

Nanalysis Corp.

Consolidated Financial Statements

For the period ended March 31, 2019 and 2018

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONSOLIDATED 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 consolidated financial statements, they must be accompanied by a notice indicating that the consolidated financial statements have not been reviewed by an auditor. The accompanying unaudited interim consolidated financial statements of Nanalysis Corp. (the “Company”) have been prepared by and are the responsibility of the management of the Company. The Company’s independent auditor has not performed a review of these consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim consolidated statements by an entity’s auditor.

Nanalysis Corp.

Consolidated Statement of Financial Position

(Unaudited)

	Note	March 31, 2019 \$	December 31, 2018 \$
ASSETS			
Current			
Cash		1,005,844	778,835
Accounts receivable		2,290,860	2,418,588
Other receivables	2 [d] v	1,723,243	1,591,594
Inventory	3 [b]	760,632	735,312
Prepaid expenses and deposit		28,959	34,143
		5,809,538	5,558,471
Deposit		20,000	20,000
Property and equipment	5	1,143,728	1,205,287
Right of Use Assets (RUA)	4	430,651	-
Intangible assets	6	4,515,302	4,164,287
		6,109,681	5,389,574
Total assets		11,919,219	10,948,045
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current			
Accounts payable and accrued liabilities		1,147,957	1,029,119
Warranty provision		194,350	178,490
Unearned revenue		351,531	315,856
Current portion of finance lease obligations	4	108,820	-
Current portion of long-term debt	7	239,154	233,365
		2,041,812	1,756,830
Deferred income tax liability		36,000	36,000
Finance lease obligations	4	324,941	-
Long-term debt	7	1,053,083	764,439
Total Liabilities		3,455,836	2,557,269
SHAREHOLDERS' EQUITY			
Share Capital	8	10,204,193	9,975,918
Reserves		1,044,165	997,121
Deficit		(2,784,975)	(2,582,263)
Total shareholder's equity		8,463,383	8,390,776
Total liabilities and shareholders' equity		11,919,219	10,948,045

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

Nanalysis Corp.

Consolidated Statement of Operations and Comprehensive Income

(Unaudited)

Three Month Period Ended	Note	March 31, 2019	March 31, 2018
Revenue		2,118,555	1,619,016
Cost of Products Sold	11 [a]	(730,578)	(730,237)
Gross Margin (66%, 2018 - 55%)		1,387,977	888,779
Expenses			
Sales and Marketing	11 [b]	666,556	597,868
General and administration	11 [c]	783,316	429,014
		1,449,872	1,026,882
Loss before other items		(61,895)	(138,103)
Other Items			
Regulatory Transaction Expenses		63,887	-
Interest and finance fees		15,489	23,881
Foreign exchange loss		61,441	9,601
Net loss		(202,712)	(171,585)
Net and comprehensive loss		(202,712)	(171,585)
Basic loss per common share		0.00	0.00
Weighted average number of common shares outstanding – basic		86,660,166	75,649,717
Diluted loss per common share		0.00	0.00
Weighted average number of common shares outstanding – diluted		89,660,166	75,649,717

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

Nanalysis Corp.**Consolidated Statements of Changes in Shareholders' Equity**

(Unaudited)

	Common Shares		Subscriptions receivable	Reserves	Deficit	Total
	Number	\$	\$	\$	\$	\$
Balance, December 31, 2017	75,649,717	7,064,547	(15,000)	832,691	(2,655,776)	5,226,462
Share subscriptions received	-	-	15,000	-	-	15,000
Net loss for the period	-	-	-	-	(171,585)	(171,585)
Balance, March 31, 2018	75,649,717	7,064,547	-	832,691	(2,827,361)	5,069,877
Balance, December 31, 2018	86,260,055	9,975,918	-	997,121	(2,582,263)	8,390,776
Shares issued for services	540,000	178,200	-	-	-	178,200
Restricted share units exercised	130,000	50,075	-	(7,175)	-	42,900
Stock based compensation	-	-	-	54,219	-	54,219
Net loss for the period	-	-	-	-	(202,712)	(202,712)
Balance, March 31, 2019	86,930,055	10,204,193	-	1,044,165	(2,784,975)	8,463,383

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

Nanalysis Corp.**Consolidated Condensed Statement of Cash Flows
(unaudited)**

	For the three months ending March 31	For the three months ending March 31
	2019	2018
	\$	\$
OPERATING ACTIVITIES		
Comprehensive loss before tax	(202,712)	(171,585)
Items not involving cash:		
Accretion of long-term debt	9,892	6,507
Grant income	(63,930)	-
Depreciation of property and equipment	98,909	50,985
Amortization of intangible assets	82,075	53,750
Share based payments	275,319	-
	<u>199,553</u>	<u>(60,343)</u>
Changes in non-cash working capital items		
Accounts receivable and other receivables	405,946	285,629
Warranty provision	15,859	74,122
Prepaid Expenses	5,183	204,573
Inventory	(25,319)	49,703
Accounts payable and accrued liabilities	118,838	15,635
Unearned revenue & deposits	35,675	46,031
Cash provided by operating activities	<u>755,735</u>	<u>615,350</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(9,354)	(546,136)
Additions to intangible assets	(431,774)	(381,140)
Cash used in investing activities	<u>(441,128)</u>	<u>(927,276)</u>
FINANCING ACTIVITIES		
Payment of lease obligations	(26,202)	-
Repayment of long-term debt	(61,395)	(63,631)
Cash provided (used in) financing activities	<u>(87,597)</u>	<u>(63,631)</u>
Increase (decrease) in cash	227,010	(375,557)
Cash, Beginning of Period	778,834	1,104,986
Cash, End of Period	<u>1,005,844</u>	<u>729,429</u>

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

Nanalysis Corp.

Notes to the Consolidated Financial Statements

For the period ended March 31, 2019 and 2018

1. NATURE OF OPERATIONS AND GOING CONCERN

Nanalysis Corp. (the “**Company**”) was incorporated under the *Business Corporations Act* (Alberta) on January 9, 2009. The Company is a Canadian Controlled Private Corporation. In 2018 the Company incorporated a German subsidiary. The Company’s registered and records office is located at Suite 1000, Livingston Place West, 250 2nd Street SW, Calgary, Alberta, T2P 0C1 and its head office is located at Bay 1, 4600 5th Street NE, Calgary, Alberta T2E 7C3.

The Company is engaged in the business of developing, manufacturing and selling portable nuclear magnetic resonance technology and the resulting products.

These consolidated financial statements have been prepared under the assumption that the Company will continue as a going concern. The going concern basis of presentation assumes that the Company will be able to meet its obligations and continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Realization values may be substantially different from the carrying values as shown, and these consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

2. BASIS OF PRESENTATION

[a] Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”), as issued by the International Accounting Standards Board (“**IASB**”) effective for the three month period ended March 31, 2019.

[b] Basis of measurement

These 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] Functional and foreign currency

These 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.

Nanalysis Corp.

Notes to the Consolidated Financial Statements

For the period ended March 31, 2019 and 2018

2. BASIS OF PRESENTATION (CONTINUED)

[c] Functional and foreign currency (CONTINUED)

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 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.

[d] Significant accounting estimates and judgments

The preparation of these 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 consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the 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.

Critical Judgments

The following are critical judgments that management has made in the process of applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements:

- i. Research costs are recognized as an expense when incurred but development costs may be capitalized as intangible assets if certain conditions are met as described in IAS 38, *Intangible Assets*.

Development costs incurred in the internal generation of the intangible assets are capitalized from the point from which the requirements of IAS 38 have been met. This assessment requires management to exercise judgment with regards to determining when the intangible asset is technically feasible, the Company's intention to complete the intangible asset, as well as those estimates and judgments required

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Notes to the Consolidated Financial Statements

For the period ended March 31, 2019 and 2018

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments (continued)

in determining whether the intangible asset will result in future economic benefit to the Company. Capitalized development costs are subject to amortization when they are available for use.

After recognition, management must complete impairment assessments of the intangible assets when events or circumstances indicate a potential impairment. Evaluation of factors that could trigger an impairment is subject to judgment.

ii. Management is required to determine whether or not the going concern assumption is appropriate for the Company at the end of each reporting period. Considerations taken into account include available information about the future including the availability of financing and revenue projection, as well as current working capital balance and future commitments of the Company.

Consolidated Subsidiary

The Company in 2018 incorporated a wholly owned subsidiary in Germany, at which it will conduct direct sales, marketing, technical support, and channel management activities. These consolidated financial statements include the subsidiary in the accounts of the Company for the periods presented. The subsidiary is listed as follows:

Subsidiary	Ownership March 31, 2019	Ownership March 31, 2018	Incorporated	Nature
Nanalysis GmbH	100%	Nil	Germany	Direct Sales, Marketing, Technical Support

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. 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.

Estimation Uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

i. Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxation authorities. Where the final outcome of these tax-related

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For the period ended March 31, 2019 and 2018

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments (continued)

matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.

ii. Intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Amortization is calculated using management's best estimate of the useful life of the intangible assets. Determination of impairment loss is subject to management's assessment if there is any indication of a possible write-down; and if so, the determination of recoverable value based on discounted future cash flows of the intangible assets. The carrying amount of intangible assets does not necessarily reflect present or future value and the ultimate amount recoverable will be dependent upon the successful commercialization of products based on these underlying technologies.

iii. The Company provides a limited warranty on its products for a standard period of one year from the date goods are sold, and customers may purchase extended warranty for up to an additional four years.

The warranty provision at March 31, 2019 and December 31, 2018 was determined based on management's best estimate of the amount required to settle the obligation.

iv. The Company determines its allowance for inventory obsolescence based upon expected inventory turnover, inventory aging, and current and future expectations with respect to product offerings. Assumptions underlying the allowance for inventory obsolescence include future sales trends and offerings and the expected inventory requirements and inventory composition necessary to support these future sales offerings. The estimate of the Company's allowance for inventory obsolescence could materially change from period to period due to changes in product offerings and consumer acceptance of those products.

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 8[c].

v. The Company claims investment tax credits as a result of incurring scientific research and experimental development expenditures. Management has made a number of estimates and assumptions in determining the expenditures eligible for the investment tax credit claim. It is possible that the allowed amount of the investment tax credit claim could be materially different from the recorded amount upon assessment by Canada Revenue Agency and the Government of Alberta. Included in Other Receivables for the three months ended March 31, 2019 the Company is claiming a SR&ED investment tax credit claim of \$277,784. For the year ended December 31, 2018 the Company claimed a SR&ED investment tax credit of \$1,440,554. The Company maintains an allowance of \$30,000 with respect to these estimates.

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Notes to the Consolidated Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below which have been applied to all the years presented, unless otherwise stated.

[a] Financial instruments

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”) or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

Measurement

All of the Company’s financial instruments, initially recognized at fair value, are subsequently measured at amortized cost using the effective interest rate method. Transaction costs are included in the initial fair value measurement of the financial instruments.

Impairment

The Company assesses on a forward-looking basis the expected credit loss associated with financial assets measured at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables, see note 14[a] for further details.

For financial assets that are measured at amortized cost, an entity will now always recognize (at a minimum) 12 month expected losses in profit or loss, calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. Lifetime expected losses will be recognized on assets for which there is a significant increase in credit risk after initial recognition.

Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The adoption of the expected credit loss impairment model did not have a significant impact on the Company’s consolidated financial statements.

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For the period ended March 31, 2019 and 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[a] Financial instruments (continued)

Compound financial instruments

Compound financial instruments issued by the Company comprise convertible loans due to investors that can be converted into shares of the Company at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to the initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition. Interest, dividends, losses and gains relating to the financial liability are recognized in profit or loss. When the conversion option is exercised, the consideration received is recorded as share capital and the equity component of the compound financial instrument is transferred to share capital.

When the Company extinguishes convertible debentures before maturity through early redemption or repurchase where the conversion option is unchanged, the Company allocates the consideration paid and any transaction costs for the repurchase or redemption to the liability and equity components of the instrument at the date of settlement. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with the method used in the original allocation to the separate components of the proceeds received by the entity when the convertible instrument was issued. The amount of gain or loss relating to the early redemption or repurchase of the liability component is recognized in profit or loss. The amount of consideration relating to the equity component is recognized in equity.

[b] Inventory

Raw materials are valued at the lower of cost and net realizable value, with cost determined on a weighted average basis. Work in process and finished goods are valued at the lower of cost and net realizable value, and include the cost of raw materials, direct labour, and manufacturing overhead expenses.

	March 31, 2019	December 31, 2018
	\$	\$
Raw materials	421,079	439,206
Work in process	147,102	73,206
Finished goods	192,451	222,900
Total inventory	760,632	735,312

Nanalysis Corp.

Notes to the Consolidated Financial Statements

For the period ended March 31, 2019 and 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[c] Cash and cash equivalents

Cash and cash equivalents consist of cash, term deposits and guaranteed investment certificates that are readily convertible to known amounts of cash within 90 days of purchase.

Deposit represents a guaranteed investment certificate, pledged as collateral security for corporate credit cards.

[d] Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Initial acquisition cost is based on the fair value of the consideration paid or payable and includes expenditures that are directly attributable to the acquisition of the asset. Where an item of property and equipment is comprised of major components with different useful lives, each component is accounted and depreciated for as a separate item.

Depreciation is provided using the straight-line method over the estimated useful lives of the property and equipment. One-half of the depreciation is recognized in the year of acquisition. Office furniture and equipment is depreciated over five years. Computer hardware and software is depreciated over four years. Manufacturing equipment is depreciated over four to seven years, depending on the asset. Leasehold improvement is depreciated over the expected term of the lease.

[e] Intangible assets

Intangible assets consist of development costs and patents application fees.

The Company is engaged in research and development activities and has internally generated intangible assets. Research costs are expensed as incurred. Development costs are capitalized if all of the following can be demonstrated:

- Technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Intention to complete the intangible asset and use or sell it;
- Ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- Availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- Ability to measure reliably the expenditures attributable to the intangible asset during its development.

Following its initial recognition, intangible assets with finite useful lives are carried at cost less any accumulated amortization and accumulated impairment losses.

Development costs are amortized on a straight-line basis over 15 to 20 years until the patent expires. Patents are amortized on a straight-line basis over the respective life of each patent.

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Notes to the Consolidated Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[e] Intangible assets (CONTINUED)

Intangible assets are assessed for indicators of impairment at the end of each reporting period. The amortization period is reviewed at least annually.

[f] Impairment of assets

Financial assets and non-financial assets of the Company are reviewed at the end of each reporting period or when facts and circumstances suggest their carrying values have been impaired. The Company considers assets to be impaired if the carrying values exceed the recoverable amount, being the higher of the value in use and the fair value less costs to sell.

Non-financial assets consist of property and equipment and intangible assets. In assessing value in use for a non-financial asset, the estimated future cash flows associated with the non-financial asset are discounted to their present value using a risk adjusted pre-tax discount rate. If the recoverable amount is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount with the impairment immediately recognized in net income or loss. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate, subject to the amount not exceeding the carrying amount that would have been determined had impairment loss not been recognized for the asset in prior periods. Any reversal of impairment is recognized immediately in net income or loss.

[g] Share-based payments

The Company grants share options to acquire common shares of the Company to directors, officers, employees and consultants. The fair value of share-based payments to employees is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period for employees using the graded method. Fair value of share-based payments for non-employees is recognized and measured at the date the goods or services are received based on the fair value of the goods or services received. If it is determined that the fair value of goods and services received cannot be reliably measured, the share-based payment is measured at the fair value of the equity instruments issued using the Black-Scholes option pricing model.

For both employees and non-employees, the fair value of share-based payments is recognized as either an expense or capitalized to intangible assets with a corresponding increase in share-based payments reserve. The amount recognized is adjusted to reflect the number of share options expected to vest. Consideration received on the exercise of stock options is recorded in share capital and the related share-based payment in share-based payments reserve is transferred to share capital.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

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Notes to the Consolidated Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[g] Share-based payments (CONTINUED)

Where a grant of options is cancelled and settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense. Amount recorded in reserves for unexercised share options remain in reserve upon their expiry or cancellation.

[h] Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, deferred income taxes are recognized for the future income tax consequences attributable to differences between carrying values of assets and liabilities and their respective income tax bases, unused tax losses and other income tax deductions. Deferred income tax assets are recognized for deductible temporary differences, unused tax losses and other income tax deductions to the extent that it is probable the Company will have taxable income against which those deductible temporary differences, unused tax losses and other income tax deductions can be utilized. The Company reassesses the extent to which tax benefits may be realized at the end of each reporting period.

Deferred income tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the related tax assets are realized or the liabilities are settled. The measurement of deferred income tax assets and liabilities reflect the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover and settle the carrying amounts of its assets and liabilities, respectively. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the period in which the change is substantively enacted.

Current and deferred income tax expense or recovery are recognized in net income or loss except when they arise as a result of items recognized in other comprehensive income or loss, or directly in equity in the current or prior periods, in which case the related current and deferred income taxes are also recognized in other comprehensive income or loss, or in equity, respectively.

[i] Government assistances

Government assistances consist of federal grants received under the Industrial Research Assistance Program (“**IRAP**”) and refundable scientific research and experimental development tax credits (“**SR&ED**”), as well as provincial assistance through the Alberta Innovates (“**AI**”) Voucher Program and the Alberta Economic Development and Trade (“**AEDT**”) Alberta-Germany Collaboration Fund for Product Development and Commercialization and the Alberta-Canada-France Joint Industrial R&D Projects Program. The Company accrues these credits as a reduction of development costs within intangible assets in the period that the related expenditures are incurred and when reasonable assurance exists that the Company has complied with the terms and conditions of the IRAP, SR&ED, AI and AEDT programs and collectability is reasonably assured.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[j] Earnings per common share

Basic earnings per common share are computed by dividing the net income for the year by the weighted average number of common shares outstanding for the year. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, the weighted average number of shares outstanding used in the calculation of diluted loss per share assumes that the deemed proceeds received from the exercise of stock options, share purchase warrants and their equivalents would be used to repurchase common shares of the Company at the average market price during the year.

[k] Equity and share capital

Share capital represents the value of shares that have been issued. Transaction costs directly attributable to the issuance of common shares are recognized as a deduction from equity, net of any tax effects.

[l] Revenue recognition

There were no material differences in the accounting of the Company's revenues under this new standard and the previous accounting policy. Most of the Company's revenue have a single performance obligation as the promise to transfer the individual goods. Revenue is recognized when goods or services are transferred to a customer. Performance obligations are fulfilled by transferring control of the promised goods or services to the customer. A provision for potential warranty claims is provided for at the time of sale, based on warranty terms and prior claims experience. Revenue from the sale of separately-priced extended warranty is deferred and amortized over the respective contract life on a straight-line basis.

4. RECENT ACCOUNTING PRONOUNCEMENTS

IFRS 16, Leases

The Company adopted IFRS 16, Leases, on January 1, 2019. IFRS 16 introduces a single lease accounting model for leases which requires a right-of-use asset and lease obligation to be recognized on the balance sheet for contracts that are, or contain, a lease. The Company used the modified retrospective adoption approach to adopt the new standard. The modified retrospective approach does not require restatement of prior period financial information as it applies the standard prospectively.

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4. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

On initial adoption, the Company has elected to record right-of-use assets based on the corresponding lease obligation. Right-of-use assets and lease obligations of \$459,965 were recorded as of January 1, 2019, with no impact on retained earnings. 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%. The recognition of the present value of the lease obligations, which were previously classified as operating leases, resulted in increases to assets, liabilities, depletion and depreciation and finance costs and decreases to operating and general and administrative costs.

The right-of-use assets and lease obligations recognized relate to the Company's office leases and certain equipment.

The Company has elected to apply practical expedients to not recognize right-of-use assets and lease obligations for short term leases that have a lease term of 12 months or less, and leases of low-value assets.

Lease accounting policy

At inception of a contract, the Company assesses whether a contract is, or contains a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease obligation at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease obligation adjusted for any lease payments made at or before the commencement date. The assets are depreciated over the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of future economic benefits.

The lease obligation is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease obligation. The lease obligation is subsequently measured at amortized cost using the effective interest rate method.

Nanalysis Corp.

Notes to the Consolidated Financial Statements

For the period ended March 31, 2019 and 2018

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

	Office Space	Equipment	Total
Balance January 1, 2019	450,823	9,142	459,965
Depreciation charge for the period	(28,776)	(538)	(29,314)
Balance March 31, 2019	422,047	8,604	430,651

Other than initial recognition under IFRS 16, there were no additions to the right of-use assets during 2019.

5. PROPERTY AND EQUIPMENT

	Office Furniture and Equipment	Computer Hardware and Software	Manufacturing Equipment	Leasehold Improvements	Total
	\$	\$	\$	\$	\$
Cost:					
Balance, December 31, 2017	113,473	273,037	735,009	89,013	1,210,532
Addition	39,055	120,618	547,466	97,341	804,480
Balance, December 31, 2018	152,528	393,655	1,282,475	186,354	2,015,012
Addition	3,075	-	4,722	1,555	9,352
Balance, March 31, 2019	155,603	393,655	1,287,197	187,909	2,024,364
Accumulated depreciation:					
Balance, December 31, 2017	64,388	227,136	256,079	38,577	586,180
Depreciation	25,642	29,719	151,594	16,590	223,545
Balance, December 31, 2018	90,030	256,855	407,673	55,167	809,725
Depreciation	6,499	11,137	46,915	6,359	70,910
Balance, March 31, 2019	96,529	267,992	454,588	61,526	880,635
Net book value:					
As of December 31, 2018	62,498	136,800	874,802	131,187	1,205,287
As of March 31, 2019	59,074	125,663	832,609	126,383	1,143,729

During the period ended March 31, 2019, depreciation of \$69,595 was recognized as an expense (March 31, 2018 - \$50,985), and \$1,315 (2018 - \$Nil) was capitalized to development costs in intangible assets.

Nanalysis Corp.

Notes to the Consolidated Financial Statements

For the period ended March 31, 2019 and 2018

6. INTANGIBLE ASSETS

	Development costs	Patents	Total
	\$	\$	\$
Cost:			
Balance, December 31, 2017	2,903,325	478,543	3,381,868
Addition	1,437,637	53,222	1,490,859
Balance, December 31, 2018	4,340,962	531,765	4,872,727
Addition	417,991	15,098	433,089
Balance, March 31, 2019	4,758,953	546,863	5,305,816
Accumulated amortization:			
Balance, December 31, 2017	414,387	98,559	512,946
Amortization	165,929	29,565	195,494
Balance, December 31, 2018	580,316	128,124	708,440
Amortization	73,256	8,819	82,075
Balance, March 31, 2019	653,572	136,943	790,515
Net book value:			
As of December 31, 2018	3,760,646	403,641	4,164,287
As of March 31, 2019	4,105,381	409,920	4,515,302

Nanalysis Corp.

Notes to the Consolidated Financial Statements

For the period ended March 31, 2019 and 2018

7. LONG-TERM DEBT

	March 31, 2019	December 31, 2018
Shareholders Equity Loans \$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). The net book value of the F5 is \$270,244 at December 31, 2018.	76,412	91,447
Shareholders Equity Loans \$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). The net book value of the SMT machinery is \$368,728 at December 31, 2018.	266,551	287,777
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.	280,917	300,548
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.	663,455	312,802
\$6,100 loan for the purchase of equipment repayable in equal monthly installments of \$109 over 56 months commencing April 28, 2018.	4,902	5,230
	1,292,237	997,804
Less: Current Portion	239,154	233,365
	1,053,083	764,439

Nanalysis Corp.

Notes to the Consolidated Financial Statements

For the period ended March 31, 2019 and 2018

8. SHARE CAPITAL

[a] Authorized

- Unlimited Class A common shares, voting, participating, no par value
- Unlimited Class B common shares, voting, participating, no par value
- Unlimited Class C common shares, non-voting, participating, no par value
- Unlimited Class D common shares, non-voting, participating, no par value
- Unlimited Class E common shares, non-voting, participating, no par value
- Unlimited Class F common shares, non-voting, participating, no par value
- Unlimited Class G common shares, non-voting, participating, non-cumulative, redeemable and retractable, no par value

[b] Issued

[i] During the period ended March 31, 2019, the Company issued the following Class ‘A’ common shares:

- 340,000 shares at \$0.33 to directors as payment of director fees.
- 200,000 shares at \$0.33 for advisory services.
- 130,000 shares at \$0.33 to compensate certain employees as an incentive grant.

[ii] During the year ended December 31, 2018, the Company issued the following Class ‘A’ common shares:

- 105,000 shares at \$0.15 for the exercise of stock options.
- 50,000 shares at \$0.12 for the exercise of stock options.
- 320,000 shares at \$0.25 to directors as payment of director fees.
- 130,000 shares at \$0.25 to compensate certain employees as an incentive grant.
- 303,030 shares at \$0.33 in debt to equity conversion associated with equipment-backed machine loan.
- 1,675,435 shares at \$0.23 for the conversion of Shareholder 2016 SR&ED Loans in the amount of \$385,350 (see Note 9 [i]) and 335,970 shares at \$0.23 issued for payment of financing fees.
- 4,000,000 shares at \$0.25 in a private placement. The company paid share issue costs of \$17,500.
- 3,690,903 shares at \$0.33 in a private placement

Nanalysis Corp.

Notes to the Consolidated Financial Statements

For the period ended March 31, 2019 and 2018

8. SHARE CAPITAL (CONTINUED)

[c] Stock options

On October 28, 2009, the Company adopted a stock option plan (the “Stock Option Plan”) providing the granting of options to employees, officers, directors, consultants and scientific advisory board members.

The maximum number of common shares issuable under the Stock Option Plan is fixed at 10% of outstanding Class ‘A’ common shares. The maximum number of common shares that may be optioned in favor of any single individual will not exceed 5% of the issued and outstanding common shares at the date of grant. The maximum number of common shares that may be optioned in favor of directors and senior officers under the Stock Option Plan is 10% of the issued and outstanding common shares at the date of grant. The options can be granted for a maximum term of 10 years.

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

	Number	Weighted Average Exercise Price \$
Balance, December 31, 2017	5,905,000	0.16
Granted	1,125,000	0.25
Exercised	(155,000)	(0.14)
Expired	(140,000)	(0.24)
Balance, December 31, 2018	6,735,000	0.16
Granted	50,000	0.33
Expired	(420,000)	(0.25)
Balance, March 31, 2019	6,365,000	0.16

The weighted average share price on the date of exercises is \$0.00 (2018 - \$0.25).

During the three month period ended March 31, 2019 and March 31, 2018, the Company recorded share-based payments of \$54,219 and \$nil, respectively, for stock options granted. 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	1.9%	-
Estimated annualized volatility based on historical performance	78%	-
Expected life	5.0 years	-
Expected dividend yield	0%	-
Exercise price	\$0.33	-
Share price on date of grant	\$0.33	-

Nanalysis Corp.

Notes to the Consolidated Financial Statements

For the period ended March 31, 2019 and 2018

8. SHARE CAPITAL (CONTINUED)

[c] Stock options (CONTINUED)

As at March 31, 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	\$0.12	30,000	30,000
December 31, 2019	\$0.15	1,670,000	1,670,000
June 12, 2019	\$0.15	60,000	60,000
February 18, 2020	\$0.07	400,000	400,000
February 19, 2020	\$0.15	690,000	690,000
April 23, 2020	\$0.15	435,000	435,000
April 23, 2020	\$0.20	220,000	220,000
June 17, 2020	\$0.20	150,000	150,000
January 15, 2021	\$0.20	60,000	60,000
March 7, 2021	\$0.10	1,150,000	1,150,000
May 5, 2021	\$0.23	30,000	20,000
June 13, 2021	\$0.10	200,000	200,000
August 8, 2021	\$0.23	15,000	10,000
December 15, 2021	\$0.23	15,000	10,000
January 31, 2022	\$0.23	200,000	200,000
October 4, 2022	\$0.25	200,000	66,666
November 19, 2022	\$0.12	125,000	125,000
January 14, 2023	\$0.25	450,000	150,000
April 25, 2023	\$0.25	215,000	-
May 1, 2023	\$0.33	50,000	-
Balance, March 31, 2019		6,365,000	5,646,666

As at March 31, 2019, the weighted average remaining life for outstanding options was \$1.91 (December 31, 2018 – 2.04) years.

[d] Restricted Share Units (RSU)

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

The company recorded share based payments of \$7,175 in the fiscal year ended December 31, 2018.

Nanalysis Corp.

Notes to the Consolidated Financial Statements

For the period ended March 31, 2019 and 2018

9. 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:

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
	\$	\$
Interest and finance fees on shareholder loans:		
Makino loan (F5)	2,592	4,283
Advisory Services	66,000	-
Essemtec loan (SMT)	7,720	13,288
	76,312	17,571

[i] Shareholder 2016 SR&ED Loans

During 2016, the Company entered into a loan agreement with shareholders to receive \$825,000 in financing. The loan is secured by the Company's 2016 and 2017 SR&ED tax credits receivable, with payments of \$412,500 to be made in 2017 upon receipt of the 2016 SR&ED investment tax credit, and \$412,500 due upon receipt of the 2017 SR&ED investment tax credit. At the option of the lenders they may convert the loans or finance fees into Class 'A' common shares of the company on the basis of \$0.23 per share.

The Company paid finance fees of \$75,000 on the date of advance and is required to pay \$85,000 on the second principal repayment date. The aggregate finance fees of \$160,000 has been recognized in the carrying amount of the loan and will be accreted over the term of the loan. Any balance unpaid after the second repayment date will incur interest at the rate of 10% per annum.

During 2018 the lenders converted loans totalling \$385,350 (2017 - \$125,000) and finance fees of \$77,273 (2017 - \$2,576) into 2,011,405 (2017 - 554,678) shares. The Company made payments of \$14,650 (2017 - \$300,000) for the loan and \$5,151 (2017 - nil) for the accrued finance fees. At December 31, 2018 the balance due is nil.

Nanalysis Corp.

Notes to the Consolidated Financial Statements

For the period ended March 31, 2019 and 2018

9. RELATED PARTY DISCLOSURE (CONTINUED)

[b] Key management compensation

Key management includes members of the Board of Directors and executive officers of the Company. Compensation awarded to key management is listed below:

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
	\$	\$
Management fees, General and administration	70,075	62,500
Share-based payments, General and administration	112,200	-
	182,275	62,500

10. COMMITMENTS AND CONTINGENCIES

The Company has several lease agreements for its head office space expiring between October 31, 2019 and November 30, 2022. The basic rent commitment for the next 4 years is as follows:

	\$
2019	103,023
2020	129,444
2021	129,444
2022	<u>118,647</u>
Total	<u>480,558</u>

11. OPERATING EXPENSES

[a] Cost of products sold

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
	\$	\$
Direct material costs	477,958	473,688
Salaries and wages	91,999	86,748
Direct overhead	127,310	140,358
Warranty expense	15,859	18,381
Depreciation	17,453	11,062
	730,578	730,237

Nanalysis Corp.

Notes to the Consolidated Financial Statements

For the period ended March 31, 2019 and 2018

11. OPERATING EXPENSES (CONTINUED)

[b] Sales and marketing

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
	\$	\$
Salaries, benefits, subcontracts	200,626	252,944
Selling commissions	253,756	109,312
Travel & accommodation	25,539	106,746
Advertising, conferences, trade shows	127,732	88,257
Office & other expenses	58,904	40,609
	666,556	597,868

[c] General and administration expenses

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
	\$	\$
Consulting and professional fees	101,462	114,157
Salary related expenses	170,162	87,007
Share-based payments	232,419	-
Administrative and general expenses	106,556	138,171
Interest and finance fees	10,147	7,550
Depreciation & amortization	162,572	82,129
	783,316	429,014

Nanalysis Corp.

Notes to the Consolidated Financial Statements

For the period ended March 31, 2019 and 2018

12. OPERATING SEGMENT 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 period ended March 31, 2019, the Company was economically dependent on one customer (2018 – two customers) who each accounted for more than 10% of revenue.

The Company's revenues are allocated to geographic segments for the periods ended March 31, 2019 and March 31, 2018 as follows:

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
	\$	\$
United States of America	1,289,587	938,493
Canada	137,879	69,028
Other	691,090	611,496
	<u>2,118,556</u>	<u>1,619,017</u>

61% of sales are made to universities, 14% pharmaceutical companies, 13% chemical industry, and then remaining 11% to a mix of mining, oil & gas, food, and government agencies such as law enforcement and energy departments.

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 reserves. 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 three months ended March 31, 2019.

Nanalysis Corp.

Notes to the Consolidated Financial Statements

For the period ended March 31, 2019 and 2018

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 March 31, 2019 is the carrying amount of cash, accounts receivable, and other receivables on the 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 the technology industry. One customer accounted for 11% of accounts receivable (2018 – 11%).

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, except as reviewed by the CEO.

[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 March 31, 2019, the Company had working capital of \$3,767,726 (December 31, 2018 - \$3,801,641). 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.

Nanalysis Corp.

Notes to the Consolidated Financial Statements

For the period ended March 31, 2019 and 2018

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

[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 March 31, 2019 and December 31, 2018, the Company had the following assets and liabilities denominated in U.S. dollars:

	March 31, 2019 US\$	December 31, 2018 US\$
Cash	839,036	521,135
Accounts receivable	1,090,114	1,468,740
Accounts payable and accrued liabilities	(198,422)	(179,768)
Total	1,730,728	1,810,107

The above assets and liabilities were translated at 1.3363 at March 31, 2019 (December 31, 2018 – 1.3642). Based on the above net exposure as at March 31, 2019 and December 31, 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 \$231,000 (2018 - \$247,000) 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. As at March 31, 2019 and December 31, 2018, fluctuations in the market interest rates had no significant impact on its interest income.

Nanalysis Corp.

Notes to the Consolidated Financial Statements

For the period ended March 31, 2019 and 2018

15. SUBSEQUENT EVENTS

[a] The Company entered into an amalgamation agreement dated March 31, 2019 with Canvass Ventures Ltd. (“Canvass”), pursuant to which Canvass will acquire all of the outstanding common shares of the Company (“Nanalysis Shares”) by way of a three-corner amalgamation (the “Transaction”) among Canvass, the Company and a wholly-owned subsidiary (“Subco”) of Canvass. Subject to the terms and conditions of, and in the manner as set out in the Amalgamation Agreement, Canvass and Subco will amalgamate, pursuant to the provisions of the Business Corporations Act (Alberta) (“ABCA”), effective as of the date set forth in a certificate of amalgamation to be issued pursuant to the ABCA in respect of the Transaction (the “Effective Date”). Each Nanalysis Share issued and outstanding before the Effective Date shall be exchanged for post Consolidated Canvass shares on the basis of 0.55 Canvass share for each one Nanalysis Share held (the “Exchange Ratio”). The common shares of Subco issued and outstanding immediately before the Effective Date shall be replaced by common shares of the amalgamated company issued in favour of Canvass. Upon amalgamation, the Company will effectively be a wholly-owned subsidiary of Canvass. In accordance with the terms of the Amalgamation Agreement, holders of the Company’s stock options and restricted share units shall receive Canvass stock options and restricted share units, respectively, in accordance with the Exchange Ratio, on the same terms and conditions as their respective stock options and restricted share units. The Transaction is subject to TSX Venture Exchange (“TSXV”) approval and other conditions.

[b] On March 31, 2019 Western Economic Diversification Canada contacted the company notifying it of amendments to the WINN loan agreement project 000015113. This amendment modified the amounts reimbursable for qualifying project expenses to 100% for costs incurred up to March 31, 2019. This amendment will result in 2018 qualifying expenses increasing from \$376,196 to \$964,798. These funds will be booked as a loan in 2019.