

# Interim Financial Report

Period Ended September 30, 2019

# Nanalysis Scientific Corp.

(formerly Canvass Ventures Ltd.)

**NOTICE OF NO AUDITORS' REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of Nanalysis Scientific Corp. ("Nanalysis or the "Corporation") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements.

# Interim Condensed Consolidated Statement of Financial Position

(\$000's)	Note	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
<b>ASSETS</b>			
Current			
Cash		6,277	779
Accounts receivable		1,332	2,419
Other receivables		2,621	1,592
Inventory	5	881	735
Prepaid expenses and deposit		52	34
		11,163	5,559
Deposit		20	20
Property and equipment	6	1,222	1,136
Right of use assets	3	372	-
Intangible assets	7	5,661	4,233
		7,275	5,389
<b>Total Assets</b>		18,438	10,948
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
Current			
Accounts payable and accrued liabilities		1,604	1,030
Warranty provision		197	178
Unearned revenue		449	316
Current portion of finance lease obligations	3	112	-
Current portion of long-term debt/repayable contributions	8	131	233
		2,493	1,757
Deferred income tax liability		-	36
Finance lease obligations	3	268	-
Long-term debt/repayable contributions	8	842	764
<b>Total Liabilities</b>		3,603	2,557
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	9	17,954	9,976
Contributed surplus		1,142	997
Deficit		(4,261)	(2,582)
<b>Total shareholders' equity</b>		14,835	8,391
<b>Total liabilities and shareholders' equity</b>		18,438	10,948

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

These consolidated financial statements were approved for issue by the Board of Directors on November 26, 2019 and signed on its behalf by:

Sean Krakiwsky  
CEO, Director

Werner Gartner  
Director

## Interim Condensed Consolidated Statement of Comprehensive Loss

(\$000s except per share amounts)	Note	Three months ended September 30		Nine months ended September 30	
		2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Revenue		1,641	1,797	6,241	5,595
Cost of products sold	11[a]	385	611	1,897	2,099
Gross profit		1,256	1,186	4,344	3,496
Gross margin		77%	66%	70%	62%
Sales and marketing	11[b]	409	649	1,588	1,889
General and administration	11[c]	775	820	2,300	1,848
Amortization of PPE and intangibles		273	108	607	282
		1,457	1,577	4,495	4,019
Loss before other items		(201)	(391)	(151)	(523)
Other Items					
RTO transaction costs	4	61	-	1,421	-
Interest, finance fees and other expenses		87	102	20	151
One time inventory adjustment		(75)	-	(23)	-
Foreign exchange (gain) loss		24	30	146	(4)
Loss before tax		(298)	(523)	(1,715)	(670)
Deferred tax recovery		-	-	36	-
<b>Net and comprehensive loss</b>		<b>(298)</b>	<b>(523)</b>	<b>(1,679)</b>	<b>(670)</b>
Basic loss per common share		(0.00)	(0.01)	(0.03)	(0.02)
Weighted average number of common shares outstanding - basic		61,364,965	44,524,884	53,611,060	43,046,039
Diluted loss per common share		(0.00)	(0.01)	(0.03)	(0.02)
Weighted average number of common shares outstanding - diluted		61,364,965	44,524,884	53,611,060	43,046,039

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

# Interim Condensed Consolidated Statement of Changes in Equity

(unaudited)

(\$000's except numbers of shares)

	Shares Outstanding	Share Capital	Subscription Receivable	Contributed Surplus	Deficit	Total
	(000's)	\$	\$	\$	\$	\$
<b>Balance at January 1, 2018</b>	<b>41,607</b>	<b>7,065</b>	<b>(15)</b>	<b>833</b>	<b>(2,656)</b>	<b>5,227</b>
Private placement <sup>(1)</sup>	2,200	1,000	-	-	-	1,000
Conversion of 2016 SR&ED loans	1,106	462	-	-	-	462
Incentive grant <sup>(1)</sup>	72	33	-	-	-	33
Shares issued for services <sup>(1)</sup>	176	80	-	-	-	80
Stock options exercised <sup>(1)</sup>	85	22	15	-	-	37
Stock options granted	-	-	-	88	-	88
Net loss for the period	-	-	-	-	(670)	(670)
<b>Balance at September 30, 2018</b>	<b>45,246</b>	<b>8,662</b>	<b>-</b>	<b>921</b>	<b>(3,326)</b>	<b>6,257</b>
<b>Balance at January 1, 2019</b>	<b>47,443</b>	<b>9,976</b>	<b>-</b>	<b>997</b>	<b>(2,582)</b>	<b>8,391</b>
Financing concurrent with RTO (net of issuance costs)	8,333	4,676	-	-	-	4,676
Private placement (net of share issue costs)	2,500	1,500	-	-	-	1,500
Issuance of share to canvass shareholders	2,278	1,367	-	-	-	1,367
Shares issued for services <sup>(1)</sup>	297	178	-	-	-	178
Restricted share units exercised <sup>(1)</sup>	72	50	-	(7)	-	43
Exercise of warrants	46	18	-	-	-	18
Exercise of options	644	189	-	(65)	-	124
Stock based compensation	-	-	-	149	-	149
Value of Canvass options acquired	-	-	-	37	-	37
Value of warrants issue	-	-	-	31	-	31
Net loss for the period	-	-	-	-	(1,679)	(1,679)
<b>Balance at September 30, 2019</b>	<b>61,613</b>	<b>17,954</b>	<b>-</b>	<b>1,142</b>	<b>(4,261)</b>	<b>14,835</b>

<sup>(1)</sup>The number of shares have been converted at the exchange ratio of .55 for each previous common share.

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

# Interim Condensed Consolidated Statement of Cashflow

	Three months ended September 30		Nine months ended September 30	
(Unaudited) (\$000's)	2019	2018	2019	2018
<b>Cash flows from operating activities</b>				
Net loss	(298)	(523)	(1,679)	(670)
Add (deduct) non-cash items:				
Accretion of long term debt	15	6	39	19
Grant income	-	-	(64)	-
Depreciation of property and equipment	177	58	380	164
Amortization of intangible assets	116	70	285	185
RTO transaction costs	-	-	985	-
Deferred tax recovery	-	-	(36)	-
Share based payments	-	-	221	145
Stock based compensation	(7)	-	149	88
Changes in non-cash working capital	201	1,265	496	853
Cash flows provided by operating activities	204	876	776	784
<b>Cash flows from investing activities</b>				
Purchases of property and equipment	(238)	(133)	(378)	(790)
Additions to intangible assets	(939)	(481)	(1,713)	(1,280)
Cash flows used in investing activities	(1,177)	(614)	(2,091)	(2,070)
<b>Cash flows from financing activities</b>				
Proceeds from RTO financing, net of financing fees	-	-	4,706	-
Proceeds from financing, net of financing fees	-	-	-	1,000
Share subscriptions received	-	-	-	15
Payment of lease obligations	(27)	-	(80)	-
Proceeds from long-term debt	-	-	410	6
Repayment of long-term debt	(286)	(66)	(410)	(194)
Private placement, net of financing fees	-	-	1,500	-
Cash acquired from Canvass on Reverse Takeover (RTO)	-	-	545	-
Warrant/Restricted Share Units (RSU) exercise	-	-	18	-
Exercise of stock options	124	-	124	21
Cash flows provided by (used in) from financing activities	(189)	(66)	6,813	848
Increase (decrease) in cash and equivalents	(1,162)	196	5,498	(438)
Cash and cash equivalents, beginning of period	7,439	471	779	1,105
Cash and cash equivalents, end of period	6,277	667	6,277	667

# Notes to the Interim Condensed Consolidated Financial Statements

*For the three and nine months ended September 30, 2019 and 2018 (unaudited)*

*Tabular amounts are stated in thousands of dollars except per share amounts and certain other exceptions as noted*

## 1. REPORTING ENTITY

Nanalysis Scientific Corp., formerly Canvass Ventures Ltd., (“Nanalysis” or the “Company”) was incorporated on February 27, 2017 under the laws of the Province of British Columbia. The Company is publicly-traded on the TSX Venture Exchange under the symbol “NSCI”. The Company’s registered and records office is located at Suite 1000, Livingston Place West, 250 2<sup>nd</sup> Street SW, Calgary, Alberta, T2P 0C1. Its head office is located at Bay 1, 4600 5<sup>th</sup> Street NE, Calgary, Alberta T2E 7C3. On June 4, 2019, the Company completed an amalgamation with Nanalysis Corp. and a subsidiary corporation. The amalgamation has been accounted for as a reverse takeover (the “RTO”) with Nanalysis Corp. being identified as the acquirer (note 4). Nanalysis Scientific Corp. is the ultimate parent entity in the group.

These unaudited interim condensed consolidated financial statements of the Company as at and for the three and nine months ended September 30, 2019 and 2018 comprise the Company and its subsidiaries. The Company is engaged in the business of developing, manufacturing and selling portable nuclear magnetic resonance technology and the resulting products.

## 2. BASIS OF PRESENTATION

### [a] Statement of compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”). The unaudited interim condensed consolidated financial statements should be read in conjunction with Nanalysis Corp.’s consolidated financial statements as at and for the year ended December 31, 2018, which were included in the Filing Statement of Canvass Ventures Ltd. dated as of May 24, 2019 filed under the Company’s profile on SEDAR at [www.sedar.com](http://www.sedar.com). Results for the current reporting period are not necessarily indicative of future results. Accounting policies applied herein are the same as those applied in the annual financial statements of Nanalysis Corp.

These interim condensed consolidated financial statements were approved by the Company’s Board of Directors on November 26, 2019.

### [b] Basis of measurement

These interim condensed consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial assets and financial liabilities to fair value.

### [c] Basis of consolidation

The Company’s wholly owned subsidiary, Nanalysis Corp., in 2018 incorporated a wholly owned subsidiary in Germany, at which it will conduct direct sales, marketing, technical support, and channel management activities. These interim condensed consolidated financial statements include Nanalysis Corp. and its German subsidiary for the periods presented in the accounts of the Company.

Subsidiary	Ownership September 30, 2019	Ownership December 31, 2018	Incorporated	Nature
Nanalysis GmbH	100%	100%	Germany	Direct Sales, Marketing, Technical Support
Nanalysis Corp.	100%	0%	Canada	Technology, Manufacturing

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant intercompany transactions and balances have been eliminated.

### [d] Functional and foreign currency

These interim condensed consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency. The German subsidiary’s functional currency is the Euro. Foreign currency transactions are translated into Canadian dollars using the exchange rates at the date of the transactions. Foreign exchange gains or losses resulting from the settlement of transactions and from the translation at year-end rate of monetary assets and liabilities denominated in foreign currencies are recognized in net income or loss.

Transactions in foreign currencies are translated to the functional currency of each entity at a rate of exchange approximating the prevailing rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate in effect at that date. Nonmonetary assets and

# Notes to the Interim Condensed Consolidated Financial Statements

*For the three and nine months ended September 30, 2019 and 2018 (unaudited)*

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liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Realized and unrealized exchange gains and losses are recognized in profit or loss.

On consolidation, the assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange prevailing at the reporting date and their statements of income (loss) are translated at the average exchange rates for the reporting period. The exchange differences arising on consolidation are recognized in other comprehensive income or loss. On disposal of a foreign operation, the component of other comprehensive income or loss relating to that particular foreign operation is reclassified to profit or loss.

The preparation of these interim condensed consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the interim condensed consolidated financial statements and reported amounts of expenses during the reporting period.

## **[e] Significant accounting estimates and judgments**

Actual outcomes could differ from these estimates. These interim condensed consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the interim condensed consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company reviews its estimates and underlying assumptions on an ongoing basis.

## **[f] Comparative figures**

Certain comparative figures have been reclassified to conform to the presentation adopted for the current reporting periods.

### **3. SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES**

The accounting policies and use of judgments and estimates used in the preparation of these unaudited interim condensed consolidated financial statements have been applied consistently for all periods presented and are unchanged from the accounting policies, judgments and estimates disclosed in the notes to the consolidated financial statements for the year ended December 31, 2018, which were included in the Filing Statement of Canvass Ventures Ltd. dated as of May 24, 2019 filed under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com), except as noted below.

The company adopted the following accounting policies effective January 1, 2019:

In January 2016, the IASB issued IFRS 16 Leases ("IFRS 16"), which replaces the existing IFRS guidance on leases: IAS 17 Leases ("IAS 17"). Under IAS 17, lessees were required to determine if the lease is a finance or operating lease, based on specified criteria of whether the lease transferred significantly all the risks and rewards associated with ownership of the underlying asset. Finance leases were recognized on the balance sheet while operating leases were recognized in the Consolidated Statements of Income when the expense is incurred. IFRS 16 introduced a single lease accounting model for lessees which require a Right-of-Use (ROU) asset and lease liability to be recognized on the balance sheet for contracts that are, or contain, a lease. The Company's leases under IFRS 16 consist of office space and equipment which were previously classified as operating leases.

The Company has adopted IFRS 16 on January 1, 2019 using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it applies the standard prospectively. Accordingly, comparative information in the Company's financial statements are not restated.

For leases that were previously classified as finance leases under IAS 17, the carrying amount of the ROU asset and lease liability remain unchanged upon transition and were determined at the carrying amount immediately before the adoption date.

For leases that were previously classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments discounted using the Company's incremental borrowing rate on January 1, 2019. ROU assets were measured at an amount equal to the lease liability. The recognition of the present value of minimum lease payments, as at January 1, 2019, resulted in additional \$460K of ROU assets and associated lease liabilities. When measuring the present value of lease obligations, the Company discounted remaining lease payments using its incremental borrowing rate at January 1, 2019, which was a weighted-average rate of 6.00%.

# Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018 (unaudited)

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The adoption of IFRS 16 included the following elections:

- Elected to not recognize ROU assets and liabilities for leases term of less than 12 months, or for leases of low value.
- Elected to exclude initial direct costs from measuring the ROU asset at the date of initial application.
- Elected to apply a single discount rate to portfolio of leases with similar characteristics.
- Elected to use hindsight in determining lease term.

The Company leases assets including office space and equipment. Information about leases for which the Company is a lessee is presented below.

## Right of-use assets

(\$000'S)	Office Space	Equipment	Total
Balance January 1, 2019	451	9	460
Depreciation charge for the period	(86)	(2)	(88)
Balance September 30, 2019	365	7	372

Total right of use assets finance obligation as at September 30, 2019 was \$380K, current portion \$112K, all of which relates to the aforementioned office lease.

As a result of this adoption, the Company has revised the description of its accounting policy for leases as follows:

### Leases

A contract is, or contains, a lease if the contract conveys the right of control the use of an identified asset for a period of time in exchange for considerations. A lease obligation is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date. Interest expense is recognized on the lease obligations using the effective interest rate method and payments are applied against the lease obligation. At the commencement date, a corresponding ROU is recognized at the amount of the lease obligation, adjusted for lease incentives received and initial direct costs. Depreciation is recognized on the ROU asset over the lease term.

The preparation of the interim condensed consolidated financial statements in accordance with IFRS requires management to make judgements, estimates, and key assumptions that affect the reported amount of asset, liabilities, income, and expense. Actual results could differ significantly from these estimates. Key areas where management has made judgements, estimates, and assumptions related to IFRS 16 include:

- Incremental borrowing rate: The incremental borrowing rates are based on judgements including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the ROU asset, lease obligations, and the resulting interest and depletion and depreciation expense, may differ due to changes in the market conditions and lease term.
- Lease term: Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.

## 4. REVERSE TAKEOVER

Upon completion of the amalgamation (note 1), the shareholders of Nanalysis Corp. ("the Accounting Acquirer") owned approximately 76.68% of the issued and outstanding common shares of the Company. For accounting purposes the Transaction is considered as a "reverse takeover". A reverse takeover transaction involving a non-public operating entity and non-operating public company is in substance a capital transaction, rather than a business combination.

These interim condensed consolidated financial statements are presented as a continuation of the Accounting Acquirer but are issued in the name of the Company as a legal parent. The Transaction has been measured at the fair value of the shares and other equity instruments that are deemed to have been issued to the Company's historical shareholders. Accordingly, the transaction has been recorded in these interim condensed consolidated financial statements using a basis of accounting as summarized below:

- a) The historical equity of the Company has been eliminated and the excess of the fair value of deemed issuance of the equity instruments over the fair value of the net assets acquired has been recorded as RTO Transaction cost in net loss for the period;

# Notes to the Interim Condensed Consolidated Financial Statements

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- b) The accumulated deficit and other equity balances presented in these interim condensed consolidated financial statements are those of the Accounting Acquirer;
- c) The assets and liabilities of the Accounting Acquirer are included in these interim condensed consolidated financial statements on pre-transaction basis of accounting;
- d) The net assets of the Company were measured at their estimated fair value on the date of the RTO; and
- e) Comparative information presented in these interim condensed consolidated financial statements is that of the Accounting Acquirer.

The following summarizes the basis of accounting for the reverse takeover described above:

Fair value of equity instruments deemed to be issued pursuant to the RTO

Issuance of 2,275,500 Canvass common shares	\$ 1,367
Fair value of existing Canvass options and warrants	\$ 37
Total amount recorded in equity in these financial statements	<u>\$ 1,404</u>
Transaction expenses	<u>\$ 488</u>
	\$ 1,892
Less: Net assets of Canvass immediately before the transaction	<u>\$ (471)</u>
	<u>\$ 1,421</u>

## 5. INVENTORY

(\$000's)	September 30, 2019	December 31, 2018
Raw materials	383	339
Work in process	238	173
Finished goods	260	223
Total inventory	<u>881</u>	<u>735</u>

# Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018 (unaudited)

Tabular amounts are stated in thousands of dollars except per share amounts and certain other exceptions as noted

## 6. PROPERTY AND EQUIPMENT

	Office Furniture and Equipment	Computer Hardware	Manufacturing Equipment	Leasehold Improvements	Total
(\$ 000's)					
<b>Cost:</b>					
Balance, December 31, 2017	113	123	735	89	1,060
Addition	39	48	547	97	732
Balance, December 31, 2018	152	171	1,282	186	1,792
Addition	5	23	343	7	378
Balance, September 30, 2019	157	194	1,625	193	2,170
<b>Accumulated depreciation:</b>					
Balance, December 31, 2017	64	82	256	39	441
Depreciation	26	21	152	17	215
Balance, December 31, 2018	90	103	408	55	656
Depreciation	22	19	232	19	292
Balance, September 30, 2019	112	122	640	74	948
<b>Net book value:</b>					
As of December 31, 2018	62	68	875	131	1,136
Balance, September 30, 2019	45	72	986	119	1,222

During the 9 months ended September 30, 2019, depreciation of \$52K was recognized as an expense in cost of goods sold (2018 - \$34K).

## 7. INTANGIBLE ASSETS

	Development costs	Patents	Software	Total
(\$ 000's)				
<b>Cost:</b>				
Balance, December 31, 2017	2,903	479	150	3,532
Addition	1,438	53	73	1,564
Balance, December 31, 2018	4,341	532	223	5,096
Addition	1,565	44	104	1,713
Balance, September 30, 2019	5,906	576	327	6,809
<b>Accumulated amortization:</b>				
Balance, December 31, 2017	414	99	145	658
Amortization	166	30	9	205
Balance, December 31, 2018	580	129	154	863
Amortization	240	25	20	285
Balance, September 30, 2019	820	154	174	1,148
<b>Net book value:</b>				
As of December 31, 2018	3,761	403	69	4,233
As of September 30, 2019	5,086	422	153	5,661

# Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018 (unaudited)

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## 8. LONG-TERM DEBT

(\$000's)	September 30, 2019	December 31, 2018
Shareholders Loans: original amount of \$223,170 repayable in monthly blended installments of \$5,876 commencing June 15, 2016 until May 15, 2020. Interest payable at 11.99% per annum. Secured with Makino machinery (F5).	45	91
Shareholders Loans: original amount of \$500,000 repayable in monthly blended installments of \$12,993 beginning December 15, 2017 until November 15, 2021. Following conversion of \$100,000 to common shares in November 2018 monthly installments are \$9,649. Interest payable at 11% per annum. Secured with Essemtec machinery (SMT). On July 12, 2019 the shareholder loans were repaid in full.	-	288
Western Economic Diversification Canada (WINN #1) interest free loan \$496,150 repayable in monthly installments of \$8,269 commencing June 30, 2017, and maturing May 31, 2022. Any amounts in default will incur interest at the Bank of Canada's interest rate plus 3% compounded monthly. The obligation is recorded at its present value using a 7.04% discount rate. This loan is unsecured.	240	300
Western Economic Diversification Canada (WINN #2) interest free loan \$376,196 drawn in 2018 and \$409,867 drawn in 2019 repayable in monthly installments of \$46,215 commencing February 1, 2022, and maturing January 31, 2027. Total value of this loan will be up to \$2,773,000. Any amounts in default will incur interest at the Bank of Canada's interest rate plus 3% compounded monthly. The obligation is recorded at its present value using a 6.0% discount rate. This loan is unsecured.	684	313
\$6,100 loan for the purchase of equipment repayable in equal monthly installments of \$109 over 56 months commencing April 28, 2018.	4	5
	973	997
Less: Current Portion	131	233
	842	764

# Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018 (unaudited)

Tabular amounts are stated in thousands of dollars except per share amounts and certain other exceptions as noted

## 9. SHARE CAPITAL

### [a] Authorized

Unlimited number of common shares, without nominal or par value  
 Unlimited number of Class A voting preferred shares without par value  
 Unlimited number of Class B non-voting preferred shares without par value

### [b] Issued

At September 30, 2019 Nanalysis Scientific Corp. had 61,613,000 common shares outstanding. At September 30, 2019 there were 13,489,000 shares in escrow with scheduled release over 15 months completing on December 11, 2020.

[i] During the period ended September 30, 2019 the Company issued the following common shares:

8,333,000 shares at \$0.60 in a financing concurrent with the RTO  
 2,500,000 shares at \$0.60 in a private placement  
 2,277,500 shares at \$0.60 to original Canvass shareholders  
 45,500 shares upon the exercise of warrants  
 643,500 shares upon the exercise of options

[ii] During the year ended December 31, 2018, Nanalysis Corp. issued the following common shares (shares were converted at the exchange ratio of .55 for each previous common share).

- 57,750 shares at \$0.27 for the exercise of stock options.
- 27,500 shares at \$0.22 for the exercise of stock options.
- 176,000 shares at \$0.45 to directors as payment of director fees.
- 71,500 shares at \$0.45 to compensate certain employees as an incentive grant.
- 166,667 shares at \$0.60 in debt to equity conversion associated with equipment-backed machine loan.
- 921,489 shares at \$0.42 for the conversion of Shareholder 2016 SR&ED Loans in the amount of \$385,350 and 184,784 shares at \$0.42 issued for payment of financing fees.
- 2,200,000 shares at \$0.45 in a private placement. The company paid share issue costs of \$18K.
- 2,029,996 shares at \$0.60 in a private placement.

The Company has a stock option plan that provides for the issuance of options to eligible persons. The option price under each option granted must be no less than the discount market price defined by the TSX-V. The term of the options must be no longer than 5 years and the directors determine the vesting period. The maximum number of outstanding options must be no more than 10% of the issued and outstanding at any point in time. The maximum number of outstanding options issued for investor relations must be no more than 2% of the issued and outstanding shares and the options issued to investor relations must vest in stages over a 12 month period with no more than one quarter of the options vesting in any three month period.

### [c] Stock options

Stock option transactions and the number of stock options outstanding are summarized below:

	Number	Weighted Average Exercise Price \$
<b>Balance, December 31, 2017<sup>(1)</sup></b>	<b>3,247,750</b>	<b>0.29</b>
Granted <sup>(1)</sup>	618,750	0.45
Exercised <sup>(1)</sup>	(85,250)	(0.25)
Expired <sup>(1)</sup>	(77,000)	(0.14)
<b>Balance, December 31, 2018</b>	<b>3,704,250</b>	<b>0.29</b>
Granted Q1 2019 <sup>(1)</sup>	27,500	0.60
Granted Q3 2019	330,000	0.60
Granted Q3 2019	200,000	0.75
Granted on the RTO date	675,000	0.60
Canvass options <sup>(2)</sup>	112,500	0.47
Exercised	(643,500)	(0.20)
Expired	(404,250)	(0.40)
<b>Balance, September 30, 2019</b>	<b>4,001,500</b>	<b>0.40</b>

(1) Converted at an exchange ratio of 0.55, pursuant to the RTO

(2) Converted at an exchange ratio of 0.25, pursuant to the RTO

# Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018 (unaudited)

Tabular amounts are stated in thousands of dollars except per share amounts and certain other exceptions as noted

During the nine-month period ended September 30, 2019 and 2018, the Company recorded stock based compensation of \$149K and \$88K, respectively, for stock options granted. For the three-month period ended September 30, 2019 the Company recorded share-based recovery of \$7K (three-month period ended September 30, 2018 \$NIL). The fair values of stock options granted were estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2019	2018
Risk-free interest rate	1.1%-1.9%	2.1%
Estimated annualized volatility based on historical performance	67%-78%	78%
Expected life	5.0 years	5.0 years
Expected dividend yield	0%	0%
Exercise price	\$0.60-\$0.75	\$0.44
Share price on date of grant	\$0.40 to \$0.60	\$0.40

As at September 30, 2019, the Company had the following stock options outstanding and exercisable:

Date of Expiry	Exercise Price	Number of Options Outstanding	Number of Options Exercisable
December 31, 2019	\$0.22	16,500	16,500
December 31, 2019	\$0.27	731,500	731,500
February 19, 2020	\$0.27	258,500	258,500
April 23, 2020	\$0.36	121,000	121,000
April 23, 2020	\$0.27	239,250	239,250
June 4, 2020	\$0.40	75,000	75,000
June 4, 2020	\$0.60	37,500	37,500
June 17, 2020	\$0.36	82,500	82,500
January 15, 2021	\$0.36	33,000	33,000
March 7, 2021	\$0.18	440,000	440,000
May 5, 2021	\$0.42	16,500	16,500
June 13, 2021	\$0.18	110,000	110,000
August 8, 2021	\$0.42	8,250	8,250
December 15, 2021	\$0.42	8,250	5,500
January 31, 2022	\$0.42	110,000	110,000
October 4, 2022	\$0.45	110,000	36,667
November 19, 2022	\$0.22	68,750	68,750
January 14, 2023	\$0.45	247,500	82,500
April 25, 2023	\$0.45	55,000	18,333
February 1, 2024	\$0.60	27,500	-
June 4, 2024	\$0.60	200,000	50,000
June 4, 2024	\$0.60	150,000	75,000
June 4, 2024	\$0.60	325,000	65,000
July 24, 2024	\$0.60	180,000	-
July 24, 2024	\$0.75	200,000	40,000
Aug 21, 2024	\$0.60	150,000	-
<b>Balance, September 30, 2019</b>		<b>4,001,500</b>	<b>2,721,250</b>

As at September 30, 2019, the weighted average remaining life for outstanding options was 2.15 (December 31, 2018 – 2.57) years. Subsequent to quarter end the Company issued 525,000 options with an exercise price of \$0.60 and an expiry of October 28, 2024. As at September 30, 2019, diluted number of shares based on in the money options was 62,364,000.

## [d] Warrants

As at September 30, 2019 the Company has 5,773,900 warrants outstanding. In conjunction with the financing 4,523,900 warrants were issued at an exercise price of \$0.75 and which expire on June 4, 2020. In conjunction with the private placement 1,250,000 warrants were issued with an exercise price of \$0.75 and an expiry of June 6, 2021.

In the second quarter of 2019 45,500 warrants were exercised for proceeds of \$18K with 4,500 warrants expiring.

# Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018 (unaudited)

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## [e] Restricted Share Units ("RSU")

During the fiscal year ended December 31, 2018 the company granted 130,000 RSU. The RSU vested on October 31, 2018 and may be redeemed by the holder as one RSU in exchange for one Class 'A' common share in the capital of the company. These RSU were redeemed in January 2019 and 130,000 Class 'A' common shares were issued.

## 10. RELATED PARTY DISCLOSURE

### [a] Transactions with related parties

Related parties include members of the Board of Directors and officers of the Company, and enterprises controlled by these individuals. The following fees and expenses were incurred in the normal course of business:

(\$000's)	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Interest and finance fees on shareholder loans:				
Makino loan (F5) (note 8)	2	4	6	8
Essemtec loan (SMT) (note 8)	2	13	17	26
	4	17	23	34

For the three months ended September 30, 2019 and 2018 no advisory service fees were paid to directors. For the nine months ended September 30, 2019 \$66K were paid in advisory services fees to a director (nine months ended September 30, 2018 \$NIL).

## 11. OPERATING EXPENSES

### [a] Cost of products sold

(\$000's)	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Direct material costs	279	464	1,244	1,401
Salaries and wages	70	74	274	262
Direct overhead	243	59	526	300
Warranty expense	(7)	3	19	102
Depreciation	17	11	52	34
Inventory adjustment	(218)	-	(218)	-
	385	611	1,897	2,099

### [b] Sales and marketing

(\$000's)	2019	2018	2019	2018
	Salaries, benefits, subcontracts	227	337	608
Selling commissions	(59)	85	242	277
Travel & accommodation	52	64	120	289
Advertising, conferences, trade shows	134	49	419	197
Office & other expenses	56	114	200	251
	409	649	1,588	1,889

# Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018 (unaudited)

Tabular amounts are stated in thousands of dollars except per share amounts and certain other exceptions as noted

## [c] General and administration expenses

(\$000's)	2019	2018	2019	2018
Consulting and professional fees	229	356	578	595
Salary related expenses	272	138	775	357
Share-based and stock based compensation	(7)	-	371	233
Administrative and general expenses	194	326	489	663
Bad debt expenses	87	-	87	-
	775	820	2,300	1,848

## 12. OPERATING SEGEMENT AND DISAGGREGATION OF REVENUE

The Company has a single operating segment, the manufacture of spectrometers. Substantially all of the Company's operations, assets, and employees are in Canada.

During the 9 months ended September 30, 2019 and 2018, the Company was economically dependent on no customer accounting for more than 10% of revenue.

The Company's revenues are allocated to geographic segments for the 3 months and 9 months ended September 30, 2019 and 2018 as follows:

(\$000's)	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
United States of America	1,104	984	4,006	3,201
Canada	337	147	660	293
Japan	-	-	224	-
Other	200	666	1,351	2,101
	1,641	1,797	6,241	5,595

## 13. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to ensure its ability to continue as a going concern in order to pursue the development and sale of its spectrometers. The Company attempts to maximize return to shareholders by minimizing shareholder dilution.

The Company defines its capital as share capital and contributed surplus. The Company has financed its capital requirements primarily through loans and share issuances since inception.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. The Company may issue new securities. The Company is not subject to any externally imposed capital requirements. There were no changes to the Company's approach to capital management during the nine months ended September 30, 2019.

# Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018 (unaudited)

Tabular amounts are stated in thousands of dollars except per share amounts and certain other exceptions as noted

## 14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Fair value

The fair value of the Company's financial instruments is approximated by their carrying value due to their short-term nature.

IFRS 13 establishes a fair value hierarchy for financial instruments measured at fair value that reflects the significance of inputs used in making fair value measurements as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and

Level 3 – inputs for the asset or liability that are not based upon observable market data.

### [a] Credit risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk in the event of non-performance by counterparties in connection with its cash, accounts receivable, and other receivables. The Company's maximum exposure to credit risk at September 30, 2019 is the carrying amount of cash, accounts receivable, and other receivables on the interim condensed consolidated statements of financial position. The Company mitigates this risk by holding its cash in major Canadian financial institutions and performing credit enquiries on its customers.

The Company's sales are concentrated in universities and the technology industry. At September 30, 2019 one customer accounted for 13% of accounts receivable (2018 – 2 customers – 25%).

Trade accounts receivable are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of the counterparty to engage in a repayment plan with the Company, and a failure to make contractual payments for a period of greater than 365 days past due. During the 9 months ended September 30, 2019, a bad debt of \$86K was recognized as an expense (2018 - \$Nil).

### [b] Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. As of September 30, 2019, the Company had working capital of \$8,590K (December 31, 2018 - \$3,802K). The Company's exposure to liquidity risk is dependent on the sale of inventory, collection of accounts receivable and other receivables, and the raising of funds to meet commitments and sustain operations and research and development. The Company manages liquidity risk by management of working capital, cash flows, availability of borrowing facilities and share issuances.

### [c] Market risk

#### [i] Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchanges rates. The majority of the Company's sales are in U.S. dollars. The Company has not entered into foreign exchange derivative contracts.

As at September 30, 2019 and 2018, the Company had the following assets and liabilities denominated in U.S. dollars:

	September 30, 2019	September 30, 2018
(\$000's)	US\$	US\$
Cash	953	643
Accounts receivable	862	548
Accounts payable and accrued liabilities	(133)	(246)
Total	1,682	945

# Notes to the Interim Condensed Consolidated Financial Statements

*For the three and nine months ended September 30, 2019 and 2018 (unaudited)*

*Tabular amounts are stated in thousands of dollars except per share amounts and certain other exceptions as noted*

The above assets and liabilities were translated at 1.3243 at September 30, 2019 (2018 – 1.2945). Based on the above net exposure as at September 30, 2019 and 2018, assuming that all other variables remain constant, a 10% appreciation or deterioration of the Canadian dollar against the U.S. dollar would result in a change of approximately \$223K (December 31, 2018 - \$122K) in the Company's net income/loss.

[ii] Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. During the 9 months ended September 30, 2019 and 2018, fluctuations in the market interest rates had no significant impact on its interest expense.

## **15. SUBSEQUENT EVENTS**

Subsequent to quarter end the Company received \$1,070k with respect to 2018 SRED claim for the Federal portion.

# Notes to the Interim Condensed Consolidated Financial Statements

*For the three and nine months ended September 30, 2019 and 2018 (unaudited)*

*Tabular amounts are stated in thousands of dollars except per share amounts and certain other exceptions as noted*

## **DIRECTORS AND OFFICERS**

**Sean Krakowsky, M.Sc**

President & Chief Executive Officer

**Luke Caplette, CA, CPA**

Chief Financial Officer

**Garett Leskowitz, Ph.D**

Chief Science Officer

**Martin Burian, CA, CPA, CBV (1)**

Chairman of the Board

**Werner Gartner CMA, CPA (1)**

Director

**Dr. Michal Okoniewski (1)**

Director

**Steve Meszaros (1)**

Director

(1) Member of the Audit Committee

## **CORPORATE OFFICE**

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## **BANKER**

**BMO Bank of Montreal**

Vancouver, British Columbia

## **LAWYERS**

**DLA Piper (Canada) LLP**

Calgary, Alberta

## **AUDITORS**

**Crowe Mackay LLP**

Vancouver, British Columbia

## **STOCK EXCHANGE**

**TSX Venture**

Trading Symbol: NSCI

## **TRANSFER AGENT AND REGISTRAR**

**AST Trust Company (Canada)**

Vancouver, British Columbia