nanalysis

Interim Condensed Financial Statements

Period Ended March 31, 2021

Nanalysis Scientific Corp.

Interim Condensed Consolidated Statement of Financial Position

(unaudited) ($000's)	Note	March 31, 2021	December 31, 2020
ASSETS			
Current			
Cash		4,660	3,158
Accounts receivable		2,224	1,840
Other receivables		1,266	1,205
Inventory	4	2,789	2,830
Prepaid expenses and deposit		368	319
		11,307	9,352
Property and equipment	5	1,141	1,221
Right of use assets	5	642	729
Intangible assets	6	12,690	12,687
		14,473	14,637
Total Assets		25,780	23,989
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current			
Accounts payable and accrued liabilities		2,502	2,619
RS2D earn-out payable		453	276
Warranty provision		108	106
Unearned revenue	11	3,075	2,200
Current portion of lease liability	8	223	225
Current portion of long-term debt/repayable contributions	7	277	209
		6,638	5,635
Non-current liabilities			
Unearned revenue	11	849	668
Lease liability	8	447	527
Long-term debt/repayable contributions	7	3,680	2,815
Total Liabilities		11,614	4,010
SHAREHOLDERS' EQUITY			
Share capital	9	20,874	20,665
Contributed surplus		1,415	1,384
Deficit		(8,387)	(7,920)
Accumulated other comprehensive income		264	215
Total Shareholders' Equity		14,166	14,344
Total Liabilities and Shareholders' Equity		25,780	23,989

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

Interim Condensed Consolidated Statement of Comprehensive Loss

		Three months ended March 31	
(unaudited)		2021	2020
($000s)	Note		
Revenue		3,277	1,523
Cost of products sold	10[a]	1,155	541
Gross profit		2,122	982
Sales and marketing	10[b]	1,039	681
General and administration	10[c]	700	765
Research and development	10[d]	116	-
		1,855	1,446
Income (loss) before other items		267	(464)
Other Items			
Business acquisition costs		-	233
Depreciation and amortization expense	5,6	630	499
Finance expense (income)		(240)	(86)
Stock-based compensation	9	129	62
Foreign exchange (gain) loss		38	(169)
RS2D earn-out		177	-
Loss before tax		(467)	(1,003)
Deferred income tax recovery		-	(93)
Net loss		**(467)**	**(910)**
Other comprehensive income (loss)		49	**(25)**
Total comprehensive loss		**(418)**	**(935)**
Basic loss per common share		(0.01)	(0.01)
Weighted average number of common shares outstanding - basic and diluted		66,188	63,381
Diluted loss per common share		(0.01)	(0.01)

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

Interim Condensed Consolidated Statement of Changes in Equity

(unaudited)

($000's except numbers of shares)	Shares Outstanding	Share Capital	Contributed Surplus	Accum. Other Comp. Loss	Deficit	Total
	(000's)	$	$	$	$	$
Balance at January 1, 2020	**62,361**	**18,267**	**1,094**	**-**	**(4,242)**	**15,119**
Shares issued for purchase of RS2D	2,900	2,030	-	-	-	2,030
Exercise of options	284	124	(45)	-	-	79
Stock-based compensation	-	-	62	-	-	62
Net loss for the period	-	-	-	-	(910)	(910)
Other comprehensive loss	-	-	-	(25)	-	(25)
Balance at March 31, 2020	**65,545**	**20,421**	**1,111**	**(25)**	**(5,152)**	**16,355**
Balance at January 1, 2021	**66,037**	**20,665**	**1,384**	**215**	**(7,920)**	**14,344**
Exercise of options & RSUs	623	209	(98)	-	-	111
Stock-based compensation	-	-	129	-	-	129
Net loss for the period	-	-	-	-	(467)	(467)
Other comprehensive loss	-	-	-	49	-	49
Balance at March 31, 2021	**66,660**	**20,874**	**1,415**	**264**	**(8,387)**	**14,166**

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

Interim Condensed Consolidated Statement of Cashflow

(Unaudited) ($000's)	Note	Three months ended March 31, 2021	 2020
Cash flows from operating activities			
Net loss		(467)	(910)
Add (deduct) non-cash items:			
Non cash income		(227)	(40)
Depreciation of property plant and equipment	5	176	144
Amortization of intangible assets	6	468	369
Deferred tax recovery		-	(93)
Stock based compensation	9	129	62
Warranty expense		3	-
Finance expense		21	11
Changes in non-cash working capital		720	1,020
Cash flows provided by operating activities		823	563
Cash flows from investing activities			
Purchases of property and equipment	5	(48)	(87)
Additions to intangible assets	6	(524)	(902)
Acqusition of RS2D (net of cash)		-	(1,209)
Cash flows used in investing activities		(572)	(2,198)
Cash flows from financing activities			
Finance expense		(21)	(11)
Payment of lease obligations	8	(53)	(40)
Proceeds from long-term debt	7	1,423	459
Repayment of long-term debt	7	(209)	(145)
Exercise of stock options	9	111	79
Cash flows provided by financing activities		1,251	342
Increase (decrease) in cash and equivalents		1,502	(1,293)
Cash and cash equivalents, beginning of period		3,158	6,619
Cash and cash equivalents, end of period		4,660	5,326

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

Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2021 and 2020 (unaudited)
Tabular amounts are stated in thousands of dollars except per share amounts and certain other exceptions as noted

1. REPORTING ENTITY

Nanalysis Scientific Corp. (“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 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 The Company is publicly-traded on the TSX Venture Exchange under the symbol “NSCI”, on the over the counter in the United States under ticker symbol “NSCIF” and under the Frankfurt Stock Exchange under ticker symbol “1N1”.

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

2. BASIS OF PRESENTATION

[a] Statement of compliance
These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) on a basis consistent with the accounting, estimation and valuation policies described in the Company’s audited Consolidated Financial Statements as at and for the year ended December 31, 2020. Certain information and disclosures normally required to be included in the notes to the financial statements have been condensed or omitted. These unaudited interim condensed consolidated financial statements should be read in conjunction with Nanalysis’ consolidated financial statements as at and for the year ended December 31, 2020, filed under the Company’s profile on SEDAR at www.sedar.com.

As disclosed in Note 15 of the December 31, 2020 annual financial statements, $668K in unearned revenue is not expected to be earned over the next twelve months and has been reclassified from current unearned revenue to non-current unearned revenue in the comparative period. There were no changes to the Company’s operating segments during the three months ended March 31, 2021.

These unaudited interim condensed consolidated financial statements were approved by the Company’s Board of Directors on May 19, 2021.

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

[c] Basis of consolidation
Nanalysis is the ultimate parent company of a consolidated group of companies. These interim condensed 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 March 31, 2021	Ownership December 31, 2020	Incorporated	Nature
Nanalysis GmbH	100%	100%	Germany	Direct Sales, Marketing, Technical Support
Nanalysis Corp.	100%	100%	Canada	Technology, Manufacturing
RS2D	100%	100%	France	Technology

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

translated at the average rates for the period. The resulting translation adjustments are included in other comprehensive (loss) income.

3. SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

The preparation of these interim condensed consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the interim condensed consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The impacts of such estimates are pervasive throughout these interim condensed consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Note 2 and 3 to the Company's audited consolidated financial statements as at and for the year ended December 31, 2020 contains a description of the accounting policies, judgements, estimates and assumptions that are considered significant.

4. INVENTORY

($000's)	March 31, 2021	December 31, 2020
Raw materials	1,499	1,484
Work in process	436	463
Finished goods	899	928
Inventory provision	(45)	(45)
Total inventory	2,789	2,830

During the three months ended March 31, 2021 raw materials, consumables and change in finished goods, recognized as cost of goods sold amount to $752K (March 31, 2020 - $291K).

5. PROPERTY, EQUIPMENT AND RIGHT OF USE ASSET

($ 000's)	Office Furniture and Equipment	Computer Hardware	Manufacturing Equipment	Leasehold Improvements	Right of Use Assets	Total
Cost:						
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
Disposal	(2)	-	(261)	-	(5)	(268)
Foreign exchange	6	5	14	-	8	33
Balance, December 31, 2020	141	168	1,821	238	1,079	3,447
Addition	-	45	3	-	-	48
Foreign exchange	-	(7)	(27)	-	(43)	(77)
Balance, March 31, 2021	141	206	1,797	238	1,036	3,418
Accumulated depreciation:						
Balance, December 31, 2019	89	62	672	47	121	991
Depreciation	26	36	356	61	225	704
Disposal	(4)	-	(218)	-	-	(222)
Foreign exchange	3	4	13	-	4	24
Balance, December 31, 2020	114	102	823	108	350	1,497
Depreciation	4	10	90	12	60	176
Foreign exchange	-	(7)	(15)	-	(16)	(38)
Balance, March 31, 2021	118	105	898	120	394	1,635
Net book value:						
Balance, December 31, 2020	27	66	998	130	729	1,950
Balance, March 31, 2021	23	101	899	118	642	1,783

During the three months ended March 31, 2021, depreciation of $17K was recognized as an expense in cost of goods sold (March 31, 2020 - $17K). The Company did not identify any indicators of impairment as at March 31, 2021.

6. INTANGIBLE ASSETS

($ 000's)	Development costs	Patents	Software	Acquired Intangible	Total
Cost:					
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
Addition	458	66	-	-	524
Foreign exchange	(15)	-	-	(61)	(76)
Balance, March 31, 2021	9,615	796	195	4,644	15,250
Accumulated amortization:					
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
Amortization	284	25	12	147	468
Foreign exchange	(8)	-	-	(15)	(23)
Balance, March 31, 2021	1,880	274	94	312	2,560
Net book value:					
As of December 31, 2020	7,568	481	113	4,525	12,687
Balance, March 31, 2021	7,735	522	101	4,332	12,690

The Company did not identify any indicators of impairment as at March 31, 2021.

7. LONG-TERM DEBT

($000's)	March 31, 2021	December 31, 2020
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.	177	206
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 available under this loan is $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.	2,137	1,763
The Canada Emergency Business Account (CEBA) interest-free loan of $40K repayable on or before December 31, 2022. The obligation is recorded at its present value using a 6.0% discount rate. The loan is unsecured.	38	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.	129	145
Procedure de sauvegarde, interest free Euro denominated loan repayable in annual payments due in March, payments are $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. This loan is unsecured.	654	872
Regional Recovery Relief Fund (RRRF) interest-free loan of $1.0 million loan repayable in 35 consecutive monthly installments of $28K commencing January 1, 2023. The obligation is recorded as its present value using a 6.0% discount rate. Any amounts in default will incur interest at the Bank of Canada's interest rate plus 3% compounded monthly. The loan is unsecured.	822	-
	3,957	3,024
Less: current portion	277	209
Non-current portion of loans and borrowings	3,680	2,815

Credit Facility
The Company has an undrawn line of credit agreement with a major Canadian financial institution, pursuant to which it may borrow up to maximum of $2.0 million ("the Credit Facility"). Borrowings under the Credit Facility bear interest at prime plus 0.75 percent. 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

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 at March 31, 2021 the Company does not meet the total liabilities to tangible net worth ratio, as such funds are not currently available until covenants are met. The Company is in discussions with its lender to alter this covenant.

8. LEASE LIABILITIES

($000's)	Three months ended March 31, 2021	Twelve months ended December 31, 2020
Balance beginning of the period	752	371
Additions	-	62
Additions from RS2D acquisition	-	524
Interest expense	13	55
Lease payments	(53)	(239)
Foreign exchange	(29)	34
Balance, end of the period	**670**	**752**
Current portion	223	225
Long-term portion	447	527

9. SHARE CAPITAL

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

[b] Issued
At March 31, 2021 Nanalysis had 66,660,000 common shares outstanding. There are 1.7 million shares under lock up issued for the acquisition of RS2D, these common shares are scheduled for release as follows: 870,000 on March 3, 2022 and 870,000 on March 3, 2023.

During the three month period ended March 31, 2021 the Company issued the following common shares:

- 623,000 shares upon the exercise of options and RSUs for cash consideration of $111K

[c] Per share amounts
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. All of the Company's outstanding options, RSU's and warrants are anti-dilutive.

[d] Stock options
The Company has a stock option plan that provides for the issuance of options to eligible persons. The option price under each option granted must be no less than the discount market price defined by the TSX-V. The term of the options must be no longer than 5 years and the directors determine the vesting period, which is typically 3 years. The maximum number of outstanding options must be no more than 10% of the issued and outstanding common shares at any point in time, the 10% includes both stock options and restricted share units in aggregate. The maximum number of outstanding options issued for investor relations must be no more than 2% of the issued and outstanding shares and the options issued to investor relations must vest in stages over a 12 month period with no more than one quarter of the options vesting in any three month period.

	Number	Weighted Average Exercise Price $
Balance, December 31, 2019	**3,893,500**	**0.46**
Granted	1,787,500	0.60
Exercised	(776,250)	(0.31)
Forfeitures	(197,500)	(0.60)
Balance, December 31, 2020	**4,687,250**	**0.53**
Granted	1,148,000	0.60
Exercised	(583,000)	(0.23)

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

Balance, March 31, 2021	**5,252,250**	**0.58**

During the three-month period ended March 31, 2021 and 2020, the Company recorded stock based compensation of $129K and $62K, 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:

	2021	2020
Risk-free interest rate	0.90% - 0.93%	0.35%-1.6%
Estimated annualized volatility based on historical performance	70%	74% -79%
Expected life	5.0 years	5.0 years
Expected dividend yield	0%	0%
Exercise price	$0.60	$0.60-$0.65

As at March 31, 2021, the Company had the following stock options outstanding and exercisable:

Exercise Price ($)	Number of Options Outstanding	Weighted Average Life	Number of Options Exercisable
0.22	68,750	1.63	68,750
0.42	143,000	0.77	143,000
0.45	412,500	1.75	394,350
0.60	4,378,000	3.98	818,425
0.65	50,000	3.83	16,667
0.75	200,000	3.28	66,667
	5,252,250	**3.66**	**1,507,859**

[e] Restricted Share Units ("RSU")

On March 24, 2021, the Company granted 40,000 RSU's to each of three independent directors of the Company for a total of 120,000 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 three months ended March 31, 2021, $33K was recorded in stock-based compensation (2020 - $Nil).

Total RSU's outstanding as of March 31, 2021 was 280,000 (December 31, 2020 – 160,000).

[e] Warrants

As at March 31, 2021, the Company has 1,250,000 warrants outstanding (December 31, 2020 – 1,250,000). The warrants have an exercise price of $0.75 and expire on June 6, 2021. The fair value of warrants was estimated to be $250k at the time of issuance using the Black-Scholes pricing model.

10. OPERATING EXPENSES

[a] Cost of products sold

	Three months ended March 31	
($000's)	2021	2020
Direct material costs	752	291
Salaries and w ages	233	67
Direct overhead	150	183
Warranty expense	3	(17)
Depreciation	17	17
	1,155	541

[b] Sales and marketing

	Three months ended March 31	
($000's)	2021	2020
Salaries, benefits, subcontracts	518	379
Selling commissions	91	29
Travel & accommodation	28	46
Advertising, conferences, trade show s	173	161
Office & other expenses	229	66
	1,039	681

[c] General and administrative expenses

	Three months ended March 31	
($000's)	2021	2020
Consulting and professional fees	119	78
Salary related expenses	414	524
Administrative and general expenses	167	163
	700	765

[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.

	Three months ended March 31	
($000's)	2021	2020
Salary and related expenses	116	-
Consulting and professional fees	-	-
Materials and supplies	-	-
	116	-

Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2021 and 2020 (unaudited)
Tabular amounts are stated in thousands of dollars except per share amounts and certain other exceptions as noted

11. 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 March 31, 2021 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 w arranty	291	200	209	700
Prepayment on RS2D contracts	1,640	440	-	2,080
Prepayment on 100MHz	1,144	-	-	1,144
Total	3,075	640	209	3,924

For the three months ended March 31, 2021, $633K in revenue was recognized relating to performance obligations satisfied during the period (March 31, 2020 - $44K).

12. 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").

Inter-segment transactions are recorded at values that approximate third-party selling prices and are eliminated for segmented reporting.

($000's)

Three months ended March 31 2021	Nanalysis	RS2D	Corporate	Total
Revenue	1,634	1,643	-	3,277
Operating earnings (loss)	12	562	(307)	267
Net earnings (loss)	(215)	359	(611)	(467)
Depreciation and amortization expense	431	199	-	630
Capital expenditures	572	-	-	572
Total assets as at March 31, 2021	14,946	8,483	2,351	25,780

($000's)

Three months ended March 31 2020	Nanalysis	RS2D	Corporate	Total
Revenue	1,478	45	-	1,523
Operating loss	(127)	(135)	(202)	(464)
Net loss	(183)	(238)	(489)	(910)
Depreciation and amortization expense	399	100	-	499
Capital expenditures	999	-	-	999
Total assets as at March 31, 2020	12,676	7,792	4,001	24,469

GEOGRAPHIC LOCATION
During the three months ended March 31, 2021 the Company was economically dependent on one customer accounting for more than 10% of revenue (2020 – one customer). The Company's revenues are allocated to geographic segments as follows:

	Three months ended March 31	
($000's)	2021	2020
United States of America	975	908
Europe	1,503	246
Canada	213	142
Asia	57	166
Other (Brazil, Chile, India, Mexico, Morocco, Nigeria)	529	61
	3,277	1,523

13. 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.

14. FINANCIAL INSTRUMENTS AND 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 March 31, 2021 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 3 months ended March 31, 2021, a bad debt of $Nil was recognized as an expense (2020 - $Nil).

Included in Other Receivables for 2021 is a SR&ED investment tax credit claim of $0.2 million and $0.8 million of Credit impot Recherche ("CIR") (December 31, 2020 - $1.0 million).

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. As of March 31, 2021, the Company had working capital of $4,662K (December 31, 2020 - $3,049K). 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 and interest rate risk. 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.

The Company had the following assets and liabilities denominated in U.S. dollars at the end of period:

	March 31, 2021	December 31, 2020
($000's)	US$	US$
Cash	473	421
Accounts receivable	879	995
Accounts payable and accrued liabilities	(188)	(188)
Total	1,164	1,228

The above assets and liabilities were translated using an exchange rate of 1.26 at March 31, 2021 (December 31, 2020 – 1.27). Based on the above net exposure as at March 31, 2021 and December 31, 2020, assuming 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 $147K (December 31, 2020 - $156K) in the Company's net earnings/loss. Total sales in U.S. dollars for March 31, 2021 was $774K, a 10% appreciation or deterioration of the Canadian dollar against the U.S. dollar would result in a change of approximately $98K.

The Company had the following assets and liabilities denominated in Euros at the end of the period:

	March 31, 2021	December 31, 2020
($000's)	Euro (€)	Euro (€)
Cash	760	331
Accounts receivable	1,335	975
Inventory	255	228
Prepaids	103	67
Unearned revenue	(1,573)	(538)
Debt and lease liabilities	(843)	(980)
Accounts payable and accrued liabilities	(971)	(1,461)
Total	(934)	(1,378)

The above assets and liabilities were translated at 1.48 at March 31, 2021 (December 31, 2020 - 1.56). Based on the above net exposure as at March 31, 2021 and 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 $138K (December 31, 2020 - $215K) in the Company's other comprehensive income. Total sales in Euros for the three months ended March 31, 2021 was €984K, a 10% appreciation or deterioration of the Canadian dollar against the Euro would result in a change of approximately $150K.

[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 three months ended March 31, 2021 and 2020, fluctuations in the market interest rates had no significant impact on its interest expense.

DIRECTORS AND OFFICERS

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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

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Trading Symbol: NSCI

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