OF-USE ASSETS AND LEASE OBLIGATIONS****Right of Use Assets**

<b>Cost</b>	
September 30, 2020	\$3,210
Additions	(109)
September 30, 2021	\$3,101
<b>Additions<sup>1</sup></b>	<b>-</b>
<b>June 30, 2022</b>	<b>\$3,101</b>
<b>Accumulated Amortization</b>	
September 30, 2020	\$372
Amortization expense	352
September 30, 2021	\$724
<b>Amortization expense</b>	<b>259</b>
<b>June 30, 2022</b>	<b>\$983</b>
<b>Net Book Value</b>	
September 30, 2021	\$2,377
<b>June 30, 2022</b>	<b>\$2,118</b>

**Lease Obligations**

Balance as at September 30, 2020	\$2,959
Lease modification	(109)
Interest expense	223
Lease Payments	(450)
Balance as at September 30, 2021	\$2,623
Lease modification	-
Interest expense	150
Lease payments	(331)
<b>Balance as at June 30, 2022</b>	<b>\$2,442</b>
Less: current portion of lease obligations	(252)
<b>Long-term lease obligations</b>	<b>\$2,190</b>

The Company's lease obligations come due, as at June 30, 2022, as follows:

Less than 1 year	\$252
1 - 3 years	931
4 - 5 years	904
More than 5 years	355
<b>Total</b>	<b>\$2,442</b>

## **SQI Diagnostics Inc.**

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

**As at June 30, 2022 and 2021 and for the three months ended June 30, 2022 and 2021**

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

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#### **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 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 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 ("new Debentures") being recognized and a gain/loss recognized upon extinguishment.

The new 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.

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%.

## SQI Diagnostics Inc.

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

As at June 30, 2022 and 2021 and for the three months ended June 30, 2022 and 2021

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

#### 8. SECURED DEBENTURES (continue)

On June 17, 2022, the Company issued secured debenture (the “2022 Debenture”) with a principal amount of \$4,050,000. The 2022 Debenture bears interest at a rate of 8% and will mature in 2 years from the date of issuance. The 2022 Debenture is secured by a general security agreement over all the present and future assets of the Company including intangible assets. The 2022 Debenture was purchased by three insiders of the Company, who are control persons of the Company, and are thus considered related parties. At any time prior to the first anniversary of Offering, the Company may redeem the 2022 Debenture, in whole or in part, at a price equal to 105% of the aggregate amount of indebtedness under the 2022 Debenture that the Company elects to redeem and at any time following the first anniversary of the Offering, the Company may redeem the 2022 Debenture, in whole or in part, at a price equal to 110% of the aggregate amount of indebtedness under the 2022 Debenture that the Company elects to redeem.

The carrying value of the 2022 Debenture is accreted to the face value of \$4,050,000 using an effective interest rate of 8.3%.

	June 30, 2022	September 30, 2021
Secured debentures	\$6,510	\$2,460
Equity component of secured debenture	(345)	(345)
Issuance costs	(20)	-
	6,145	2,115
Accretion in carrying amount of notes	138	89
<b>Balance end of period</b>	<b>\$6,283</b>	<b>\$2,204</b>

#### 9. LOAN PAYABLE

To assist the Company with the funding of the acquisition of PBI assets, the Company entered into a credit agreement with Pivot Financial, an arm’s length third party, on February 8<sup>th</sup>, 2022 with respect to the extension of a short-term senior secured demand credit facility in the aggregate amount of \$7,500,000 (the “Credit Facility”). The Credit Facility bears interest at a rate of 15% per annum. 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 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 Diagnostics Systems, as guarantor. The Credit Facility includes customary representations, warranties, events of default, and positive and negative interim covenants – including covenants that restrict the Company’s ability to incur additional indebtedness, grant liens, make investments and acquisitions, pay dividends, repurchase equity interests in the Company, make distributions (other than 2 certain permitted distributions) and enter into related party transactions and asset sales. In connection with the granting of the Credit Facility, the Lenders were paid a facility fee in the amount of \$320,000.

The Credit Facility was extended to October 28<sup>th</sup>, 2022 from June 11<sup>th</sup>, 2022 with all of the other terms of the agreement remaining unchanged. 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.

## **SQI Diagnostics Inc.**

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#### **10. 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 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 \$428,000.
- (d) During the second quarter of fiscal 2021, a total of 11,900,972 common warrants were exercised for total gross proceeds of approximately \$2,066,000. Of this total, 11,795,416 warrants were issued in connection with private placements conducted between March 2017 and July 2019, with exercise prices ranging from \$0.11-\$0.21. The remaining 105,556 warrants exercised were issued in connection with a debt refinancing in January 2020 with an exercise price of \$0.09. The original value of the warrants was calculated using the Black-Scholes option pricing model. Accordingly, \$687,000 was deducted from the Warrant Capital account and transferred to Share Capital upon exercise. Total share issuance costs were approximately \$212,000.
- (e) During the second quarter of fiscal 2021, a total of 1,522,743 stock options were exercised at prices of \$0.15 and \$0.30 for total gross proceeds of approximately \$453,000. The original value of the options was calculated using the Black-Scholes option pricing model. Accordingly, \$329,000 was deducted from the Contributed Surplus account and transferred to Share Capital upon exercise. Total share issuance costs were approximately \$45,000.
- (f) 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 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.
- (g) On February 14, 2022, the Company acquired certain assets of Precision Biomonitoring Inc's (PBI) human diagnostics COVID-19 PCR testing business and its TripleLock molecular diagnostics testing business. As part of the acquisition, the Company issued 4,171,779 common shares at a deemed price of \$0.163 per share with an aggregate deemed value of \$680,000.

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## 11. WARRANTS

The Company had the following warrants outstanding at June 30, 2022:

Number of Warrants	Exercise Price	Maturity
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	\$0.09	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>142,661</b>		

- a) 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.
- b) During the second quarter of fiscal 2022 a total of 1,387,500 warrants issued in connection with a private placement in March of 2017 with an exercise price of \$0.21 expired unexercised. Accordingly, \$99,000 was transferred from warrant capital to contributed surplus in the quarter.

## 12. 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:

	Nine Months Ended			
	June 30, 2022		June 30, 2021	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Beginning Balance	27,276	\$ 0.20	42,400	\$ 0.20
Granted	1,202	\$ 0.18	2,410	0.22
Exercised	-	-	(1,523)	\$ 0.30
Cancelled/Expired	(1,189)	\$ 0.18	(474)	\$ 0.23
Forfeited	(643)	\$ 0.23	(30,123)	\$ 0.20
Ending Balance	26,646	\$ 0.19	12,690	\$ 0.19
Exercisable	14,030	\$ 0.18	7,871	\$ 0.17

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

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#### 12. STOCK OPTIONS (Continued)

The Company had the following stock options outstanding under the Plan at June 30, 2022:

Number of Options	Range of Exercise Prices	Weighted average time to maturity
1,345	\$ 0.07 - 0.14	2.67 years
24,035	\$ 0.15 - 0.22	3.49 years
1,266	\$ 0.23 - 0.30	8.16 years
<b>26,646</b>		

Performance-based options account for 8,500 of the total 26,646 stock options outstanding under the Plan.

#### 13. STOCK-BASED COMPENSATION

The total compensation expense credited to contributed surplus for the nine months ended June 30, 2022 was \$1,743,000 (2021 nine-month period – \$(186,000)).

The fair value of each option granted has been estimated at the date of grant or the date when it became measurable using the Black-Scholes option pricing model with the following weighted average inputs and assumptions at the measurement date:

	Nine Months Ended	
	June 30, 2022	June 30, 2021
Dividend Yield	0%	0%
Expected Volatility (historical data basis)	110.09%	127%
Risk-free Interest Rate	2.58%	0.74%
Share price and exercise price	\$0.18	\$0.22
Expected Life (years)	5.00	5
Weighted average grant date fair value	\$0.18	\$0.18

#### 14. CORPORATE AND GENERAL EXPENSE

	Three Months Ended		Nine Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Salaries and wages	\$447	\$824	\$1,430	\$1,370
Subsidies (CEWS) <sup>1</sup>	-	(23)	-	(57)
General and administrative	250	(289)	1,254	(108)
Professional and consulting	583	187	1,553	821
Stock-based compensation	232	(2,166)	1,240	(417)
Total Corporate and general expense by nature	\$1,512	\$(1,467)	\$5,477	\$1,609

<sup>1</sup>Salaries and wages are offset by government assistance in the form of the Canada Emergency Wage Subsidy (CEWS). Due to increase in revenues in Fiscal Year 2022, the Company no longer qualifies for

## SQI Diagnostics Inc.

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

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the CEWS and does not expect to receive the subsidy moving forward.

#### 15. SALES AND MARKETING EXPENSE

	Three Months Ended		Nine Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Contractor fees	\$185	\$214	\$394	\$591
Travel and marketing	39	2	66	11
Stock-based compensation	8	3	4	8
Total Sales and marketing expense by nature	\$232	\$219	\$464	\$610

#### 16. RESEARCH AND DEVELOPMENT COSTS

	Three Months Ended		Nine Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Salaries and wages	\$1,167	\$1,232	\$3,269	\$2,964
Subsidies (CEWS & Biotalent)	(15)	(261)	(210)	(702)
Laboratory costs and supplies	415	775	1,785	2,933
Investment tax credit recoverable	(157)	-	(157)	-
Professional fees	-	10	-	10
Amortization – property & equipment (note 5)	94	73	263	207
Amortization – right of use assets (note 7)	87	86	260	265
Stock-based compensation	113	79	499	223
Total Research and development expense by nature	\$1,704	\$1,994	\$5,709	\$5,900

#### 17. CAPITAL RISK MANAGEMENT

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

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

#### 18. FINANCIAL RISK MANAGEMENT

##### (a) Credit Risk

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



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that comprise the Company's international customer base. The Company is also exposed to counterparty risk on accounts receivable.

#### **18. FINANCIAL RISK MANAGEMENT (continued)**

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.

##### **(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, 2022 Debenture and Loan Payable are subject to fixed interest rates of 10%, 8% and 15%, respectively.

##### **(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 June 30, 2022, the Company had a working capital deficit of \$4,410,000 (September 30, 2021 - working capital surplus of \$2,951,000). This deficit is due to the \$7,500,000 credit facility due on October 28<sup>th</sup> 2022. The Company anticipates converting this short-term credit facility into a longer-term financial instrument. The Company's liabilities consist of accounts payable, accrued liabilities, loan payable, contract liabilities, lease obligations and the principal portion of debentures which require annual interest payments of \$245,960 on the anniversary date and the principal amount of \$2,459,600 which is due five years from the date of issuance. The new 2022 Debenture issued on June 17, 2022, for the principal amount of \$4,050,000 are due two years from the date of issuance. 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.