

Financial Report

Year Ended December 31, 2020

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 three 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 consolidated 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 Krakiwsky

Sean Krakiwsky, 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 statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years 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, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years 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 Information included in the Group's 2020 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 signature is written in a cursive, handwritten style in black ink. It reads "Ernst & Young LLP".

Chartered Professional Accountants

Calgary, Canada
April 22, 2021

Consolidated Statement of Financial Position

(\$000's)	Note	December 31, 2020	December 31, 2019
ASSETS			
Current			
Cash		3,158	6,619
Accounts receivable	18	1,840	1,615
Other receivables		1,205	946
Inventory	6	2,830	857
Prepaid expenses and deposit		319	128
		9,352	10,165
Deposit		-	20
Property and equipment	7	1,221	1,273
Right of use assets	7	729	361
Intangible assets	8	12,687	6,487
		14,637	8,141
Total Assets		23,989	18,306
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current			
Accounts payable and accrued liabilities		2,619	678
RS2D earn-out payable		276	-
Warranty provision		106	89
Unearned revenue	15	2,868	616
Current portion of lease liability	10	225	132
Current portion of long-term debt/repayable contributions	9	209	116
		6,303	1,631
Deferred income tax liability	13	-	297
Lease liability	10	527	239
Long-term debt/repayable contributions	9	2,815	1,020
Total Liabilities		9,645	3,187
SHAREHOLDERS' EQUITY			
Share capital	11	20,665	18,267
Contributed surplus		1,384	1,094
Deficit		(7,920)	(4,242)
Accumulated other comprehensive income		215	-
Total Shareholders' Equity		14,344	15,119
Total Liabilities and Shareholders' Equity		23,989	18,306

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

On behalf of the Board of Directors:

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	2020	2019
Revenue	16	7,874	8,364
Cost of products sold	14[a]	2,707	2,304
Gross profit		5,167	6,060
Sales and marketing	14[b]	3,239	2,453
General and administration	14[c]	3,096	2,562
Research and development	14[d]	476	-
		6,811	5,015
Income (loss) before other items		(1,644)	1,045
Other Items			
Business acquisition costs	5	268	1,303
Depreciation and amortization expense	7,8	1,681	775
Stock-based compensation	11	416	212
Finance income		(328)	(59)
Foreign exchange loss		18	213
RS2D earn-out		276	-
Loss before tax		(3,975)	(1,399)
Deferred income tax expense (recovery)	13	(297)	261
Net loss		(3,678)	(1,660)
Other comprehensive income		215	-
Total comprehensive loss		(3,463)	(1,660)
Basic earnings (loss) per common share		(0.06)	(0.03)
Weighted average number of common shares outstanding - basic		65,324,742	55,631,589
Diluted earnings (loss) per common share		(0.06)	(0.03)
Weighted average number of common shares outstanding - diluted		65,324,742	55,631,589

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	Contributed Surplus	Accum. Other Comp. Income	Deficit	Total
	(000's)	\$	\$	\$	\$	\$
Balance at January 1, 2019	47,443	9,976	997	-	(2,582)	8,391
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 ⁽¹⁾	297	178	-	-	-	178
Restricted share units exercised ⁽¹⁾	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 year	-	-	-	-	(1,660)	(1,660)
Balance at December 31, 2019	62,361	18,267	1,094	-	(4,242)	15,119
Balance at January 1, 2020	62,361	18,267	1,094	-	(4,242)	15,119
Shares issued for purchase of RS2D (note 5)	2,900	2,030	-	-	-	2,030
Exercise of options	776	368	(126)	-	-	242
Stock-based compensation	-	-	416	-	-	416
Net loss for the year	-	-	-	-	(3,678)	(3,678)
Other comprehensive income	-	-	-	215	-	215
Balance at December 31, 2020	66,037	20,665	1,384	215	(7,920)	14,344

⁽¹⁾ The number of shares have been converted at the exchange ratio of 0.55 for each previous common share.

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

Consolidated Statement of Cashflow

For the years ended December 31,

(\$000's)

	Note	2020	2019
Cash flows from operating activities			
Net loss		(3,678)	(1,660)
Add (deduct) non-cash items:			
Non cash expense		(206)	(54)
Depreciation of property and equipment	7	704	513
Amortization of intangible assets	8	1,066	332
Deferred tax (recovery) expense	13	(297)	261
Stock based compensation	11	416	212
Share based payments		-	178
Warranty (recovery) expense		37	(89)
Finance expense		56	41
Changes in non-cash working capital		1,279	1,047
Cash flows provided by (used in) operating activities		(623)	781
Cash flows from investing activities			
Purchases of property and equipment	7	(427)	(545)
Additions to intangible assets	8	(2,474)	(2,594)
Acquisition of RS2D (net of cash)	5	(1,209)	-
Cash flows used in investing activities		(4,110)	(3,139)
Cash flows from financing activities			
Proceeds from RTO financing, net of financing fees	11	-	4,741
RTO transaction costs		-	985
Proceeds from financing, net of financing fees	11	-	1,500
Payment of lease obligations	10	(231)	(111)
Proceeds from long-term debt	9	1,374	625
Repayment of long-term debt	9	(113)	(433)
Cash acquired from Canvass on Reverse Takeover (RTO)		-	545
Warrant/Restricted Share Units (RSU) exercise	11	-	61
Exercise of stock options	11	242	326
Finance expense		-	(41)
Cash flows provided by financing activities		1,272	8,198
Increase (decrease) in cash and equivalents		(3,461)	5,840
Cash beginning of the year		6,619	779
Cash end of the year		3,158	6,619

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

Tabular amounts are stated in thousands of Canadian 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 magnetic resonance spectrometers (MR 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 Corp. 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 on 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

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, 2019, except as described in note 3.

These consolidated financial statements were approved by the Company’s Board of Directors on April 22, 2021.

[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 as described in note 18.

[c] Basis of consolidation

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

Subsidiary	Ownership December 31, 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 S.A.S	100%	0%	France	Technology

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.

[d] Functional and foreign currency

These consolidated financial statements are presented in Canadian dollars, which is the Company’s functional 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. Assets and liabilities of entities with functional currencies other than the Canadian dollar are translated into Canadian dollars at the year end exchange rate, and the results of their operations are translated at the average rates for the year. The resulting translation adjustments are included in other comprehensive income.

[e] Significant accounting estimates and judgments

The timely 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 year. Estimates and underlying assumptions

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

are reviewed based on Management experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

The course of the COVID-19 pandemic and its ultimate economic impact remain highly uncertain. The ultimate impact of the pandemic on the Company's future operations and financial performance is unknown and will be dependent on a number of unpredictable factors outside of the knowledge and control of management, including: (i) the duration and severity of the pandemic; (ii) the impact of the pandemic on economic growth and financial and capital markets; and (iii) governmental responses and restrictions. These uncertainties may continue to persist beyond the point where the outbreak of the COVID-19 virus has subsided. The potential impact of the COVID-19 pandemic has been considered by management in making judgments, estimates and assumptions used in the preparation of these consolidated financial statements, but the inherent risks and uncertainties resulting from the pandemic may result in material changes to such judgments, estimates and assumptions in future years as additional information becomes available.

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 year. 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.

iii. Revenue recognition requires evaluating the criteria for revenue recognition under license and collaboration agreements requires management's judgment to assess and determine the following:

- The nature of the contractual performance obligations and whether they are distinct or should be combined with other performance obligations.
- The pattern of transfer of each promised license and/or R&D activities identified in the contract, sometimes using input or output methods which are based on key assumptions such as forecasted costs and development timelines of our license and collaboration agreements for the assessment of satisfaction of the performance obligation.

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 year. 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 year in which such determination is made.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

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 management's 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.

The warranty provision at year end 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 year to year 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 11.

vi. The Company claims investment tax credits as a result of incurring scientific research and experimental development expenditures ("SRED") and Credit impôt Recherche ("CIR"). 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 the Government of Alberta and France. As at June 4, 2019 the Company ceased being a Canadian Controlled Private Corporation ("CCPC") and is no longer eligible for a cash refund under the federal program in Canada, but is still entitled to a tax refund in France.

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] New or amended standards adopted by the Company

IFRS 3, Business Combinations

The following amendment as issued by the IASB has been adopted by the Company effective January 1, 2020. This amendment had no impact on the Company's financial statements in the current year. IFRS 3, Business Combinations, sets out the principles in accounting for the acquisition of a business. The amendments to this standard include a change in the definition of a business and the addition of an optional concentration test to determine if the acquisition is a business. The definition of a business under the amendment to IFRS 3 is now that a business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs. The three elements of a business are defined as follows:

- Input: any economic resource that creates outputs, or has the ability to contribute to the creation of outputs, when one or more processes are applied to it.
- Process: any system, standard, protocol, convention or rule that, when applied to an input or inputs, creates outputs or has the ability to contribute to the creation of outputs.
- Output: the result of inputs and processes applied to those inputs that provide goods or services to customers, generate investment income or generate other income from ordinary activities.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

The optional concentration test permits a simplified assessment of whether an acquired set of activities and assets is in fact a business. An entity may elect to apply, or not apply, the test separately for each transaction or other event. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed. There has been no impact on the recognized assets, liabilities or comprehensive loss of the Company resulting from the adoption of these amendments.

[b] 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.

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.

[c] 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 labor, and manufacturing overhead expenses. Net realizable value is the estimated selling price less applicable selling expenses.

[d] Cash

Cash consists of cash on hand, 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.

[e] 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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

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.

[f] Leases

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, 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.

[g] 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 consolidated statement of loss.

The Company's intangible assets are comprised of development costs, patents and software. 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 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 year and the appropriateness of the remaining amortization period is assessed.

[h] Impairment of assets

Financial assets and non-financial assets of the Company are reviewed at the end of each reporting year or when facts and circumstances suggest their carrying values have been impaired. The Company considers assets to

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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).

[i] Stock-based compensation

The Company grants share options and restricted share units ("RSU") to acquire common shares of the Company to directors, officers, employees and consultants.

The fair value of options granted 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 options 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 options are recognized as either an expense or capitalized to intangible assets with a corresponding increase in contributed surplus. 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 contributed surplus for unexercised share options remain in reserve upon their expiry or cancellation.

The fair value of RSUs is measured at fair value on the date of grant, using the market price of the Company's shares. The fair value is recognized as an expense with a corresponding increase in contributed surplus. When RSUs vest and are settled, share capital is credited by moving the settled balance from reserves to share capital.

[j] 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 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

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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.

[k] Government assistances

Government assistances consist of federal grants received under the Industrial Research Assistance Program ("IRAP") and scientific research and experimental development tax credits both in Canada and France. The Company accrues these credits as a reduction of development costs within intangible assets in the year 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, CIR 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.

During the year ended December 31, 2020, the Company applied for eligibility under, and met the conditions associated with, the Federal Government's Canada Emergency Wage Subsidy Program ("CEWS") and received \$1.4 million in wage subsidies which have been offset directly against the applicable expense category for each individual claimed and a reduction in capitalized development expenditures for R&D personnel.

[l] Per common share amounts

Basic earnings per common share are computed by dividing earnings (loss) 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.

[m] Revenue recognition

Revenue is recognized for the Company's business activities using the methods outlined below:

i) Product revenue

The Company designs, manufactures and sells a range of NMR technologies that go into a range of NMR spectrometers and magnetic resonance imaging ("MRI") equipment. Revenue is recognized when the product is 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 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, this amount is initially recorded as unearned revenue.

ii) Service revenue

The Company provides monitoring and supporting services for its range of NMR technologies. Revenues for maintenance and upkeep of this equipment are recognized over the term of the contracted service period with amounts prepaid by customers accounted for as unearned revenue. Payment of the transaction price is due from the customer in accordance with the agreed credit terms. Revenues are also generated from development contracts and are recognized using the input method on the basis of the Company's costs incurred relative to total estimated costs to determine the extent of progress towards completion. Payment of the transaction price is due from the customer in accordance with the agreed credit terms.

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4. RECENT ACCOUNTING PRONOUNCEMENTS

The Company has reviewed new and revised standards and interpretations that have been approved by the IASB. There have been no new standards or interpretations issued during 2020 that are expected to significantly impact the Company.

5. 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 \$1,897K in cash and the issuance of 2.9 million common 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 concluded the earnout was part of the purchase consideration and assessed its fair value to be \$Nil at the time of closing. Transaction costs for the acquisition were \$268K.

The acquisition was accounted for as a business combination. The Company determined the purchase consideration to be \$3.9 million, 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.

Notes to the Consolidated Financial Statements

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(\$000's)	Fair value recognized on acquisition
ASSETS	
Accounts receivable	823
Other receivables	418
Inventory	151
Prepaid expenses and deposit	180
Property and equipment	96
Right of use assets	530
Intangible assets	146
Total assets	2,344
LIABILITIES	
Accounts payable and accrued liabilities	1,301
Warranty provision	64
Unearned revenue	808
Lease liabilities	524
Debt and repayable contributions	903
Total liabilities	3,600
Net assets before cash	(1,256)
Acquired cash	688
Net assets	(568)
Intangible assets	4,495
Purchase consideration	3,927

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 Corp. to be publicly traded. Total expenses for the RTO was \$1,723K less net assets acquired of \$420K for a net expense of \$1,303K.

6. INVENTORY

(\$000's)	December 31, 2020	December 31, 2019
Raw materials	1,484	195
Work in process	463	338
Finished goods	928	369
Inventory provision	(45)	(45)
Total inventory	2,830	857

In 2020 raw materials, consumables and change in finished goods, recognized as cost of goods sold amounts to \$2,276K (2019 - \$1,603K).

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7. PROPERTY AND EQUIPMENT

(\$ 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	4	324	37	64	431
Disposals	(2)	-	(261)	-	(5)	(268)
Foreign exchange	6	5	14	-	8	33
Balance, December 31, 2020	141	168	1,821	238	1,079	3,447
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	26	36	356	61	225	704
Disposals	(4)	-	(218)	-	-	(222)
Foreign exchange	3	4	13	-	4	24
Balance, December 31, 2020	114	102	823	108	350	1,497
Net book value:						
Balance, December 31, 2019	46	84	989	154	361	1,634
Balance, December 31, 2020	27	66	998	130	729	1,950

During the year ended December 31, 2020, depreciation of \$68K was recognized as an expense in cost of goods sold (2019 - \$70K).

Impairment of Equipment

Property 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, 2020 and 2019, the Company determined no indicators were present and no impairment has been recorded in 2020 and 2019.

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8. INTANGIBLE ASSETS

(\$ 000's)	Development costs	Patents	Software	Acquired 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	2,325	135	14	-	2,474
Disposal	(67)	-	(16)	-	(83)
Foreign exchange	10	-	2	210	222
Balance, December 31, 2020	9,172	730	195	4,705	14,802
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	750	86	50	180	1,066
Disposal	-	-	(16)	-	(16)
Foreign exchange	4	-	2	-	6
Balance, December 31, 2020	1,604	249	82	180	2,115
Net book value:					
As of December 31, 2019	5,908	432	147	-	6,487
Balance, December 31, 2020	7,568	481	113	4,525	12,687

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, 2020 and 2019, the Company determined no indicators were present and no impairment has been recorded in 2020 and 2019.

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9. LONG-TERM DEBT

(\$000's)	December 31, 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.	1,763	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. The obligation is recorded at its present value using a 6.0% discount rate.	38	-
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	-
Acquired debt from RS2D relating to a restructuring of RS2D. Procedure de sauvegarde, interest free Euro denominated loan repayable in annual payments due in March, payments are \$159K, \$239K, \$287K, \$298K, respectively, with the final payment maturing March 2024. The obligation is recorded as its present value using a 2.5% discount rate.	872	-
	3,024	1,136
Less: current portion	209	116
Non-current portion of loans and borrowings	2,815	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"). Under the terms of the Credit Facility, the Company is required to comply with the following financial covenants:

- Current Ratio must be at least 1.10 to 1;
- Total Liabilities to Tangible Net Worth Ratio must not exceed 4.50 to 1

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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 December 31, 2020, the Company had no drawings on the facility, the facility bears interest at prime plus 0.75 percent.

10. LEASE LIABILITIES

(\$000's)	December 31, 2020	December 31, 2019
Balance beginning of the year	371	-
Additions	62	481
Additions from RS2D acquisition (note 5)	524	-
Interest expense	55	25
Lease payments	(239)	(111)
Foreign exchange	34	-
Balance, end of the year	752	370
Current portion	225	132
Long-term portion	527	239

The Company and its subsidiaries have commitments under leases for buildings, office space and vehicles with varying terms that expire between 2020 and 2025, captured in the below value. The approximate undiscounted lease payments remaining are as follows:

(\$000's)	
Year	Lease Payments
2021	225
2022	230
2023	159
2024	106
2025	32
Thereafter	-
Balance at December 31, 2020	752

11. 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, 2020 Nanalysis had 66,037,000 common shares outstanding. There are 2.6 million shares under lock up issued for the acquisition of RS2D, these common shares are scheduled for release as follows: 870,000 on March 03, 2021, 870,000 on March 3, 2022 and 870,000 on March 3, 2023.

[i] During the year ended December 31, 2020 the Company issued the following common shares:

- 777,000 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 5

[ii] During the year 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

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- 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

[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 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 \$
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 Q3 2020	130,000	0.60
Exercised	(776,250)	(0.31)
Forfeitures	(197,500)	(0.60)
Balance, December 31, 2020	4,687,250	0.53

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

During the years ended December 31, 2020 and 2019, the Company recorded stock-based compensation of \$416K and \$212K, respectively, for stock options granted.

The fair values of stock options granted during the years ended December 31, 2020 and 2019 were between \$0.43 - \$0.62 per common share and \$0.40 - \$0.60 per common share, respectively. The fair values 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	74% -79%	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

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As at December 31, 2020, 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	0.23	550,000
0.22	68,750	1.88	68,750
0.36	33,000	0.04	33,000
0.42	143,000	0.96	143,000
0.45	412,500	2.00	257,675
0.60	3,230,000	3.90	679,075
0.65	50,000	4.08	-
0.75	200,000	3.53	66,667
	4,687,250	3.14	1,798,167

As at December 31, 2020, the weighted average remaining life for outstanding options was 3.14 years (December 31, 2019 – 2.89). As the Company is in a loss position, 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 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. For the year ended December 31, 2020 \$24K was recorded in stock-based compensation (2019 - \$Nil).

[e] Warrants

As at December 31, 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 2020. 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.

12. 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, 2020	December 31, 2019
Interest and finance fees on shareholder loans:		
Makino loan (F5) (note 9)	1	8
Essemtec loan (SMT)	-	15
	1	23

For the year ended December 31, 2020 \$4K were paid in advisory services fees to directors (December 31, 2019, \$79K).

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 through a cash directors fee and participation in the stock option and RSU plans.

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Executive compensation is comprised of base salary, bonus, benefits and participation in the stock option and RSU plans. 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, 2020	December 31, 2019
General & administration (salaries, wages, fees, benefits)	478	386
Stock-based compensation	129	178
	607	564

13. INCOME TAXES

At December 31, 2020, the Company has Canadian non capital losses of \$585K and French non capital losses of \$3,857K. Additionally the Company had tax pools of approximately \$6,219K (2019 – \$5,900K) 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)	Twelve months ended December 31,	
	2020	2019
Deferred income tax assets (liabilities):		
Property and equipment and patents	(140)	(127)
Intangible asset	(2,741)	-
SRED and income tax credits	1,742	(240)
Other receivable	344	-
Warranty provision	20	20
Long-term debt and lease obligation	236	50
Other	103	-
Non-capital losses	1,038	-
Deferred tax asset not recognized	(602)	-
Net deferred income tax asset (liability)	-	(297)

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

(\$000's)	Twelve months ended December 31,	
	2020	2019
Net income (loss) before income tax expense	(3,975)	(1,399)
Statutory tax rate	24%	26.5%
Expected income tax expense (recovery) at statutory rates	(954)	(371)
Items not deductible for tax purposes	167	321
Foreign tax rate difference	(14)	-
Effect of change in tax rates	-	80
Effect of lower tax rate from small business deduction	-	-
Prior period true up	(108)	71
Tax benefits unrecognized (utilized)	612	160
Deferred income tax expense (recovery)	(297)	261

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

14. OPERATING EXPENSES

[a] Cost of products sold

	Twelve months ended December 31,	
(\$000's)	2020	2019
Direct material costs	2,120	1,603
Salaries and wages	205	300
Direct overhead	277	420
Warranty expense	37	(89)
Depreciation	68	70
	2,707	2,304

[b] Sales and marketing

	Twelve months ended December 31,	
(\$000's)	2020	2019
Salaries, benefits, subcontracts	2,022	1,153
Selling commissions	290	427
Travel & accommodation	113	172
Advertising, conferences, trade shows	489	476
Office & other expenses	218	217
Bad debt expense	107	8
	3,239	2,453

[c] General and administrative expenses

	Twelve months ended December 31,	
(\$000's)	2020	2019
Consulting and professional fees	730	993
Salary related expenses	1,393	1,181
Administrative general expenses	973	388
	3,096	2,562

[d] Research and development expenses

Research and development expenses are costs that do not meet the criteria to be capitalized to intangibles. These costs stem from RS2D research and are expensed in the period they occur.

	Twelve months ended December 31,	
(\$000's)	2020	2019
Salary and related expenses	369	-
Consulting and professional fees	60	-
Materials and supplies	47	-
	476	-

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

15. UNEARNED REVENUE

The table below discloses the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied as at December 31, 2020 and the time frame in which the Company expects to recognize this revenue.

(\$000's)

Year	Less than 12 months	12 to 24 months	Thereafter	Total
Extended warranty	479	321	347	1,147
Prepayment on RS2D contracts	176	-	-	176
Prepayment on 100MHz	1,545	-	-	1,545
Total	2,200	321	347	2,868

For the year ended December 31, 2020, \$415K in revenue was recognized relating to performance obligations satisfied during the year (December 31, 2019 - \$200K).

16. 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.

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.

Twelve months ended December 31, 2020	Nanalysis	RS2D	Corporate	Total
Revenue	5,731	2,143	-	7,874
Operating earnings (loss)	558	(694)	(1,508)	(1,644)
Net loss	(160)	(1,068)	(2,450)	(3,678)
Depreciation and amortization	1,345	156	180	1,681
Capital expenditures	2,736	165	-	2,901
Total assets as at December 31, 2020	14,441	7,726	1,822	23,989

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For the years ended December 31, 2020 and 2019

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

Twelve months ended December 31, 2019	Nanalysis	RS2D	Corporate	Total
Revenue	8,364	-	-	8,364
Operating earnings (loss)	1,211	-	(166)	1,045
Net income (loss)	(34)	-	(1,626)	(1,660)
Depreciation and amortization	775	-	-	775
Capital expenditures	3,139	-	-	3,139
Total assets as at December 31, 2019	13,138	-	5,168	18,306

GEOGRAPHIC LOCATION

During the twelve months ended December 31, 2020 the Company was not economically dependent on any customer accounting for more than 10% of revenue (December 31, 2019 – one customer accounting for 13%). The Company's revenues are allocated to geographic segments for the twelve months ended December 31, 2020 and 2019 as follows:

(\$000's)	December 31, 2020	December 31, 2019
United States of America	3,446	5,099
Europe	1,522	915
Canada	391	734
Asia	710	725
Other (Brazil, Chile, India, Mexico, Morocco, Nigeria)	1,805	891
Total	7,874	8,364

17. 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, 2020.

18. 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.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

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, 2020 is the carrying amount of cash, accounts receivable, and other receivables on the consolidated statements of financial position. The Company mitigates this risk by holding its cash in major Canadian financial institutions and performing credit enquiries on its customers.

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, 2020, a bad debt of \$107K was recognized as an expense (2019 - \$8K).

Included in Other Receivables for 2020 is a SR&ED investment tax credit claim of \$0.2 million and \$0.8 million of CIR (2019 - \$1.0 million SR&ED refund).

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, 2020, the Company had working capital of \$3,049K (December 31, 2019 - \$8,534K). The Company's exposure to liquidity risk is dependent on its ability to capitalize on its research and development, ability to manufacture and deploy new products, sale of inventory, collection of accounts receivable and other receivables, the raising of funds to meet commitments, sustain operations, and continue 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, 2020 and 2019, the Company had the following assets and liabilities denominated in U.S. dollars:

	December 31, 2020	December 31, 2019
(\$000's)	US\$	US\$
Cash	421	1,338
Accounts receivable	995	776
Accounts payable and accrued liabilities	(188)	(37)
Total	1,228	2,077

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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The above assets and liabilities were translated using an exchange rate of 1.27 at December 31, 2020 (2019 – 1.30). Based on the above net exposure as at December 31, 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 \$156K (December 31, 2019 - \$269K) in the Company's net earnings/loss. Total sales in U.S. dollars for December 31, 2020 was \$3.4 million (December 31, 2019 - \$5.2 million), a 10% appreciation or deterioration of the Canadian dollar against the U.S. dollar would result in a change of approximately \$431K (December 31, 2019 - \$711K).

As at December 31, 2020 and 2019, the Company had the following assets and liabilities denominated in Euros:

(\$000's)	Euro (€)	Euro (€)
Cash	331	5
Accounts receivable	975	55
Inventory	228	-
Prepays	67	-
Unearned revenue	(538)	-
Debt and lease liabilities	(980)	-
Accounts payable and accrued liabilities	(1,461)	(1)
Total	(1,378)	59

The above assets and liabilities were translated at 1.56 at December 31, 2020 (December 31, 2019 - 1.46). Based on the above net exposure as at December 31, 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 \$215K (December 31, 2019 \$9K) in the Company's other comprehensive income. Total sales in Euros for the year ended December 31, 2020 was €1.44 million, a 10% appreciation or deterioration of the Canadian dollar against the Euro would result in a change of approximately \$225K.

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

19. SUBSEQUENT EVENTS

Subsequent to year-end Nanalysis received \$1.0 million, under the Regional Recovery Relief Fund, the loan bears interest at three percent above the Bank of Canada rate and is repayable in 35 consecutive monthly installments of \$28K commencing January 1, 2023.

On December 18, 2020 Nanalysis executed an original equipment manufacturing contract ("OEM") with a European Corporation. Per the agreement an initial licensing fee of \$876K was due within 15 days of signing, this amount was received on January 11, 2021.

On December 10, 2020 RS2D won a \$1.2 million non-repayable grant to further leverage its proprietary Magnetic Resonance Imaging (MRI) technology for smart NextGen clinical MRI systems. Pursuant to the grant and subsequent to year end RS2D received an initial payment on March 29, 2021 of \$629K.

On April 9, 2021, RS2D received \$383K for their 2019 Credit impot Recherche.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

DIRECTORS AND OFFICERS

Sean Krakiwsky, M.Sc ⁽²⁾
President & Chief Executive Officer

Luke Caplette, CA, CPA
Chief Financial Officer

Julien Muller
Chief Technology Officer

Martin Burian, CA, CPA, CBV, ICD.D ^{(1) (2)}
Chairman of the Board

Werner Gartner CMA, CPA ⁽¹⁾
Director

Dr. Michal Okoniewski ⁽²⁾
Director

Guido Cloetens ⁽¹⁾
Director

(1) Member of the Audit Committee

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