

2019 Annual Consolidated  
Financial Statements

# Nanalysis Scientific Corp.

(formerly Canvass Ventures Ltd.)



## Management's Report to Shareholders

To the Shareholders of Nanalysis Scientific Corp.:

The accompanying consolidated financial statements and all information in the annual report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies described in the notes to the consolidated financial statements. When necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards (IFRS). The financial information elsewhere in the annual report has been reviewed to ensure consistency with that in the consolidated financial statements.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

Ernst & Young LLP, an independent firm of Chartered Professional Accountants, was engaged, to audit the consolidated financial statements and provide an independent professional opinion.

The Audit Committee of the Board of Directors, which is comprised of four independent directors who are not employees of the Company, provides oversight to the financial reporting process. Integral to this process is the Audit Committee's review and discussion with management and the external auditors of the annual financial statements and the audit report prior to their release. The Audit Committee is also responsible for reviewing and discussing with management and the external auditors' major issues as to the adequacy of the Company's internal controls. The external auditors have unrestricted access to the Audit Committee to discuss their audit and related matters. The consolidated financial statements have been recommended for approval by the Audit Committee and approved by the Board of Directors of Nanalysis Scientific Corp.

*Sean Krakowsky*

Sean Krakowsky, Chief Executive Officer

*Luke Caplette*

Luke Caplette, Chief Financial Officer

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Nanalysis Scientific Corp.

### Opinion

We have audited the consolidated financial statements of Nanalysis Scientific Corp. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of loss and comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other matter

The financial statements of the Group for the year ended December 31, 2018, were audited by another auditor who expressed an unmodified opinion on those statements on May 24, 2019.

### Other Information included in the Group's 2019 Annual Report

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our

opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise

from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Robert Jubenvill.

The logo for Ernst & Young LLP is written in a black, cursive, handwritten-style font.

Chartered Professional Accountants

Calgary, Canada  
April 22, 2020

# Consolidated Statement of Financial Position

(\$000's)	Note	December 31, 2019	December 31, 2018
<b>ASSETS</b>			
Current			
Cash and cash equivalents		6,619	779
Accounts receivable	16	1,615	2,419
Other receivables		946	1,592
Inventory	6	857	735
Prepaid expenses and deposit		128	34
		10,165	5,559
Deposit		20	20
Property and equipment	7	1,273	1,136
Right of use assets	4	361	-
Intangible assets	8	6,487	4,233
		8,141	5,389
<b>Total Assets</b>		<b>18,306</b>	<b>10,948</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
Current			
Accounts payable and accrued liabilities		678	1,030
Warranty provision		89	178
Unearned revenue		616	316
Current portion of lease liability	4	132	-
Current portion of long-term debt/repayable contributions	9	116	233
		1,631	1,757
Deferred income tax liability	12	297	36
Lease liability	4	239	-
Long-term debt/repayable contributions	9	1,020	764
<b>Total Liabilities</b>		<b>3,187</b>	<b>2,557</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	10	18,267	9,976
Contributed surplus		1,094	997
Deficit		(4,242)	(2,582)
<b>Total Shareholders' Equity</b>		<b>15,119</b>	<b>8,391</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>18,306</b>	<b>10,948</b>

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

These consolidated financial statements were approved for issue by the Board of Directors on April 22, 2020 and signed on its behalf by:

Sean Krakiwsky  
CEO, Director

Werner Gartner  
Director

## Consolidated Statement of Loss and Comprehensive Loss

For the years ended December 31 (\$000s except per share amounts)	Note	2019	2018
Revenue	14	8,364	8,381
Cost of products sold	13[a]	2,304	2,983
<b>Gross profit</b>		<b>6,060</b>	<b>5,398</b>
Sales and marketing	13[b]	2,453	2,515
General and administration	13[c]	2,562	1,965
		<b>5,015</b>	<b>4,480</b>
<b>Income before other items</b>		<b>1,045</b>	<b>918</b>
<b>Other Items</b>			
Depreciation and amortization expense	4,7,8	775	339
RTO transaction costs	5	1,303	-
Stock-based compensation	10	212	291
Finance expense (income)		(59)	117
Foreign exchange loss		213	35
<b>Earnings (loss) before tax</b>		<b>(1,399)</b>	<b>136</b>
Deferred income tax expense	12	261	62
<b>Earnings (loss) and comprehensive earnings (loss)</b>		<b>(1,660)</b>	<b>74</b>
Basic earnings (loss) per common share		(0.03)	0.00
Weighted average number of common shares outstanding - basic		55,631,589	43,899,671
Diluted earnings (loss) per common share		(0.03)	0.00
Weighted average number of common shares outstanding - diluted		55,631,589	45,638,977

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

# Consolidated Statement of Changes in Equity

(\$000's except numbers of shares)

	Shares Outstanding	Share Capital	Subscription Receivable	Contributed Surplus	Deficit	Total
	(000's)	\$	\$	\$	\$	\$
<b>Balance at January 1, 2018</b>	<b>41,607</b>	<b>7,065</b>	<b>(15)</b>	<b>833</b>	<b>(2,656)</b>	<b>5,227</b>
Private placement <sup>(1)</sup>	4,230	2,200	-	-	-	2,200
Conversion of 2016 SR&ED loans <sup>(1)</sup>	921	385	-	-	-	385
Share issued for payment of finance fees <sup>(1)</sup>	185	77	-	-	-	77
Conversion of machine loan <sup>(1)</sup>	167	100	-	-	-	100
Incentive grant <sup>(1)</sup>	72	33	-	-	-	33
Shares issued for services <sup>(1)</sup>	176	80	-	-	-	80
Stock options exercised <sup>(1)</sup>	85	36	-	(14)	-	22
Stock options granted <sup>(1)</sup>	-	-	-	102	-	102
Share subscriptions received <sup>(1)</sup>	-	-	15	-	-	15
Restricted share units granted <sup>(1)</sup>	-	-	-	7	-	7
Stock options modified <sup>(1)</sup>	-	-	-	69	-	69
Net income for the period <sup>(1)</sup>	-	-	-	-	74	74
<b>Balance at December 31, 2018</b>	<b>47,443</b>	<b>9,976</b>	<b>-</b>	<b>997</b>	<b>(2,582)</b>	<b>8,391</b>
<b>Balance at January 1, 2019</b>	<b>47,443</b>	<b>9,976</b>	<b>-</b>	<b>997</b>	<b>(2,582)</b>	<b>8,391</b>
Financing concurrent with RTO (net of issuance costs)	8,333	4,676	-	-	-	4,676
Private placement (net of share issue costs)	2,500	1,500	-	-	-	1,500
Issuance of share to canvass shareholders	2,278	1,367	-	-	-	1,367
Shares issued for services <sup>(1)</sup>	297	178	-	-	-	178
Restricted share units exercised <sup>(1)</sup>	72	50	-	(7)	-	43
Exercise of warrants	46	18	-	-	-	18
Exercise of options	1,392	502	-	(176)	-	326
Stock based compensation	-	-	-	212	-	212
Value of Canvass options acquired	-	-	-	37	-	37
Value of warrants issue	-	-	-	31	-	31
Net loss for the period	-	-	-	-	(1,660)	(1,660)
<b>Balance at December 31, 2019</b>	<b>62,361</b>	<b>18,267</b>	<b>-</b>	<b>1,094</b>	<b>(4,242)</b>	<b>15,119</b>

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

# Consolidated Statement of Cashflow

For the years ended December 31,

(\$000's)	Note	2019	2018
<b>Cash flows from operating activities</b>			
Net loss		(1,660)	74
Add (deduct) non-cash items:			
Non cash finance expense		(54)	34
Grant income		-	(63)
Depreciation of property and equipment	4,7	513	177
Amortization of intangible assets	8	332	195
Deferred tax expense	12	261	62
Stock based compensation	10	212	-
Share based payments	10	178	291
Warranty expense (recovery)		(89)	
Finance expense		41	-
Changes in non-cash working capital		1,047	(941)
Cash flows provided by (used in) operating activities		781	(171)
<b>Cash flows from investing activities</b>			
Purchases of property and equipment	7	(545)	(804)
Additions to intangible assets	8	(2,594)	(1,444)
Cash flows used in investing activities		(3,139)	(2,248)
<b>Cash flows from financing activities</b>			
Proceeds from RTO financing, net of financing fees		4,741	-
RTO transaction costs		985	-
Proceeds from financing, net of financing fees	10	1,500	2,200
Share subscriptions received		-	15
Payment of lease obligations	4	(111)	-
Proceeds from long-term debt	9	625	236
Repayment of long-term debt	9	(433)	(360)
Repayment to investors		-	(20)
Cash acquired from Canvass on Reverse Takeover (RTO)	5	545	-
Warrant/Restricted Share Units (RSU) exercise	10	61	-
Exercise of stock options	10	326	22
Finance expense		(41)	-
Cash flows provided by financing activities		8,198	2,093
Increase (decrease) in cash and equivalents		5,840	(326)
Cash and cash equivalents, beginning of period		779	1,105
Cash and cash equivalents, end of period		6,619	779

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

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 with a proven track record in the development, manufacturing, and global sales of compact nuclear magnetic resonance spectrometers (NMR spectrometer) for the pharmaceutical, biotech, chemical, security, food, materials, and education industries. The Company is publicly-traded on the TSX Venture Exchange under the symbol “NSCI”. The Company’s registered and records office is located at Suite 1000, Livingston Place West, 250 2<sup>nd</sup> Street SW, Calgary, Alberta, T2P 0C1. Its head office is located at Bay 1, 4600 5<sup>th</sup> Street NE, Calgary, Alberta T2E 7C3. On June 4, 2019, the Company completed an amalgamation with Nanalysis Corp. and a subsidiary corporation. The amalgamation has been accounted for as a reverse takeover (the “RTO”) with Nanalysis Corp. being identified as the acquirer, Canvass Ventures Ltd, the acquired, was a public shell Corporation and was purchased to allow Nanalysis to be publicly traded (note 5). Nanalysis Scientific Corp. is the ultimate parent entity in the group.

## 2. BASIS OF PRESENTATION

### [a] Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Account Standards Board (“IASB”) The consolidated financial statements have been prepared using the same account policies and methods as the financial statements for the year ended December 31, 2018, except for IFRS 16 Leases, which was adopted on January 1, 2019.

These consolidated financial statements were approved by the Company’s Board of Directors on April 22, 2020.

### [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] Basis of consolidation

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

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

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

### [d] Functional and foreign currency

These consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency. The German subsidiary’s functional currency is the Canadian Dollar. 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 earnings (loss).

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

# Notes to the Consolidated Financial Statements

*For the years ended December 31, 2019 and 2018*

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

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

The preparation of these consolidated financial statements requires management estimates, judgments and assumptions. These judgments and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the applicable reporting period. These estimates relate to unsettled transaction and events as of the date of the consolidated financial statements and may differ from actual results as future confirming events occur. Estimates and underlying assumptions are reviewed by management on an ongoing basis. 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.

Revisions to accounting estimates are recognized prospectively in the period in which the estimate is revised. Changes in the Company's accounting estimate and judgments could have a significant impact on net earnings (loss).

## **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 at 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 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.

## **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 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 in the carrying value of an asset or cash generating unit (CGU) is subject to management's assessment if there is any indication of a possible write-down; and if so, the determination of recoverable amount based on discounted future cash flows of the intangible assets. The carrying amount of intangible assets are assessed for indicators of impairment by individual asset or group of assets when there is an indication that they may be impaired. The determination of CGU's is subject to managements assessment. Assets are written down to the lower of the recoverable amount and carrying value. The recoverable amount is the higher of an asset's value in use (VIU) and its fair value less costs to sell (FVLCS). 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.

# Notes to the Consolidated Financial Statements

*For the years ended December 31, 2019 and 2018*

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

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

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.

v. The Company measures the cost of equity-settled transactions with employees by reference to the value of the equity instruments at the date at which they are granted. Estimating the 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 the value for share-based payment transactions are disclosed in note 10.

vi. The Company claims investment tax credits as a result of incurring scientific research and experimental development expenditures ("SRED"). 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. As at June 04, 2019 the Company ceased being a Canadian Controlled Private Corporation (CCPC) and is no longer eligible for a cash refund, but entitled to tax credits to be used against future income.

vii. Included in Other Receivables for 2019 the Company is claiming a SR&ED investment tax credit claim of \$0.7 million. For 2018 the Company claimed a SR&ED investment tax credit of \$1.4 million. The Company maintains an allowance of \$30,000 with respect to these estimates.

## 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. 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 credit losses to be recognized from initial recognition of the receivables.

Lifetime expected losses will be recognized on assets for which there is a significant increase in credit risk after initial recognition.

# Notes to the Consolidated Financial Statements

*For the years ended December 31, 2019 and 2018*

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

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.

## *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. Net realizable value is the estimated selling price less applicable selling expenses.

## **[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, regardless of when in the year it was purchased. 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] Leases**

*As of January 1, 2019:*

Leases are recognized as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Company. Lease liabilities are initially measured at the present value of unpaid lease payments, less any lease incentives. Lease payments include fixed payments, variable lease payments that depend on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees,

# Notes to the Consolidated Financial Statements

*For the years ended December 31, 2019 and 2018*

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

the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. Lease payments are discounted using the Company's incremental borrowing rate where the rate implicit in the lease is not readily determinable. Right-of-use assets are initially measured at the amount of the lease liability, plus any lease payments made at or before the commencement date, any initial direct costs, and estimated cost for dismantling or restoring the asset. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics. The Company determines its incremental borrowing rate by applying interest rates from external financing sources and adjusting the rate to reflect the term of the lease. Lease payments on short-term leases or leases on which the underlying asset is of low value are accounted for as expenses on a straight-line basis in the consolidated statement of operations.

*Prior to January 1, 2019:*

Leases were classified as finance or operating. A lease which transfers substantially all the risks and rewards of ownership of the asset was classified as a finance lease. Factors reviewed in the determination included, but were not limited to, the term of the lease, whether ownership is transferred at the end of the term, bargain purchase arrangements and a comparison of the present value of the minimum lease payments versus the fair value of the asset.

At the inception of a finance lease, an asset was capitalized in the Statement of Financial Position and depreciated over the shorter of the lease term or the asset's useful life. The asset was recorded at the lower of its fair value and the present value of the minimum lease payments at the inception of the lease. The capital elements of future obligations under finance leases were included in liabilities in the Statement of Financial Position and analysed between current and non-current amounts. The interest elements of future obligations under finance leases were charged to the Statement of Comprehensive Income over the periods of the lease and represent a constant proportion of the balance of capital repayments outstanding in accordance with the effective interest rate method.

All other leases where the lessor retained substantially all the risks and rewards of ownership were classified as operating leases and were not recognized on the Company's Statement of Financial Position. The cost of operating leases was charged to the Statement of Comprehensive Income on a straight line basis over the periods of the leases.

## **[f] Intangible assets**

Intangible assets consist of development costs, patents application fees, and software.

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:

- a. Technical feasibility of completing the intangible asset so that it will be available for use or sale;
- b. Intention to complete the intangible asset and use or sell it;
- c. Ability to use or sell the intangible asset;
- d. How the intangible asset will generate probable future economic benefits;
- e. Availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- f. 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.

Intangible assets are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization expense of intangible assets with finite lives is recognize in the statement of earnings (loss).

The Company's intangible assets are comprised of development costs, patents and software. Up until 2018 development costs were 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. As at December 31, 2019 the Company made a change in estimate and adjusted the useful lives of its intangible assets. As at December 31, 2019 the Company adjusted the useful lives into two categories, the 100MHz and the previously capitalized development costs relating to the development of the 60 MHz product. Based on an assessment of impairment

# Notes to the Consolidated Financial Statements

*For the years ended December 31, 2019 and 2018*

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

including market information and competitors entering the market with competing products against the 60MHz, the useful life of the 60MHz has been adjusted to 5 years effective December 31, 2019. In addition it has been determined that the useful life of the 100MHz product will be 10 years.

Intangible assets are assessed for indicators of impairment at the end of each reporting period and the appropriateness of the remaining amortization period is assessed.

## **[g] 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. For the purpose of assessing indicators of impairment or measuring recoverable amounts, assets are grouped at the lowest levels of which there are separately identifiable cash flows. If indicators of impairment exist, the recoverable amount of the asset or CGU is estimated. The recoverable amount is determined as the higher of an asset's or CGU's FVLCS and its VIU. 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 earnings (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 earnings (loss).

## **[h] Stock-based compensation**

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.

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.

## **[i] Income taxes**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not

# Notes to the Consolidated Financial Statements

*For the years ended December 31, 2019 and 2018*

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

recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not be reversed in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates expected to be applied to temporary differences when they are reversed, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

## **[j] Government assistances**

Government assistances consist of federal grants received under the Industrial Research Assistance Program (“IRAP”) and scientific research and experimental development tax credits, 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. Non-refundable income tax credits are accounted for under IAS 12 Income Taxes. To the extent deferred tax assets arise from ITCs for government assistance programs and recognition of such assets is assessed as probable, they are recorded on account of capital as a reduction to capitalized development expenditures.

## **[k] 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.

## **[l] 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.

## **[m] Revenue recognition**

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, 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. Payment terms are net 30. 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, this amount is initially recorded as unearned revenue.

## **4. RECENT ACCOUNTING PRONOUNCEMENTS**

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

On January 13, 2016, the IASB issued IFRS 16 Leases (“IFRS 16”), which replaces the existing IFRS guidance on leases: IAS 17 Leases (“IAS 17”). Under IAS 17, lessees were required to determine if the lease is a finance or operating lease, based on specified criteria of whether the lease transferred significantly all the risks and

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

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

rewards associated with ownership of the underlying asset. Finance leases were recognized on the balance sheet while operating leases were recognized in the Consolidated Statements of Income when the expense is incurred. IFRS 16 introduced a single lease accounting model for lessees which require a Right-of-Use (ROU) asset and lease liability to be recognized on the balance sheet for contracts that are, or contain, a lease. The Company's leases under IFRS 16 consist of office space and equipment which were previously classified as operating leases.

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

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

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

The adoption of IFRS 16 included the following elections:

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

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

## Right of-use assets

(\$000'S)	Office Space	Equipment	Total
Balance January 1, 2019	451	9	460
Additions	21	-	21
Depreciation charge for the period	(119)	(2)	(121)
Balance December 31, 2019	354	7	361

Total lease liability at December 31, 2019 was \$371K, current portion \$132k. Lease interest expense for the year ended December 31, 2019 was \$25k. As a result of this adoption, the Company has revised the description of its accounting policy for leases as follows:

### Leases

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

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

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

# Notes to the Consolidated Financial Statements

*For the years ended December 31, 2019 and 2018*

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

flexibility and future market conditions. The lease terms for the two office's expire October 2020 and November 2022.

- All commitments in 2018 have been recorded as lease liabilities in 2019

## 5. REVERSE TAKEOVER

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

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

- The historical equity of the Company has been eliminated and the excess of the fair value of deemed issuance of the equity instruments over the fair value of the net assets acquired has been recorded as RTO Transaction cost in the statement of earnings (loss) for the period;
- The accumulated deficit and other equity balances presented in these consolidated financial statements are those of the Accounting Acquirer;
- The assets and liabilities of the Accounting Acquirer are included in these consolidated financial statements on pre-transaction basis of accounting;
- The net assets of the Company were measured at their estimated fair value on the date of the RTO; and
- Comparative information presented in these consolidated financial statements is that of the Accounting Acquirer.

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

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

Issuance of 2,275,500 Canvass common shares	\$ 1,367
Fair value of existing Canvass options and warrants	\$ 37
Total amount recorded in equity in these financial statements	<u>\$ 1,404</u>
Transaction expenses	<u>\$ 319</u>
	\$ 1,723
Less: Net assets of Canvass immediately before the transaction	
Cash \$ 545	\$ (420)
Accounts Payable \$(125)	
	<u>\$ 1,303</u>

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

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

## 6. INVENTORY

(\$000's)	December 31, 2019	December 31, 2018
Raw materials	195	339
Work in process	338	173
Finished goods	369	223
Inventory provision	(45)	-
<b>Total inventory</b>	<b>857</b>	<b>735</b>

In 2019 raw materials, consumables and change in finished goods, recognized as cost of goods sold amounts to \$1,603k (2018 - \$2,176k).

## 7. PROPERTY AND EQUIPMENT

(\$ 000's)	Office Furniture and Equipment	Computer Hardware	Manufacturing Equipment	Leasehold Improvements	Total
<b>Cost:</b>					
Balance, December 31, 2017	113	123	735	89	1,060
Addition	39	48	547	98	732
Balance, December 31, 2018	152	171	1,282	187	1,792
Addition	10	43	444	48	545
Disposals	(27)	(68)	(65)	(34)	(194)
<b>Balance, December 31, 2019</b>	<b>135</b>	<b>146</b>	<b>1,661</b>	<b>201</b>	<b>2,143</b>
<b>Accumulated depreciation:</b>					
Balance, December 31, 2017	64	82	256	39	441
Depreciation	26	21	152	16	215
Balance, December 31, 2018	90	103	408	55	656
Depreciation	26	27	313	26	392
Disposals	(27)	(68)	(49)	(34)	(178)
<b>Balance, December 31, 2019</b>	<b>89</b>	<b>62</b>	<b>672</b>	<b>47</b>	<b>870</b>
<b>Net book value:</b>					
As of December 31, 2018	62	68	874	132	1,136
<b>As of December 31, 2019</b>	<b>46</b>	<b>84</b>	<b>989</b>	<b>154</b>	<b>1,273</b>

During the year ended December 31, 2019, depreciation of \$70K was recognized as an expense in cost of goods sold (2018 - \$34K).

### Impairment of Equipment

Property, plant and equipment are reviewed for impairment whenever events or conditions indicate that their net carrying amount may not be recoverable. During the years ended December 31, 2019 and 2018, the Company determined no indicators were present and no impairment has been recorded in 2019 and 2018.

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

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

## 8. INTANGIBLE ASSETS

(\$ 000's)	Development costs	Patents	Software	Total
<b>Cost:</b>				
Balance, December 31, 2017	2,903	479	150	3,532
Addition	1,438	53	73	1,564
Balance, December 31, 2018	4,341	532	223	5,096
Addition	2,417	71	106	2,594
Disposals	-	(8)	(136)	(144)
Balance, December 31, 2019	6,758	595	193	7,546
<b>Accumulated amortization:</b>				
Balance, December 31, 2017	414	99	145	658
Amortization	166	30	9	205
Balance, December 31, 2018	580	129	154	863
Amortization	270	34	28	332
Disposals	-	-	(136)	(136)
Balance, December 31, 2019	850	163	46	1,059
<b>Net book value:</b>				
As of December 31, 2018	3,761	403	69	4,233
As of December 31, 2019	5,908	432	147	6,487

### Impairment of Intangibles

Intangible assets are reviewed for impairment whenever events or conditions indicate that their net carrying amount may not be recoverable. During the years ended December 31, 2019 and 2018, the Company determined no indicators were present and no impairment has been recorded in 2019 and 2018.

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

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

## 9. LONG-TERM DEBT

(\$000's)	December 31, 2019	December 31, 2018
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	91
Shareholders Loans: original amount of \$500k repayable in monthly blended installments of \$13k beginning December 15, 2017 until November 15, 2021. Following conversion of \$100k to common shares in November 2018 monthly installments are \$10k. Interest payable at 11% per annum. Secured with Essentec machinery (SMT). On July 12, 2019 the shareholder loans were repaid in full.	-	288
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.	220	300
Western Economic Diversification Canada (WINN #2) interest free loan \$376k drawn in 2018 and \$625k drawn in 2019 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.	884	313
\$6k loan for the purchase of equipment repayable in equal monthly installments of \$109 over 56 months commencing April 28, 2018.	4	5
	1,136	997
Less: Current Portion	116	233
	1,020	764

### Credit Facility

During the year the Company entered into a line of credit agreement with Scotiabank, 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 CND receivables, 90% of secured receivables and 50% of eligible inventory. As of December 31, 2019 the Company had no drawings on the facility, the facility bears interest at prime plus 0.75 percent.

## 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 December 31, 2019 Nanalysis Scientific Corp. had 62,361,000 common shares outstanding. At December 31, 2019 there were 13,489,000 shares in escrow with scheduled release over 15 months completing on December 11, 2020.

- [i] During the twelve month period ended December 31, 2019 the Company issued the following common shares (shares were converted at the exchange ratio of .55 for each previous share):
- 187,000 shares at \$0.60 to directors as payment of director fees
  - 110,000 shares at \$0.60 for advisory services
  - 71,500 shares at \$0.60 to compensate certain employees as an incentive grant

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

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

- 8,333,000 units were issued, each unit gave the acquirer one share at \$0.60 and a half warrant with an exercise price of \$0.75, share issuance costs with respect to the financing were \$324k, share purchase warrants are valued at \$543k
- 2,500,000 units were issued in a private placement, each unit gave the acquirer one share at \$0.60 and a half warrant with an exercise price of \$0.75, the share purchase warrants are valued at \$250k
- 2,277,500 shares at \$0.60 to original Canvass shareholders
- 45,500 shares upon the exercise of warrants
- 1,391,500 shares upon the exercise of options

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

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

## [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, vesting period is typically 3 years. The maximum number of outstanding options must be no more than 10% of the issued and outstanding at any point in time. The maximum number of outstanding options issued for investor relations must be no more than 2% of the issued and outstanding shares and the options issued to investor relations must vest in stages over a 12 month period with no more than one quarter of the options vesting in any three month period.

	Number	Weighted Average Exercise Price \$
<b>Balance, December 31, 2017<sup>(1)</sup></b>	<b>3,247,750</b>	<b>0.29</b>
Granted <sup>(1)</sup>	618,750	0.45
Exercised <sup>(1)</sup>	(85,250)	(0.25)
Expired <sup>(1)</sup>	(77,000)	(0.14)
<b>Balance, December 31, 2018</b>	<b>3,704,250</b>	<b>0.29</b>
Granted Q1 2019 <sup>(1)</sup>	27,500	0.60
Granted Q3 2019	530,000	0.66
Granted Q4 2019	640,000	0.60
Granted on the RTO date	675,000	0.60
Canvass options <sup>(2)</sup>	112,500	0.47
Exercised	(1,391,500)	(0.20)
Forfeitures	(404,250)	(0.40)
<b>Balance, December 31, 2019</b>	<b>3,893,500</b>	<b>0.46</b>

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

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

During the year ended December 31, 2019 and 2018, the Company recorded stock based compensation of \$212K and \$291K, 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	1.1%-1.9%	2.1%
Estimated annualized volatility based on comparables	67%-78%	78%
Expected life	5.0 years	5.0 years
Expected dividend yield	0%	0%
Exercise price	\$0.60-\$0.75	\$0.44
Share price on date of grant	\$0.40 to \$0.60	\$0.40

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

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

As at December 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
19-Feb-20	\$0.27	258,500	258,500
23-Apr-20	\$0.36	121,000	121,000
23-Apr-20	\$0.27	239,250	239,250
04-Jun-20	\$0.40	75,000	75,000
04-Jun-20	\$0.60	37,500	37,500
17-Jun-20	\$0.36	82,500	82,500
15-Jan-21	\$0.36	33,000	33,000
07-Mar-21	\$0.18	440,000	440,000
05-May-21	\$0.42	16,500	16,500
13-Jun-21	\$0.18	110,000	110,000
08-Aug-21	\$0.42	8,250	8,250
15-Dec-21	\$0.42	8,250	8,250
31-Jan-22	\$0.42	110,000	110,000
04-Oct-22	\$0.45	110,000	73,333
19-Nov-22	\$0.22	68,750	68,750
14-Jan-23	\$0.45	247,500	82,500
25-Apr-23	\$0.45	55,000	18,333
01-Feb-24	\$0.60	27,500	-
04-Jun-24	\$0.60	200,000	50,000
04-Jun-24	\$0.60	150,000	112,500
04-Jun-24	\$0.60	325,000	130,000
24-Jul-24	\$0.60	180,000	-
24-Jul-24	\$0.75	200,000	-
21-Aug-24	\$0.60	150,000	-
23-Oct-24	\$0.60	525,000	-
26-Nov-24	\$0.60	115,000	-
<b>Balance, December 31, 2019</b>		<b>3,893,500</b>	<b>2,075,167</b>

As at December 31, 2019, the weighted average remaining life for outstanding options was 2.89 years (December 31, 2018 – 2.57). 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] Warrants

As at December 31, 2019 the Company has 5,773,900 warrants outstanding. In conjunction with the financing 4,523,900 warrants were issued at an exercise price of \$0.75 and which expire on June 4, 2020. In conjunction with the private placement 1,250,000 warrants were issued with an exercise price of \$0.75 and an expiry of June 6, 2021. In the second quarter of 2019 45,500 warrants were exercised for proceeds of \$18K with 4,500 warrants expiring. 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 \$793k.

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

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

## [e] Restricted Share Units (“RSU”)

During the fiscal year ended December 31, 2018 the company granted 71,500 RSU. The RSU vested on October 31, 2018 and may be redeemed by the holder as one RSU in exchange for one Class ‘A’ common share in the capital of the company. These RSU were redeemed in January 2019 and 71,500 Class ‘A’ common shares were issued.

## 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)	December 31, 2019	December 31, 2018
Interest and finance fees on shareholder loans:		
Makino loan (F5) (note 9)	8	15
Essemtec loan (SMT) (note 9)	15	7
	23	22

For the year ended December 31, 2019 \$79K were paid in advisory services fees to directors (December 31, 2018, \$NIL).

### Key management personnel compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the business activities of the Company, including all of its directors, along with certain executives. Directors are remunerated for services rendered in their capacity through participation in the stock option plan and therefore, stock-based compensation. Compensation of executives is comprised of base salary and benefits. The Company does not have a defined benefit or actuarial pension plan. Key management personnel participate in the stock option plan. Total remuneration to key management personnel were as follows:

(\$000's)	December 31, 2019	December 31, 2018
Management fees, General & administration	386	255
Stock-based compensation, General & administration	178	80
	564	335

## 12. INCOME TAXES

At December 31, 2019, the Company has a tax pool of approximately \$5,900k (2018 – \$4,720k) related to SR&ED in Canada available to carry forward indefinitely to reduce taxable income of future years.

Significant components of the Company’s deferred income tax assets and liabilities are shown below:

(\$000's)	December 31, 2019	December 31, 2018
Deferred income tax assets (liabilities):		
Property and equipment and patents	(127)	(39)
Scientific research and experimental development expenditures	(240)	(7)
Warranty provision	20	22
Long-term debt and lease obligation	50	(12)
Net deferred income tax liabilities	(297)	(36)

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

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

The reconciliation of income tax attributable to operations is as follows:

(\$000's)	December 31, 2019	December 31, 2018
Net income (loss) before income tax expense	(1,399)	136
Statutory tax rate	26.5%	27%
Expected income tax expense (recovery) at statutory rates	(371)	37
Items not deductible for tax purposes	321	110
Effect of change in tax rates	80	-
Effect of lower tax rate from small business deduction	-	(75)
True up of 2018 taxes	71	
Tax benefits unrecognized (utilized)	160	(10)
Deferred income tax expense	261	62

## 13. OPERATING EXPENSES

### [a] Cost of products sold

(\$000's)	December 31, 2019	December 31, 2018
Direct material costs	1,603	2,176
Salaries and wages	300	402
Direct overhead	420	368
Warranty expense	(89)	3
Depreciation	70	34
	2,304	2,983

### [b] Sales and marketing

(\$000's)	December 31, 2019	December 31, 2018
Salaries, benefits, subcontracts	1,161	1,022
Selling commissions	427	600
Travel & accommodation	172	364
Advertising, conferences, trade shows	476	245
Office & other expenses	217	284
	2,453	2,515

### [c] General and administration expenses

(\$000's)	December 31, 2019	December 31, 2018
Consulting and professional fees	985	908
Salary related expenses	1,181	449
Administrative and general expenses	388	608
Bad debt expenses	8	-
	2,562	1,965

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

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

## 14. OPERATING SEGEMENT AND DISAGGREGATION OF REVENUE

The Company has a single operating segment, the manufacture of spectrometers. Substantially all of the Company's operations, assets, and employees are in Canada. The Company's sales are concentrated in universities and the technology industry. At December 31, 2019 one customer accounted for 13% of accounts receivable (2018 – 2 customers – 25%).

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

(\$000's)	December 31, 2019	December 31, 2018
United States of America	5,099	4,736
Europe	915	1,521
Canada	734	586
Asia	725	944
Other (Brazil, Chile, India, Mexico, Morocco, Nigeria)	891	594
	8,364	8,381

## 15. 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. There were no changes to the Company's approach to capital management during the twelve months ended December 31, 2019.

## 16. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk; and
- Interest rate risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk.

### 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 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 December 31, 2019 is the carrying amount of cash, accounts receivable, and other receivables on

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

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

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.

Management regularly assesses the Company's exposure to credit risk and provides allowances for potentially uncollectible accounts receivable as they become known. Although collection of these receivables could be influenced by economic factors, management considers the risk of significant loss to be mitigated by the number, reputation and nature of the companies with which the Company does business. 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 12 months ended December 31, 2019, a bad debt of \$8K was recognized as an expense (2018 - \$Nil).

## Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. As of December 31, 2019, the Company had working capital of \$8,534K (December 31, 2018 - \$3,802K). The Company's exposure to liquidity risk is dependent on the sale of inventory, collection of accounts receivable and other receivables, and the raising of funds to meet commitments and sustain operations and research and development. The Company manages liquidity risk by management of working capital, cash flows, availability of borrowing facilities and share issuances.

## 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. The Company has not entered into foreign exchange derivative contracts.

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

(\$000's)	December 31, 2019	December 31, 2018
	US\$	US\$
Cash	1,338	521
Accounts receivable	776	1,469
Accounts payable and accrued liabilities	(37)	(180)
Total	2,077	1,810

The above assets and liabilities were translated at 1.2988 at December 31, 2019 (2018 – 1.3642). Based on the above net exposure as at December 31, 2019 and 2018, assuming that all other variables remain constant, a 10% appreciation or deterioration of the Canadian dollar against the U.S. dollar would result in a change of approximately \$269K (December 31, 2018 - \$247K) in the Company's net income/loss. Total sales in USD for December 31, 2019 was \$5.2 million (December 31, 2018 - \$5.4 million), a 10% appreciation or deterioration of the Canadian dollar against the U.S dollar would result in a change of approximately \$711k (December 31, 2018 -\$696k).

### [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 year ended December 31, 2019 and 2018, fluctuations in the market interest rates had no significant impact on its interest expense.

## 17. SUBSEQUENT EVENTS

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 is €1.2 million in cash and the issuance of 2.9

# Notes to the Consolidated Financial Statements

*For the years ended December 31, 2019 and 2018*

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

million Nanalysis shares, which are subject to a three-year lock-up period. The former shareholders of RS2D may also receive an earnout over the three years to December 31, 2022, based on future revenue growth objectives. The fair value of the assets and liabilities is still being determined, delays caused from the novel coronavirus ("COVID-19") have impacted timing.

The Company is addressing the recent outbreak of COVID-19 and the related economic and social disruption, volatility in financial markets, potential disruption to global supply chains, and the ability to directly and indirectly staff the Company's day to day operations. The current challenging economic climate may lead to further adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position. These and other factors may adversely affect the Company's liquidity and ability to generate income and cash flows in the future.

Additionally, subsequent to year end the Company received \$0.4 million with respect to 2018 SRED claim for the Provincial portion.

# Notes to the Consolidated Financial Statements

*For the years ended December 31, 2019 and 2018*

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

## **DIRECTORS AND OFFICERS**

**Sean Krakowsky, M.Sc**

President & Chief Executive Officer

**Luke Caplette, CA, CPA**

Chief Financial Officer

**Martin Burian, CA, CPA, CBV <sup>(1)</sup>**

Chairman of the Board

**Werner Gartner CMA, CPA <sup>(1)</sup>**

Director

**Dr. Michal Okoniewski <sup>(1)</sup>**

Director

**Steve Meszaros <sup>(1)</sup>**

Director

(1) Member of the Audit Committee

## **CORPORATE OFFICE**

**Nanalysis Scientific Corp**

1, 4600 – 5 Street NE

Calgary, Alberta T2E 7C3

Phone: 403.769.9499

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