

Interim Financial Report

Period Ended September 30, 2020

Nanalysis Scientific Corp.
(formerly Canvass Ventures Ltd.)



Interim Condensed Consolidated Statement of Financial Position

(unaudited) (\$000's)	Note	September 30, 2020	December 31, 2019
ASSETS			
Current			
Cash		4,468	6,619
Accounts receivable		1,430	1,615
Other receivables		1,230	946
Inventory	5	2,282	857
Prepaid expenses and deposit		423	128
		9,833	10,165
Deposit		-	20
Property and equipment	6	1,257	1,273
Right of use assets	6	794	361
Intangible assets	7	12,709	6,487
		14,760	8,141
Total Assets		24,593	18,306
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current			
Accounts payable and accrued liabilities		2,344	678
Warranty provision		95	89
Unearned revenue		2,800	616
Current portion of finance lease obligations	9	223	132
Current portion of long-term debt/repayable contributions	8	184	116
		5,646	1,631
Deferred income tax liability		39	297
Finance lease obligations	9	585	239
Long-term debt/repayable contributions	8	2,907	1,020
Total Liabilities		9,177	3,187
SHAREHOLDERS' EQUITY			
Share capital	10	20,665	18,267
Contributed surplus		1,281	1,094
Deficit		(6,712)	(4,242)
Other comprehensive income		182	-
Total shareholders' equity		15,416	15,119
Total liabilities and shareholders' equity		24,593	18,306

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

Sean Krakiwsky
CEO, Director

Werner Gartner
Director

Interim Condensed Consolidated Statement of Comprehensive Loss

(unaudited) (\$000s except for per share amounts)	Note	Three months ended September 30		Nine months ended September 30	
		2020	2019	2020	2019
Revenue		1,700	1,641	5,219	6,241
Cost of products sold	12[a]	644	385	1,855	1,897
Gross profit		1,056	1,256	3,364	4,344
Sales and marketing	12[b]	822	409	2,200	1,588
General and administration	12[c]	668	782	2,187	1,929
		1,490	1,191	4,387	3,517
Income (loss) before other items		(434)	65	(1,023)	827
Other Items					
Acquisition transaction costs		-	-	275	-
RTO transaction costs		-	61	-	1,421
Depreciation and amortization expense	6,7	466	273	1,187	607
Finance expense (income)		3	87	(86)	20
One time inventory adjustment		-	(75)	-	(23)
Stock-based compensation	10	150	(7)	313	371
Foreign exchange (gain) loss		130	24	17	146
Loss before tax		(1,183)	(298)	(2,729)	(1,715)
Deferred income tax recovery		84	-	259	36
Net loss		(1,099)	(298)	(2,470)	(1,679)
Other comprehensive income		40	-	182	-
Total comprehensive loss		(1,059)	(298)	(2,288)	(1,679)
Basic loss per common share		(0.02)	-	(0.04)	(0.03)
Weighted average number of common shares outstanding - basic		66,037,750	61,364,965	65,085,338	53,611,060
Diluted loss per common share		(0.02)	-	(0.04)	(0.03)
Weighted average number of common shares outstanding - diluted		66,037,750	61,364,965	65,085,338	53,611,060

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

Interim Condensed Consolidated Statement of Changes in Equity

(unaudited)

(\$000's)

	Shares Outstanding	Share Capital	Contributed Surplus	Other Comp. Loss	Deficit	Total
	(000's)	\$	\$	\$	\$	\$
Balance at January 1, 2019	47,443	9,976	997	-	(2,582)	8,391
Financing concurrent with RTO (net of share issuance costs)	8,333	4,676	-	-	-	4,676
Private placement	2,500	1,500	-	-	-	1,500
Issuance of shares to Canvass shareholders	2,278	1,367	-	-	-	1,367
Shares issued for services ⁽¹⁾	297	178	-	-	-	178
Restricted share units exercised ⁽¹⁾	72	50	(7)	-	-	43
Exercise of w arrants	46	18	-	-	-	18
Exercise of options	644	189	(65)	-	-	124
Stock-based compensation	-	-	149	-	-	149
Value of Canvass options acquired	-	-	37	-	-	37
Value of w arrants issued	-	-	31	-	-	31
Net loss for the period	-	-	-	-	(1,679)	(1,679)
Balance at September 30, 2019	61,613	17,954	1,142	-	(4,261)	14,835
Balance at January 1, 2020	62,361	18,267	1,094	-	(4,242)	15,119
Shares issued for purchase of RS2D (note 4)	2,900	2,030	-	-	-	2,030
Exercise of options	777	368	(126)	-	-	242
Stock-based compensation	-	-	313	-	-	313
Net loss for the period	-	-	-	-	(2,470)	(2,470)
Other comprehensive income	-	-	-	182	-	182
Balance at September 30, 2020	66,038	20,665	1,281	182	(6,712)	15,416

⁽¹⁾ The number of shares have been converted at the exchange ratio of 0.55 for each previous common share, with respect to the RTO transaction.

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

Interim Condensed Consolidated Statement of Cashflow

		Nine months ended September 30	
(Unaudited)			
(\$000's)	Note	2020	2019
Cash flows from operating activities			
Net loss		(2,470)	(1,679)
Add (deduct) non-cash items:			
Non cash finance expense		-	39
Grant income		(36)	(64)
Depreciation of property plant and equipment	6	572	380
Amortization of intangible assets	7	733	285
Deferred tax recovery		(259)	(36)
Share based payments		-	221
Stock based compensation	10	313	149
Finance expense		37	(103)
Changes in non-cash working capital		1,628	496
Cash flows provided by (used in) operating activities		518	(312)
Cash flows from investing activities			
Purchases of property and equipment	6	(391)	(378)
Additions to intangible assets	7	(2,154)	(1,713)
Acquisition of RS2D (net of cash)	4	(1,209)	-
Cash flows used in investing activities		(3,754)	(2,091)
Cash flows from financing activities			
Proceeds from RTO financing, net of financing fees		-	4,706
RTO transaction costs		-	985
Proceeds from financing, net of financing fees		-	1,500
Cash acquired from Canvass on Reverse Takeover (RTO)		-	545
Warrant / Restricted Share Units (RSU) exercise		-	18
Finance expense		(37)	103
Payment of lease obligations	9	(183)	(80)
Proceeds from long-term debt	8	1,183	410
Repayment of long-term debt	8	(120)	(410)
Exercise of stock options	10	242	124
Cash flows provided by financing activities		1,085	7,901
Increase (decrease) in cash		(2,151)	5,498
Cash beginning of period		6,619	779
Cash end of period		4,468	6,277

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2020 and 2019 (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. Nanalysis is a patent-protected technology company that develops, manufactures, and sells compact nuclear magnetic resonance spectrometers (NMR spectrometer) for the pharmaceutical, biotech, chemical, security, food, materials, and education industries. On June 4, 2019, the Company completed an amalgamation with Nanalysis Corp. and a subsidiary corporation. The amalgamation was accounted for as a reverse takeover (the “RTO”) with Nanalysis Corp. as the acquirer. Canvass Ventures Ltd, the acquired, was a public shell Corporation and was purchased to allow Nanalysis to be publicly traded. The Company is publicly-traded on the TSX Venture Exchange under the symbol “NSCI”, on the over the counter in the United States under ticker symbol “NSCIF” and under the Frankfurt Stock Exchange under ticker symbol “1N1”.

The Company’s registered and records office is located at Suite 1000, Livingston Place West, 250 2nd Street SW, Calgary, Alberta, T2P 0C1. Its head office is located at Bay 1, 4600 5th Street NE, Calgary, Alberta T2E 7C3.

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”) on a basis consistent with the accounting, estimation and valuation policies described in the Company’s audited Consolidated Financial Statements as at and for the year ended December 31, 2019. Certain information and disclosures normally required to be included in the notes to the financial statements have been condensed or omitted. These unaudited interim condensed consolidated financial statements should be read in conjunction with Nanalysis consolidated financial statements as at and for the year ended December 31, 2019, filed under the Company’s profile on SEDAR at www.sedar.com.

These unaudited interim condensed consolidated financial statements were approved by the Company’s Board of Directors on November 25, 2020.

[b] Basis of measurement

These unaudited 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

Nanalysis is the ultimate parent company of a consolidated group of companies. These unaudited interim condensed consolidated financial statements include the Company’s wholly owned subsidiaries: Nanalysis Corp., its wholly owned German subsidiary and RS2D S.A.S. All significant intercompany transactions and balances have been eliminated.

Subsidiary	Ownership September 30, 2020	Ownership December 31, 2019	Incorporated	Nature
Nanalysis GmbH	100%	100%	Germany	Direct Sales, Marketing, Technical Support
Nanalysis Corp.	100%	100%	Canada	Technology, Manufacturing
RS2D	100%	0%	France	Technology

[d] Functional and foreign currency

These interim condensed consolidated financial statements are presented in Canadian dollars, which is the Company’s presentation currency. The financial statements of each of our subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the “functional currency”). The functional currency of each of the Company’s subsidiaries is the Canadian dollar, except for RS2D, whose functional currency is the Euro. Foreign exchange gains and losses resulting from the settlement of transactions denominated in a currency other than an entity’s functional currency are recognized in the consolidated statements of loss and comprehensive loss. Assets and liabilities of entities with functional currencies other than the Canadian dollar are translated into Canadian dollars at the period end exchange rate, and the results of their operations are translated at the average rates for the period. The resulting translation adjustments are included in other comprehensive (loss) income.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2020 and 2019 (unaudited)

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3. SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

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 unaudited interim condensed consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The impacts of such estimates are pervasive throughout these unaudited 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. Note 2 to the audited consolidated financial statements as at and for the year ended December 31, 2019 contains a description of the judgements, estimates and assumptions that are considered significant.

Revenue recognition

Most of the Company's revenues 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, this is determined on a per contract basis dependent on shipping terms as required by the 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, up to a maximum of four years, on a straight-line basis. Payment is received upfront for the extended warranty, for 100MHz sales or for maintenance contracts is initially recorded as unearned revenue.

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

4. BUSINESS ACQUISITION

On March 3, 2020, the Company acquired all of the outstanding shares of RS2D S.A.S. ("RS2D"), a technology company based in Strasbourg, France that designs and builds cutting-edge electronics components for precision analytical instruments. The base consideration paid for RS2D was \$1,900K in cash and the issuance of 2.9 million Nanalysis shares, which are subject to a three-year lock-up period restricting the sale of shares for specific periods. The former shareholders of RS2D may also receive an earnout over the three years to December 31, 2022, based on future revenue growth thresholds. As receipt of this earnout is not subject to any service requirement by the former shareholders, management has concluded the earnout is part of the purchase consideration and has assessed its fair value to be \$Nil. Transaction costs for the acquisition were \$275k.

The acquisition was accounted for as a business combination. The Company determined the purchase consideration to be \$3,900K, comprised of the following:

Purchase Price Allocation:

(\$000's)	
Cash	1,897
Common shares	2,030
Purchase consideration	3,927

The assets acquired and liabilities assumed are recorded at their fair value. Due to restrictions in place as a result of COVID-19, the Company's ability to determine fair value for each balance and complete a detailed analysis of the entities' tax position was limited. Accordingly, the following allocation of the purchase consideration to the assets and liabilities is preliminary as it is possible certain balances could be adjusted as information becomes available in subsequent periods:

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2020 and 2019 (unaudited)

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(\$000's)	Fair value recognized on acquisition
ASSETS	
Accounts receivable	1,229
Other receivables	418
Inventory	151
Prepaid expenses and deposit	180
Property and equipment	96
Right of use assets	530
Intangible assets	146
Total assets	2,750
LIABILITIES	
Accounts payable and accrued liabilities	1,301
Warranty provision	64
Unearned revenue	1,214
Lease liabilities	524
Debt and repayable contributions	903
Total liabilities	4,006
Net assets before cash and cash equivalents	(1,256)
Cash and cash equivalents	688
Net assets	(568)
Intangible assets	4,495
Purchase consideration	3,927

5. INVENTORY

(\$000's)	September 30, 2020	December 31, 2019
Raw materials	824	195
Work in process	921	338
Finished goods	582	369
Inventory provision	(45)	(45)
Total inventory	2,282	857

Inventory expensed to cost of sales for the three and nine months ended September 30, 2020 was \$443K and \$1,236K respectively (three and nine months ended September 30, 2019 - \$120K and \$1,085K).

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2020 and 2019 (unaudited)

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6. PROPERTY, EQUIPMENT AND RIGHT OF USE ASSET

(\$ 000's)	Office Furniture and Equipment	Computer Hardw are	Manufacturing Equipment	Leasehold Improvements	Right of Use Assets	Total
Cost:						
Balance, December 31, 2018	152	171	1,282	187	460	2,252
Addition	10	43	444	48	22	567
Disposals	(27)	(68)	(65)	(34)	-	(194)
Balance, December 31, 2019	135	146	1,661	201	482	2,625
Acquisition of RS2D	-	13	83	-	530	626
Addition	2	1	288	37	63	391
Disposals	-	-	(87)	-	(5)	(92)
Foreign exchange	-	3	18	-	8	28
Balance, September 30, 2020	137	163	1,963	238	1,078	3,578
Accumulated depreciation:						
Balance, December 31, 2018	90	103	408	55	-	656
Depreciation	26	27	313	26	121	513
Disposals	(27)	(68)	(49)	(34)	-	(178)
Balance, December 31, 2019	89	62	672	47	121	991
Depreciation	11	28	323	45	165	572
Disposals	-	-	(48)	-	(5)	(53)
Foreign exchange	-	3	11	-	3	17
Balance, September 30, 2020	100	93	958	92	284	1,527
Net book value:						
Balance, December 31, 2019	46	84	989	154	361	1,634
Balance, September 30, 2020	37	70	1,005	146	794	2,051

During the nine months ended September 30, 2020, depreciation of \$50K was recognized as an expense in cost of goods sold (2019 - \$34K). Additionally during the nine months ended September 30, 2020, depreciation of \$20k was capitalized into development costs (2019 - \$3K). The company did not identify any indicators of impairment as at September 30, 2020.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2020 and 2019 (unaudited)

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

7. INTANGIBLE ASSETS

(\$ 000's)	Development costs	Patents	Software	Intangible	Total
Cost:					
Balance, December 31, 2018	4,341	532	223	-	5,096
Addition	2,417	71	106	-	2,594
Disposal		(8)	(136)	-	(144)
Balance, December 31, 2019	6,758	595	193	-	7,546
Acquisition of RS2D	146	-	2	4,495	4,643
Addition	2,032	108	14	-	2,154
Disposal	(61)	-	(2)	-	(63)
Foreign exchange	6	-	1	218	225
Balance, September 30, 2020	8,881	703	208	4,713	14,505
Accumulated amortization:					
Balance, December 31, 2018	580	129	154	-	863
Amortization	270	34	28	-	332
Disposal	-	-	(136)	-	(136)
Balance, December 31, 2019	850	163	46	-	1,059
Amortization	527	63	37	106	733
Disposal	-	-	(2)	-	(2)
Foreign exchange	3	-	3	-	6
Balance, September 30, 2020	1,380	226	84	106	1,796
Net book value:					
As of December 31, 2019	5,908	432	147	-	6,487
Balance, September 30, 2020	7,501	477	124	4,607	12,709

The company did not identify any indicators of impairment as at September 30, 2020.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2020 and 2019 (unaudited)

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

8. LONG-TERM DEBT

(\$000's)	September 30, 2020	December 31, 2019
Shareholders Loans: original amount of \$223k repayable in monthly blended installments of \$6k commencing June 15, 2016 until May 15, 2020. Interest payable at 11.99% per annum. Secured with Makino machinery (F5).	-	28
Western Economic Diversification Canada (WINN #1) interest free loan \$496k repayable in monthly installments of \$8k 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.	206	220
Western Economic Diversification Canada (WINN #2) interest free loan, repayable in monthly installments of \$46k commencing February 1, 2022, and maturing January 31, 2027. Total value of this loan will be up to \$2,773k. 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.	1,834	884
\$6k loan for the purchase of equipment repayable in equal monthly installments of \$109 over 56 months commencing April 28, 2018.	-	4
The Canada Emergency Business Account (CEBA) interest-free loans of \$40k to small businesses and not-for-profits, to help cover their operating costs during a period where their revenues have been temporarily reduced. \$30k is repayable on or before December 31, 2022	37	-
Prêt garanti par l'état – (PGE) is a Euro denominated loan granted by the French state to RS2D. Interest free loan for \$156k, repayable in full on June 5, 2021, or at the election of the Company, monthly payments can be made to extend the loan until June 5, 2025. The obligation is recorded as its present value using a 2.5% discount rate. This loan is unsecured.	145	-
Procédure de sauvegarde, interest free Euro denominated loan repayable in annual payments of \$97k. Acquired debt from RS2D relating to a restructuring of RS2D.	869	-
	3,091	1,136
Less: current portion	184	116
Non-current portion of loans and borrowings	2,907	1,020

Credit Facility

The Company entered into a line of credit agreement with Scotiabank in 2019, pursuant to which it may borrow up to maximum of \$2.0 million dollars ("the Credit Facility"). The borrowing base is calculated using the aggregate of 75% of eligible USD receivables, 85% of eligible CAD investment grade receivables, and 50% of eligible inventory. As of September 30, 2020 the Company had no drawings on the facility, the facility bears interest at prime plus 0.75 percent.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2020 and 2019 (unaudited)

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9. LEASE LIABILITIES

(\$000's)	September 30, 2020	December 31, 2019
Current lease liabilities		
Lease obligations equipment and vehicles	31	2
Lease obligations office and shop	192	130
Current portion of lease liabilities	223	132
Non current lease liabilities		
Lease obligations equipment and vehicles	134	5
Lease obligations office and shop	451	234
Non-current portion of lease liabilities	585	239
Total lease obligation	808	371

10. 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, 2020 Nanalysis had 66,038,000 common shares outstanding. At September 30, 2020 there were 3,669,334 shares in escrow with scheduled release over 5 months completing on December 11, 2020. There were an additional 2.6 million shares under lock up issued for the acquisition of RS2D, these shares are scheduled for release as follows: 870,000 on March 03, 2021, 870,000 on March 03, 2022 and 870,000 on March 03, 2023.

[i] During the nine month period ended September 30, 2020 the Company issued the following common shares:

- 776,250 shares upon the exercise of options for cash consideration of \$242K
- 2,900,000 shares issued at a price of \$0.70 for the acquisition of RS2D, see note 4

[c] Stock options

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

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, which is typically 3 years. The maximum number of outstanding options must be no more than 10% of the issued and outstanding common shares at any point in time, the 10% includes both stock options and restricted share units in aggregate. 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.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2020 and 2019 (unaudited)

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	Number	Weighted Average Exercise Price \$
Balance, December 31, 2018	3,704,250	0.29
Granted	1,872,500	0.62
Canvass options ⁽¹⁾	112,500	0.47
Exercised	(1,391,500)	(0.20)
Forfeitures	(404,250)	(0.40)
Balance, December 31, 2019	3,893,500	0.46
Granted Q1 2020	1,637,500	0.60
Granted Q2 2020	Nil	N/A
Granted Q3 2020	130,000	0.60
Exercised	(776,250)	(0.31)
Forfeitures	(37,500)	(0.60)
Balance, September 30, 2020	4,847,250	0.53

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

During the three and nine month periods ended September 30, 2020, the Company recorded stock-based compensation of \$150K and \$313K, respectively (three and nine months ended September 30, 2019 – a recovery of \$7K and expense of \$149K), for stock options granted.

The fair values of stock options granted during the nine month period ended September 30, 2020 and 2019 were estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2020	2019
Risk-free interest rate	0.35%-1.6%	1.1%-1.9%
Estimated annualized volatility based on historical performance	76%	67%-78%
Expected life	5.0 years	5.0 years
Expected dividend yield	0%	0%
Exercise price	\$0.60-\$0.65	\$0.60-\$0.75
Share price on date of grant	\$0.43 to \$0.62	\$0.40 to \$0.60

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

Exercise Price (\$)	Number of Options Outstanding	Weighted Average Life	Number of Options Exercisable
0.18	550,000	0.48	550,000
0.22	68,750	2.13	68,750
0.36	33,000	0.29	33,000
0.42	143,000	1.21	143,000
0.45	412,500	2.25	257,675
0.60	3,390,000	4.16	499,075
0.65	50,000	4.33	-
0.75	200,000	3.78	66,667
	4,847,250	3.42	1,618,167

As at September 30, 2020, the weighted average remaining life for outstanding options was 3.42 years (December 31, 2019 – 2.89). As the Company is in a loss positions, the weighted average number of shares used in the calculation of earnings per share is the same for both basic and diluted.

[d] Restricted Share Units (“RSU”)

The RSU Plan was approved by the disinterested shareholders of the Company at the annual general and special meeting held on June 23, 2020. The fixed maximum number of the Company's Common Shares which may be available for issuance upon settlement of the RSUs issued under the RSU Plan is 1,000,000 Common Shares. In accordance with the policies of the TSX Venture Exchange, the maximum number of Common Shares which may be reserved for issuance under the RSU Plan and the Company's Stock Option Plan, in aggregate, cannot

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2020 and 2019 (unaudited)

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exceed 10% of the total number of the Company's issued and outstanding Common Shares. On July 1, 2020, the Company granted 40,000 RSU's to each independent director of the Company for a total of 160,000 RSUs. These RSUs vest in two stages, one half 18 months from the date of grant and one half 36 months from the date of grant. Each vested RSU entitles the holder to receive one common share of the Company.

[e] Warrants

As at September 30, 2020 the Company has 1,250,000 warrants outstanding (December 31, 2019 – 5,773,900). 4,523,900 warrants at an exercise price of \$0.75 expired in the previous quarter. The remaining warrants were issued in conjunction with a financing in 2019, at an exercise price of \$0.75 and expire on June 6, 2021. The Company calculated the fair value of the share purchase warrants using the Black-Scholes pricing model to estimate the fair value of the warrants issued at the date of grant. The warrants were valued using a risk-free interest rate of 1.33% and volatility of 71%. The fair value of warrants issued is \$250K.

11. 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,	
	2020	2019	2020	2019
Interest and finance fees on shareholder loans:				
Makino loan (F5) (note 8)	-	2	1	6
Essemtec loan (SMT)	-	5	-	17
	-	7	1	23

For the three months ended September 30, 2020 no advisory fees were paid to a director (three months ended September 30, 2019 \$NIL), for the nine months ended September 30, 2020 \$4K were paid in advisory services fees to a director (nine months ended September 30, 2019 \$66K).

12. OPERATING EXPENSES

[a] Cost of products sold

(\$000's)	Three months ended September 30		Nine Months ended September 30	
	2020	2019	2020	2019
Direct material costs	295	138	776	1,102
Salaries and wages	255	11	677	215
Direct overhead	83	226	386	509
Warranty expense	(6)	(7)	(34)	19
Depreciation	17	17	50	52
	644	385	1,855	1,897

[b] Sales and marketing

(\$000's)	Three months ended September 30		Nine Months ended September 30	
	2020	2019	2020	2019
Salaries, benefits, subcontracts	669	282	1,559	621
Selling commissions	41	(59)	149	242
Travel & accommodation	3	55	51	127
Advertising, conferences, trade shows	58	84	264	420
Office & other expenses	51	47	177	178
	822	409	2,200	1,588

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2020 and 2019 (unaudited)

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

[c] General and administrative expenses

(\$000's)	Three months ended September 30		Nine Months ended September 30	
	2020	2019	2020	2019
Consulting and professional fees	175	203	781	542
Salary related expenses	320	253	915	714
Administrative and general expenses	145	239	426	586
Bad debt expenses	28	87	65	87
	668	782	2,187	1,929

13. REVENUE AND SEGMENT INFORMATION

The Company's activities are carried out through three reportable segments: Nanalysis, RS2D and Corporate. The Company's executive leadership is responsible for strategic decision making, resource allocation, and assessing financial performance and, as a group, is identified as our chief operating decision maker for the purposes of reporting segment information under International Financial Reporting Standards ("IFRS").

Nanalysis: This segment is primarily responsible for the manufacture and sale of spectrometers. All operating related expenses and revenues flow through this segment relating to the manufacturing of spectrometers.

RS2D: RS2D is a technology company based in Strasbourg which specializes in the manufacturing of cutting-edge electronics components for precision analytical instruments. These instruments will be used as a component in the production of future spectrometers in addition to being sold to third parties. As at September 30, 2020 there have been \$61K intercompany sales between RS2D and Nanalysis Corp.

Corporate: This segment is the corporate entity of the company; it is not an operating segment. Included in Corporate is executive, legal, and other administrative costs.

Inter-segment transactions are recorded at values that approximate third-party selling prices and are eliminated for segmented reporting. Segment performance is measured based on operating earnings, as included in the internal management reports which are reviewed at least quarterly by the Chief Executive Officer, Chief Financial Officer and other senior management. Segment operating earnings is believed to be the most relevant measure of performance as it enables comparison against the results of the other competitors operating in the same industries.

Three months ended September 30, 2020	Nanalysis	RS2D	Corporate	Total
Revenue	1,087	613	-	1,700
Operating loss	(45)	(93)	(296)	(434)
Net loss	(414)	(233)	(452)	(1,099)
Depreciation and amortization	332	134	-	466
Capital expenditures	718	282	-	1,000
Total assets as at September 30, 2020	12,951	8,272	3,370	24,593

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2020 and 2019 (unaudited)

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(\$000's)

Three months ended September 30, 2019	Nanalysis	RS2D	Corporate	Total
Revenue	1,641	-	-	1,641
Operating earnings (loss)	362	-	(297)	65
Net income (loss)	217	-	(515)	(298)
Depreciation and amortization	273	-	-	273
Capital expenditures	238	-	-	238
Total assets as at September 30, 2019	9,416	-	9,022	18,438

(\$000's)

Nine months ended September 30, 2020	Nanalysis	RS2D	Corporate	Total
Revenue	3,969	1,250	-	5,219
Operating earnings (loss)	(71)	45	(997)	(1,023)
Net loss	(696)	(205)	(1,569)	(2,470)
Depreciation and amortization	953	234	-	1,187
Capital expenditures	2,261	282	-	2,543
Total assets as at September 30, 2020	12,951	8,272	3,370	24,593

(\$000's)

Nine months ended September 30, 2019	Nanalysis	RS2D	Corporate	Total
Revenue	6,241	-	-	6,241
Operating earnings (loss)	1,186	-	(359)	827
Net income (loss)	355	-	(2,034)	(1,679)
Depreciation and amortization	607	-	-	607
Capital expenditures	378	-	-	378
Total assets as at September 30, 2019	9,416	-	9,022	18,438

GEOGRAPHIC LOCATION

During the three and nine months ended September 30 the Company was economically dependent on one customer accounting for more than 10% of revenue (2019 – none). The Company's revenues are allocated to geographic segments for the three and nine months ended September 30, 2020 and 2019 as follows:

(\$000's)	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
United States of America	309	1,104	2,070	3,930
Europe	771	-	1,654	524
Canada	48	337	355	987
Asia	397	-	509	343
Other (Brazil, Chile, India, Mexico, Morocco, Nigeria)	175	200	631	457
Total	1,700	1,641	5,219	6,241

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2020 and 2019 (unaudited)

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14. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, and manage capital so that it can continue to provide returns for shareholders and benefits for other stakeholders through the development and sales 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 manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's liquidity needs in short term and long term can be sourced multiple ways including: funds from operations, available cash balances, new debt instruments, equity issuances and government funding. The Company monitors its financing requirements through regular forecasting of its cash position. Financing decisions are based on the timing and extent of expected operating and capital cash outlays. The Company has financed its capital requirements primarily through loans and share issuances since inception.

The Company may issue new securities. The Company is not subject to any externally imposed capital requirements.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value

Financial instruments at September 30, 2020 consist of cash and cash equivalents, accounts receivable, other receivables, deposits, accounts payable, finance lease obligations and long-term debt/repayable contributions. The carrying values of these financial instruments approximate their fair values.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's maximum exposure to credit risk at September 30, 2020 is the carrying amount of cash, accounts receivable, and other receivables on the consolidated statements of financial position. 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 180 days past due. During the 9 months ended September 30, 2020, a bad debt of \$65K was recognized as an expense (2019 - \$86K).

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, 2020, the Company had working capital of \$4,187K (December 31, 2019 - \$8,534K). 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.

Market risk

Market risk is the risk of loss that results from changes in market prices, market risk is comprised of foreign currency risk, interest rate risk and other price risks. The level of market risk to which the Company is exposed to depends on market condition, expectations of future price or market rate movements and the composition of the Company's financial assets and liabilities. The Company regularly monitors market risk exposure, tolerance and control processes in order to manage the exposure related to changes in market risk and to stay within acceptable market risk limits.

[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 and the Euro. The Company has not entered into foreign exchange derivative contracts.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2020 and 2019 (unaudited)

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

As at September 30, 2020 and 2019, the Company had the following assets and liabilities denominated in U.S. dollars:

	September 30, 2020	Dec 31, 2019
(\$000's)	US\$	US\$
Cash	117	1,338
Accounts receivable	812	776
Accounts payable and accrued liabilities	(268)	(37)
Total	661	2,077

The above assets and liabilities were translated at \$1.33 at September 30, 2020 (December 31, 2019 – \$1.30). Based on the above net exposure as at September 30, 2020 and 2019, 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 \$89K in the Company's net income/loss. Total sales in USD for the quarter ended September 30, 2020 was \$232K, a 10% appreciation or deterioration of the Canadian dollar against the U.S. dollar would result in a change of approximately \$23K.

As at September 30, 2020 and 2019, the Company had the following assets and liabilities denominated in Euros:

	September 30, 2020	December 31, 2019
(\$000's)	Euro (€)	Euro (€)
Cash	187	5
Accounts receivable	969	55
Inventory	510	-
Unearned revenue	(779)	-
Debt and lease liabilities	(993)	-
Accounts payable and accrued liabilities	(1,167)	(1)
Total	(1,273)	59

The above assets and liabilities were translated at \$1.56 at September 30, 2020 (December 31, 2019 - \$1.46). Based on the above net exposure as at September 30, 2020, assuming that all other variables remain constant, a 10% appreciation or deterioration of the Canadian dollar against the Euro would result in a change of approximately \$199K in the Company's other comprehensive income. Total sales in Euros for the quarter ended September 30, 2020 was \$394K, a 10% appreciation or deterioration of the Canadian dollar against the Euro would result in a change of approximately \$61K.

[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 quarter ended September 30, 2020 and 2019, fluctuations in the market interest rates had no significant impact on its interest expense.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2020 and 2019 (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 (2)

Luke Caplette, CA, CPA

Chief Financial Officer

Martin Burian, CA, CPA, CBV (1)

Chairman of the Board

Werner Gartner CMA, CPA (1)

Director

Dr. Michal Okoniewski (2)

Director

Guido Cloetens (1) (2)

Director

(1) Member of the Audit Committee

(2) Member of the Corporate Governance, Compensation and Nomination Committee

CORPORATE OFFICE

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Email: IR@nanalysis.com

BANKER

Scotiabank

Calgary, Alberta

LAWYERS

DLA Piper (Canada) LLP

Calgary, Alberta

AUDITORS

Ernst & Young LLP

Calgary, Alberta

STOCK EXCHANGE

TSX Venture

Trading Symbol: NSCI

TRANSFER AGENT AND REGISTRAR

AST Trust Company (Canada)

Vancouver, British Columbia