



Q3 2021

Management's Discussion & Analysis

Nanalysis Scientific Corp.

nanalysis

READER ADVISORY

The Management's Discussion and Analysis ("MD&A") for the three and nine month periods ended September 30, 2021 of the financial condition and results of operations of Nanalysis Scientific Corp. ("the "Company"), is prepared as at November 18, 2021. This discussion should be read in conjunction with the Company's unaudited Interim Condensed Consolidated Financial Statements for the three and nine month periods ended September 30, 2021 and notes thereto. Other information on Nanalysis is available on SEDAR at www.sedar.com and on the Company's website at www.nanalysis.com.

This discussion should not be considered all-inclusive as it does not include all changes regarding general economic, political, governmental and environmental events. This MD&A contains certain statements that constitute forward-looking statements under the meaning of applicable securities laws. Please see "Forward-Looking Statement Advisory" on page 17 for a discussion regarding Nanalysis' use of such information.

This MD&A and the consolidated interim financial statements were reviewed by the Audit Committee of the Company's Board of Directors and approved by Nanalysis' Board of Directors on November 18, 2021. All dollar figures are in thousands of Canadian dollars, except per share amounts or unless otherwise stated.



OVERVIEW OF BUSINESS

Nanalysis Scientific Corp. is the ultimate parent in the group. In June 2019, the Company completed a reverse takeover (“RTO”) and obtained a listing on the TSX-V as Nanalysis Scientific Corp (“NSCI”). The Company is headquartered in Calgary, Alberta, Canada and performs product development and manufacturing in its Calgary and Strasbourg facilities.

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”).

The Company is focused on the proliferation of magnetic resonance (“MR”) technology into industrial, research and teaching markets through the release of accessible, affordable and automatable MR systems. By focusing on innovation in both method development and magnet and electronic design, the Company’s product line addresses unmet needs of customers in a variety of applications, including pharmaceutical, academic, mining, oil and gas, cannabis etc. The Company has a focused, direct sales force in the United States, Germany, France and Canada and works through a distribution channel of distributors and dealers in other geographical areas to ensure penetration in the current market. The Company’s activities are carried out through three reportable segments: Nanalysis, RS2D and Corporate.

Nanalysis Corp. (“Nanalysis”): a subsidiary of the Company was founded in 2009 with the specific intent of developing the world’s first portable magnetic resonance (“MR”) spectrometer to address the three main limitations of this powerful magnetic resonance technique – affordability, accessibility and automatability. After approximately four years of development, Nanalysis began shipping its first commercial product in 2012. Since this time Nanalysis has expanded the functionality of this platform and launched the highest performing instrument available in the market to address the industrial market demands for increased performance metrics. Nanalysis is a provider of cutting edge, patent-protected magnetic resonance (“MR”) technology to facilitate simple and rapid unknown chemical identification, quantification and diagnostics in a number of end markets including pharmaceutical, biotechnology, chemical, security, food, oil & gas and educational industries. Customers include Eli Lilly, Johnson & Johnson, Takeda Pharmaceutical, BASF, Hitachi Chemical, US Department of Agriculture, Lubrizol, Aramco Services, SABIC, Oxford University, Harvard University and many other Fortune 500 organizations. In 2018 the Company incorporated a wholly owned subsidiary in Germany, the entity conducted direct sales, marketing, technical support and channel management activities in the European region. In the second quarter of 2021 the entity was consolidated into RS2D and is no longer operating. The Company plans to open other international subsidiaries in upcoming years that will conduct similar activities in strategic geographical regions.

RS2D S.A.S. (“RS2D”): In March 2020, the Company acquired all outstanding shares of RS2D, a complementary technology company based in Strasbourg France that specializes in the development of cutting-edge MR electronics. Based on a single electronic board, RS2D has developed MR product lines in high-field (“HF”) NMR and magnetic resonance imaging (“MRI”) that can further advance Nanalysis’ existing product line, while rounding out the Company’s magnetic resonance technology portfolio.

Corporate: This segment is the corporate entity of the company; included in Corporate is executive, legal, and other administrative costs.

BUSINESS ACQUISITION

On July 21, 2021, the Company acquired all of the outstanding shares of One Moon Scientific (“OMS”) a software company based in New York, USA. OMS specializes in a suite of software tools to streamline and automate Magnetic Resonance (“MR”) data analysis and management. Originally developed at a leading pharmaceutical company, this advanced software platform was designed from the ground up to be a powerful platform to provide routine, high-performance data processing and fill niches in MR data analysis, including machine learning and database construction/search algorithms. The base consideration paid for OMS was \$346K in cash and the issuance of four promissory notes (note 8) valued at \$441K. The promissory notes are convertible at the option of Nanalysis to repay the indebtedness owing under the notes by: (i) cash or; (ii) Nanalysis shares. The former shareholders of OMS may also receive an earn-out over the three years to December 31, 2024, based on future revenue growth objectives.

The acquisition was accounted for as a business combination. The Company determined the purchase consideration to be \$787K, comprised of the following:

Purchase Price Allocation:

(unaudited)

(\$000's)

Cash	346
Promissory notes	441
Purchase consideration	787

The assets acquired and liabilities assumed are recorded at their fair value. The fair values allocated to assets acquired and liabilities assumed are preliminary and are subject to adjustment based on further analysis and evaluation over the course of the measurement period, which will not exceed twelve months from the acquisition date. The Company will continue to evaluate new information about the facts and circumstances that existed as of the acquisition date pertaining to the fair value of the intangible assets acquired and the value of future earn out considerations.

(unaudited)

(\$000's)

	Fair value recognized on acquisition
LIABILITIES	
Accounts payable and accrued liabilities	1
Unearned revenue	13
Total liabilities	14
Net assets before cash and cash equivalents	(14)
Cash and cash equivalents	2
Net assets	(12)
Intangible assets	799
Purchase consideration	787

Magnetic Resonance Test, Measure and Diagnostic Systems

Nanalysis Scientific Corp.'s line of magnetic resonance imaging and spectroscopy systems are designed to offer accessible and affordable options to proliferate the use of this powerful technique in underserved markets (e.g., academia, small & medium enterprise chemical production, etc.), industrial QA/QC assays (e.g., pharma/biotechnology, materials/polymers, cannabis, food, etc.), process control (e.g., crude refining, chemical production), and point-of-need diagnostics (e.g., ski hills, doctor's offices etc.).

By powering the entire range of magnetic resonance products on one electronic platform, the Cameleon 4 or Cam4™, and building tailored software layers from the ground up, Nanalysis can optimize data acquisition, processing, analysis, and integrity. Additionally, it provides the flexibility to provide automated software layers to ensure that these products can be placed with non-experts without compromising repeatability or reliability of the results.



Bridging the Gap in MR Accessibility

MRI and nuclear magnetic resonance ("NMR") spectroscopy have long been the workhorse in medical diagnostics and chemical analysis. However, given the capital and operating expenditures of these instruments, they are often limited by accessibility and other, often lesser techniques, are used to supplement the need. To address this issue, in 2009, Nanalysis Scientific Corp.'s first focus was on developing powerful, extremely uniform, permanent magnet-based systems that were more affordable and require little to no maintenance.

Launching its first platform, the 60 MHz in 2012, and the market-leading 100MHz in 2019 Nanalysis decided to expand its magnetic resonance portfolio to offer high-field NMR electronics and accessories and MRI for pre-clinical and OEM applications.

Hardware Technology Portfolio

			Underserved Traditional MR Markets				
			Teaching	Research	Industrial QA/QC	Process	Diagnostics
Benchtop NMR	60 MHz		✓		✓	✓	
	100 MHz		✓	✓			
	Accessories	Flow AUTOSample		✓ ✓	✓	✓	
HF-NMR	Pulse NMR Console		✓	✓	✓		
	Gecho			✓			
MRI	Cam 4 Console		✓	✓			✓
Software	NMRGUI		✓	✓	✓		
	SPINit		✓	✓			✓
	OneMoon		✓	✓	✓	✓	✓

Benchtop NMR 60 MHz



60 MHz Platform

The initial flagship product of Nanalysis Scientific Corp., this 60 MHz is the most compact, high-performance model in its class. Shipping commercially since 2012, there are almost 1000 instruments in the field in a variety of applications including academia and industrial QA/QC assay and process chemistry innovator and early adopter adopters.

To grow the market of the 60 MHz product line, Nanalysis is actively working with collaborators in method development to provide the necessary software layers to simplify and automate data analysis and maintain data integrity in several fields (e.g., cannabinoid detection, lithium quantification in brine).

Benchtop NMR 100MHz



100 MHz Platform

With market-leading, unparalleled resolution, the 100 MHz platform was announced to meet the high-end needs of customers needing higher sensitivity and resolution than the 60 MHz platform. It's easy-to-use, ergonomic touchscreen, and unparalleled data has been well received in the market since it began shipping in late 2020.

High-field NMR



Pulse NMR Console

Aimed as an OEM console for magnet manufacturers, this compact electronics platform can be incorporated on existing super conducting systems ranging from 200-600 MHz. By combining the benchtop NMR with the Pulse NMR Console, Nanalysis is poised to offer full analytical solutions to a variety of laboratories ranging from academia, government, and industrial research through industrial QA/QC.

High-field NMR



Gecho

NMR is largely considered to be the most information rich analytical technique available to chemists, however, its only major drawback is that it is limited in sensitivity when compared to ultra-sensitive characterization techniques (e.g., Mass Spectrometry ("MS")). One breakthrough in the field has come with the discovery of hyperpolarization methods that allow for significant sensitivity enhancements. The Gecho is Nanalysis' answer to this important research field and is aimed at improving industrial QA/QC.

MRI



Cameleon 4 Console

The Cam 4 console provides a compact and affordable alternative to facilitate adoption of MRI in teaching and to springboard MRI innovations to provider safer, high-resolution instruments and develop necessary software for earlier identification with key OEM partners.

Software Portfolio

NMRGui

The onboard Nanalysis user interface enables one-click data acquisition and processing for the benchtop NMR product line. The interface was designed to simplify usage for non-experts while still providing more advanced users with the flexibility to modify acquisition parameters, or experiment sequences as required. This python-based software operates on a Linux operating system to allow users to write their own applications while also ensuring with data integrity and automation in mind to allow users to write their own applications.

SPINit

SPINit is an all-in-one MR software platform to facilitate data acquisition, processing and high-level pulse programming for High-field NMR and MRI product lines. As competitive software packages require coding knowledge and expertise to develop experiments, the SPINit design philosophy focused on transparency and usability to generate experiments directly from a graphical interface without requiring coding. There are several optional plug-ins to the SPINit workflow to tailor workflow and automation to the user including SPINplanner (to control an autosampler) and Driver (to launch acquisition from any software).

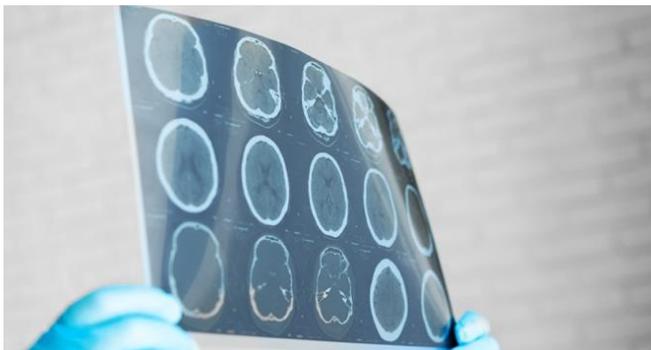


NMRFx

The newest component to Nanalysis' MR offerings, the One Moon Scientific Platform offers a suite of premium software tools to streamline and automate MR data analysis and management. Originally developed in a leading pharmaceutical company, this advanced software platform was designed to be a powerful platform to provide routine, high-performance data processing and fill niches in MR data analysis, including machine learning and database construction/search algorithms.

By combining these premium data analysis tools with the NMRGui software interface, Nanalysis can start offering the analyzer, application of MR solutions it has been validating.

TECHNOLOGY UNDER DEVELOPMENT



Permanent magnet Based MRI

By combining the Cam4™ console with Nanalysis innovative core competencies of making unique, highly homogenous, permanent magnet arrays, Nanalysis is working to make a series of portable MRIs that can be located at point of need to accelerate diagnostics of sprains and facilitate the early detection of tumors.

Robust Industrial Detector

The unique magnet designs at Nanalysis enable the development of an industrial-hardened spectrometer capable of being incorporated directly into chemical production and refinery type applications. With high-pressure and high-temperature sampling and ex-

plosion proof requirements, Nanalysis is working to use their existing benchtop NMR platforms to develop an online sensor that can improve safety, limit by-product formation and improve yields in a completely automated sense.

SELECTED FINANCIAL INFORMATION

(\$000's except share information amounts)	Three months ended September 30			Nine months ended September 30		
	2021	2020	Change	2021	2020	Change
Financial results						
Revenue	3,336	1,700	1,636	10,954	5,219	5,735
Gross profit	2,112	1,056	1,056	7,152	3,364	3,788
Net loss	(857)	(1,099)	242	(1,127)	(2,470)	1,343
Share Information						
Loss per share (basic and diluted)	(0.01)	(0.02)	0.01	(0.02)	(0.04)	0.02
Share price (September 30)	1.29	0.44	0.85	1.29	0.44	0.85
Other Information						
Capitalized property plant and equipment	222	302	(80)	368	391	(23)
Capitalized development expenditures	352	700	(348)	1,490	2,154	(664)

(\$ 000's)	September 30, 2021	December 31, 2020	\$ Change
Financial Position			
Total assets	35,667	23,989	11,678
Total debt obligations (includes current portion)	4,600	3,024	1,576
Total liabilities	11,462	9,645	1,817
Shareholders' equity	24,205	14,344	9,861

FINANCIAL POSITION

On August 25, 2021 the Company announced the closing of a bought deal public offering and a non-brokered private placement for gross proceeds of \$10,998K, these funds will be used to accelerate organic growth and to continue the Company's acquisition strategy. At September 30, 2021 the Company had \$14,561K of working capital (December 31, 2020 - \$3,717K), including \$12,572K in cash (December 31, 2020 - \$3,158K). The Company has an undrawn line of credit of \$2,000K from its commercial bank.

OVERALL PERFORMANCE

For the nine months ended September 30, 2021, the Company reported consolidated revenue of \$10,954K, an increase of \$5,735K or 110% from the comparative period in 2020. The increase in revenue is due to the completion of ongoing RS2D contract milestones and shipments of Nanalysis' new flagship product: the 100MHz spectrometer. For the nine months ended September 30, 2021, Nanalysis recognized revenue related to seventeen 100MHz units. As of November 18, 2021, Nanalysis had 29 100MHz on order. During the quarter the Company doubled its manufacturing facility, the additional manufacturing capacity will allow for increased production and quicker fulfillment of 100MHz backlog.

As of September 30, 2021 the Company had \$3,181K of unearned revenue (December 31, 2021-\$2,868K), of which \$2,345K will be recognized into revenue over the next 12 months. Unearned revenue relates to prepayments for the 100MHz, prepayment on RS2D contracts and extended warranty sales.

Gross profit for nine months ended September 30, 2021, was \$7,152K (a margin of 65%) compared to gross profit of \$3,364K (a margin of 64%) for 2020.

The Company's net loss for the nine months ended September 30, 2021 was \$1,127K, (September 30, 2020 – net loss of \$2,470K) an improvement of \$1,343K from the comparative period in 2020. The improved results are due to a significant increase in revenue this has been partially offset by increased cost of product sold, depreciation and amortization, increased stock-based compensation expense, increased sales and marketing expenses, G&A and research and development expenses and the RS2D earn-out.

DISCUSSION OF OPERATIONS

(\$000's)	Three months ended September 30			Nine months ended September 30		
	2021	2020	(\$ Change)	2021	2020	(\$ Change)
Revenue	3,336	1,700	1,636	10,954	5,219	5,735
Cost of products sold	1,224	644	580	3,802	1,855	1,947
Gross profit	2,112	1,056	1,056	7,152	3,364	3,788
Expenses						
Sales and marketing	838	822	16	2,706	2,200	506
General and administration	1,016	668	348	2,411	2,187	224
Research and development	246	-	246	529	-	529
Income (loss) before other items	12	(434)	446	1,506	(1,023)	2,529
Other Items						
Acquisition transaction costs	96	-	96	98	275	(177)
Depreciation and amortization expense	620	466	154	1,885	1,187	698
Finance expense (income)	121	3	118	(84)	(86)	2
Stock-based compensation	103	150	(47)	346	313	33
Foreign exchange (gain) loss	(102)	130	(232)	(44)	17	(61)
RS2D earn-out	-	-	-	177	-	177
Loss before tax	(826)	(1,183)	357	(872)	(2,729)	1,857
Deferred income tax recovery	31	(84)	115	255	(259)	514
Net loss	(857)	(1,099)	242	(1,127)	(2,470)	1,343
Other comprehensive income	27	40	(13)	74	182	(108)
Total comprehensive loss	(830)	(1,059)	229	(1,053)	(2,288)	1,235

Revenue

The Company derives revenue from two operating segments, Nanalysis and RS2D. Nanalysis has been involved in the development, manufacturing, and sales of MR spectrometers from inception in 2009. As such, all revenue is related to product sales and extended warranties. RS2D is a technology company based in Strasbourg, France which specializes in the manufacturing of cutting-edge electronics components for precision MR technologies, its revenue is derived from product sales, licenses, consulting services and contracted installation services of these products.

For the three-month period ended September 30, 2021 the Company reported consolidated revenue of \$3,336K, a 96% increase from the comparable period ended September 30, 2020. Worldwide supply constraints and re-organization and expansion of the manufacturing facility impacted the third quarter but is expected to improve in the fourth quarter. Despite these challenges, revenue increased in the quarter due to the progress completion of RS2D contracts, the shipment of Nanalysis' new flagship product: the 100MHz spectrometer and strong sales of the 60Mhz spectrometer. During the quarter Nanalysis recognized revenue related to two 100MHz units.

For the nine months ended September 30, 2021 the company reported consolidated revenue of \$10,954K, an increase of \$5,735K or 110% from the comparative period in 2020. The increase for the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020 is due to the aforementioned shipment of the 100MHz product, coupled with increased revenue from RS2D and 60Mhz benchtop sales.

Cost of products sold

Cost of sales for the Company includes the costs of manufacturing its products as well as the engineering costs incurred under the RS2D consulting services and contract installation agreements. The cost of sales for products comprises of raw materials, direct costs, direct labor, an allocation of overhead, freight charges, warranty and depreciation. The Company has consolidated manufacturing for both RS2D and Nanalysis to its facility in Calgary, Alberta.

Cost of products sold for the three months ended September 30, 2021 was \$1,224K or 37% of revenue as compared to \$644K or 38% of revenue for the same period of the prior year. On a dollar basis cost of product sold has increased due to more sales in the third quarter of 2021, margin have improved slightly due to higher revenues resulting in economies of scale.

Cost of products sold for the nine months ended September 30, 2021 was \$3,802K or 35% of revenue as compared to \$1,855K or 36% of revenue for the same period of the prior year. On a dollar basis cost of product sold has increased due to more sales in the third quarter of 2021, margin have improved slightly due to the aforementioned economies of scale.

Sales and marketing ("S&M")

S&M expenses include the salaries, benefits and expense of the sales, commissions, advertising, business development, travel costs, selling and marketing expenses.

S&M for the three months ended September 30, 2021 was \$838K as compared to \$822K for the same period of the prior year. The quarter over quarter increase is due increases sales and the associated sales commissions, increased advertising offset by decreased salaries and wages.

S&M for the nine months ended September 30, 2021 was \$2,706K as compared to \$2,200K for the same period of the prior year. The quarter over quarter increase is due to the aforementioned increase commissions and advertising offset by decreased salaries and wages.

General and administrative expenses (“G&A”)

G&A includes the cost of maintaining a corporate office, all publicly traded company-related expenses as well as administration costs incurred with respect to the day-to-day operation of the Company.

For the three months ended September 30, 2021, G&A was \$1,016K as compared to \$668K for the same period of the prior year. The increase for the three months ended is due increased salaries and wages due to overall increased head count and increased investor relations expenses partially offset by consolidation of the German office into the Strasbourg location.

For the nine months ended September 30, 2021, G&A was \$2,411K as compared to \$2,187K for the same period of the prior year. The increase for the nine months ended is due to the aforementioned increased in head count and investor relation expenses partially offset by the consolidation of the German office into the Strasbourg location.

Research and development expenses (“R&D”)

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

For the three months ended September 30, 2021, R&D was \$246K as compared to \$Nil for the same period of the prior year, the increase is due to RS2D research salaries not meeting the capitalization criteria.

For the nine months ended September 30, 2021, R&D was \$529K as compared to \$Nil for the same period of the prior year, the increase is due to the RS2D research salaries not meeting capitalization criteria.

Amortization of property, plant, equipment and intangibles

For the three and nine months ended September 30, 2021 amortization was \$620K and \$1,885K as compared to \$466K and \$1,187K for the same period of the prior year. The increase is due to the amortization of the intangible asset acquired on the acquisition of RS2D and the commencement of amortization of the intangible asset associated with the 100MHz product.

Finance income (expense)

For the three ended September 30, 2021, finance expense was \$121K as compared to finance expense of \$3K for the same period of the prior year. Accounting treatment of interest free government loans results in income upon initial receipt of funds, no drawings on interest free debt occurred during the quarter resulting in no finance income.

For the nine months ended September 30, 2021 finance income was \$84K as compared to \$86K from the comparative period. The decrease is due to increased finance expense from the accretion of interest on zero interest government loans, this has been mostly offset by finance income derived from drawings on WINN loan #2 and the Regional Recovery Relief Fund in 2021.

Foreign exchange

Foreign exchange gains or losses typically occur when the exchange rate changes between the time revenue or expenses are recognized and when the resulting receivable is collected, or invoice is paid. Nanalysis conducts the vast majority of its business in US dollars and Euros.

RS2D earn-out

The Company incurred additional consideration in the nine months ended September 30, 2021 of \$177K for the shareholders of RS2D based on performance targets. The earn-out was paid in cash and shares. Total cash consideration was \$232K and total number shares issued was 479,000. The shares are locked up as follows (i) one-third (1/3rd) on the day they were attributed, subject to a 4 month hold period as defined in the applicable TSX Venture Exchange policies; (ii) one-third (1/3rd) on January 31, 2022; and (iii) the remaining proportion after January 31, 2023.

SUMMARY OF QUARTERLY RESULTS

The following table highlights revenue, cash used in operating activities, net earnings (loss) and earnings (loss) per share for the eight most recently completed quarters ended September 30, 2021.

(\$000's) (except per share information)	2021			2020				2019
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	3,336	4,343	3,277	2,680	1,700	1,995	1,523	2,123
Cash (used in) generated from operating activities	312	(367)	823	(1,141)	518	(562)	563	5
Net income (loss) for the period	(857)	222	(910)	(1,225)	(1,099)	(525)	(935)	19
Income (loss) per share basic and diluted	(0.01)	0.00	(0.01)	(0.02)	(0.02)	(0.01)	(0.01)	0.00

- Q3 2021 continued to trend similar to the previous quarters, with a 96% increase in revenue compared to the three months ended of Q3 2020. The increased revenue also resulted in increased operating results to both income before other items and overall decreased net loss.
- Q2 2021 continued to see a significant increase to revenue and overall operating results stemming from strong demand for the 100MHz product.
- Q1 2021 saw increased results in all aspects of the business. Q1 2021 is the second quarter of shipping the new 100MHz product, these shipments coupled with the completion of outstanding RS2D contracts attributed to the 115% period over period increase to revenue.
- Q4 2020 marked the first quarter that had revenue associated with the shipment of Nanalysis' new product, the 100MHz. The Company was able to ship out four systems at the end of Q4, this, coupled with performance of RS2D on contract work that they were able to complete despite delays due to COVID-19 travel restrictions, resulted in a 26% increase compared to Q4 2019.
- Q3 2020 continued to be impacted by COVID-19 as RS2D employees were unable to travel to complete installations, in addition Nanalysis saw lower sales due to its customers' capital budgets being impacted by COVID-19. While macro forces negatively impacted sales at both our Nanalysis and RS2D segments, the acquisition of RS2D earlier in 2020 and the inclusion of its revenue in Q3 2020 (versus none in 2019) enabled sales to show a 4% increase overall.
- Q2 2020 was impacted by COVID-19, as borders and businesses shut down, the Company was impacted significantly on revenue, but continued to take pre-orders for the new 100MHz product in spite of reduced sales activity for the quarter.
- Q1 2020 completed the acquisition of RS2D, results were impacted by COVID-19 as borders and businesses alike shut down in the month of March.
- Q4 2019 saw a reduction in revenue compared to Q4 2018 as customers await the release of the new 100MHz device.

INVESTMENT IN INTANGIBLES AND DEVELOPMENT COSTS

(\$000'S)	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Gross research and development costs	1,014	928	2,921	2,648
Less: research expenses	(246)	-	(529)	-
Development costs	768	928	2,392	2,648
Less: government grants	(308)	(251)	(902)	(616)
Development costs capitalized to intangibles	460	677	1,490	2,032

The Company is engaged in research and development activities and has internally generated intangible assets. Total development costs that meet the criteria for capitalization are reduced by government grants with the net difference being capitalized. Government grants consist of federal grants received under the Industrial Research Assistance Program ("IRAP") and scientific research and experimental development ("SRED") tax credits, as well as provincial assistance through the Alberta Innovates ("AI") Voucher Program and CEWS for business affected by COVID-19.

LIQUIDITY & CAPITAL RESOURCES

Long Term Debt

(\$000's)	September 30, 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 February 28, 2023. 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.	133	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.	2,343	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.	39	38
Prêt garanti par l'état – (PGE) is a Euro denominated loan granted by the French state to RS2D. The loan bears interest at 0.7% Interest and is repayable in monthly installements of \$2.5K commencing on July 20, 2021 and maturing June 20, 2026. The obligation is recorded as its present value using a 2.5% discount rate. This loan is unsecured.	141	145
Procédure de sauvegarde, interest free Euro denominated loan repayable in annual payments due in March, payments are \$226K, \$272K, \$273K, 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.	713	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.	847	-
	4,216	3,024
Less: current portion	303	209
Non-current portion of loans and borrowings	3,913	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%. 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, as at September 30, 2021 the Company's current ratio is 3.6 to 1.

Promissory note

The Company issued as part of its consideration for the acquisition of One Moon Scientific four promissory notes for 82,472 common shares which at the date of acquisition were valued a price of C\$1.34 per share resulting in a value of each promissory note of \$87,500 USD. On the maturity date, the Company, at its sole option, shall repay the total indebtedness of the note by: (i) the issuance of 82,472 common shares (ii) a USD cash payment equal to the value of 82,472 common shares using the volume weighted average

of the closing sales prices of common shares on the TSX Venture Exchange Inc. during the five (5) trading days immediately preceding the maturity date and using the average of the Bank of Canada U.S. dollar daily exchange rate during the five (5) trading days immediately preceding the maturity date. The obligation is accounted for as a financial liability as a result of its settlement in a foreign currency that differs from the Company's function currency. The promissory note is unsecured and bears no interest. It is accounted for as a derivative financial liability and will be revalued to its fair value each period.

Lease Liabilities

(\$000's)	Nine months ended September 30, 2021	Twelve months ended December 31, 2020
Balance beginning of the period	752	371
Additions	-	62
Additions from RS2D acquisition	-	524
Interest expense	37	55
Lease payments	(162)	(239)
Foreign exchange	(28)	34
Balance, end of the period	562	752
Current portion	231	225
Long-term portion	331	527

WORKING CAPITAL

(\$000's)	September 30, 2021	December 31, 2020	\$ Change
Cash	12,572	3,158	9,414
Loans and leases	5,209	3,776	1,433
Working capital ⁽¹⁾	14,561	3,717	10,844

(1) Working capital is calculated as current assets less current liabilities.

At September 30, 2021, the Company had \$14,561K of working capital (December 31, 2020 – \$3,717K), which included \$12,572K of cash (December 31, 2020 - \$3,158K). The increase to working capital is due to an increasing of cash, result of the closing of a bought deal public offering and a non-brokered private placement for net proceeds of \$9,794K.

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, debt 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.

FINANCIAL MANAGEMENT

(\$000's)	Nine months ended September 30,		
	2021	2020	\$ Change
Cash generated provided by (used in):			
Operating activities	312	518	(206)
Investing activities	(2,353)	(3,754)	1,401
Financing activities	11,455	1,085	10,370
Increase (decrease) in cash	9,414	(2,151)	11,565

Cash flows from operating activities decreased for the nine months ended September 30, 2021 from the same period in 2020 by \$206K. The decrease is due to decrease to change in non-cash working capital, partially offset by increased operating results period over period.

Cash flows used in investing activities decreased for the nine months ended September 30, 2021 from the same period in 2020 by \$1,401K. The decrease is due larger expenditures in 2020, specifically, the purchase of RS2D, coupled with higher intangible asset additions. The investment in intangible assets was higher in 2020 due to no offset from the Canadian Emergency Wage Subsidy as this didn't come into effect until March 15, 2020.

Cash flows provided by financing activities increased for the nine months ended September 30, 2021 from the same period in 2020 by \$10,370K. The majority of the increase is due to the closing of a bought deal public offering and a non-brokered private placement for net proceeds of \$9,793K.

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

Public offering and concurrent private placement

On August 25, 2021 the Company completed a public offering and a concurrent private placement of units. The combined offering resulted in the Company issuing 9,165,000 units at a price of \$1.20 per unit for gross proceeds of \$11.0 million. Each unit consists of (1) common share and one-half (1/2) of one common share purchase warrant. Each full warrant entitles the holder to acquire one common share of the Company at the exercise price of \$1.70 per share for a period of two years.

Common shares

At September 30, 2021 the Company had 76,829,000 common shares outstanding. There are 2.1 million shares under lock up issued for the acquisition of RS2D, these common shares are scheduled for release as follows:

- 159,667 on January 31, 2022
- 870,000 on March 3, 2022
- 159,667 on January 31, 2023
- 870,000 on March 3, 2023

During the nine-month period ended September 30, 2021 the Company issued the following common shares:

- 1,148,000 shares upon the exercise of options and RSUs for cash consideration of \$365K
- 479,000 shares issued as partial payment for the RS2D earn-out
- 9,165,000 shares issued through issuance of common shares for cash.

[c] Earnings per share

(\$000's) except for number of shares	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Numerator				
Income (loss) attributable to common shares (\$)	(857)	(1,099)	(1,127)	(2,470)
Denominator				
Weighted average number of shares for basic earning per share calculation (000's)	71,371	66,038	68,191	65,085
Weighted average number of shares for diluted earning per share calculation (000's)	71,371	66,038	68,191	65,085
Basic income (loss) per common share (\$/share)	(0.01)	(0.02)	(0.02)	(0.04)
Diluted income (loss) per common share (\$/share)	(0.01)	(0.02)	(0.02)	(0.04)

[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	1,767,500	0.60
Exercised	(776,250)	(0.31)
Forfeitures	(197,500)	(0.60)
Balance, December 31, 2020	4,687,250	0.53
Granted Q1	1,148,000	0.60
Granted Q3	175,000	1.47
Exercised	(1,108,250)	(0.33)
Forfeitures	(61,750)	0.45
Balance, September 30, 2021	4,840,250	0.62

During the three and nine month periods ended September 30, 2021 and 2020, the Company recorded stock based compensation of \$103K and \$346K, respectively, for stock options granted (three and nine months ended September 30, 2020 - \$150K and \$313K).

[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. During the three and nine-month periods ended September 30, 2021, the Company recorded stock-based compensation expense related to RSU's of \$14K and \$67K, respectively (three and nine months ended September 30, 2020 - \$Nil).

Total RSU's outstanding as of September 30, 2021 was 280,000 (December 31, 2020 – 160,000).

[f] Share purchase warrants

On August 25, 2021 the Company completed a public offering and a concurrent private placement of units (see b). The combined offering resulted in the Company issuing 4,582,369 warrants that expire on August 25, 2023. As at September 30, 2021 all 4,582,369 outstanding warrants were vested and exercisable at a price of \$1.70. The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of common shares issued in these types of transactions to be the more easily measurable component and the common shares are valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded to reserves. The fair value of the warrants was determined based on the residual value method to be \$0.08 per warrant.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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.

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 as at September 30, 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 nine months ended September 30, 2021, \$3K of bad debt was recognized as an expense (2020 - \$65K).

Included in Other Receivables for 2021 is a SR&ED investment tax credit claim of \$233K and \$270K of Credit impot Recherche ("CIR") (December 31, 2020 - \$998K).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. As of September 30, 2021, the Company had working capital of \$14,561K (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:

	September 30, 2021	December 31, 2020
(\$000's)	US\$	US\$
Cash	775	421
Accounts receivable	1,639	995
Accounts payable and accrued liabilities	(435)	(188)
Total	1,979	1,228

The above assets and liabilities were translated using an exchange rate of 1.27 at September 30, 2021 (December 31, 2020 – 1.27). Based on the above net exposure as at September 30, 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 \$251K (December 31, 2020 - \$156K) in the Company's net earnings/loss. Total sales in U.S. dollars for the nine months ended September 30, 2021 was \$5,466K, a 10% appreciation or deterioration of the Canadian dollar against the U.S. dollar would result in a change of approximately \$694K.

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

(\$000's)	September 30, 2021	December 31, 2020
	Euro (€)	Euro (€)
Cash	297	331
Accounts receivable	1,189	975
Inventory	150	228
Prepays	123	67
Unearned revenue	(1,176)	(538)
Debt and lease liabilities	(854)	(980)
Accounts payable and accrued liabilities	(1,107)	(1,461)
Total	(1,378)	(1,378)

The above assets and liabilities were translated at 1.48 at September 30, 2021 (December 31, 2020 - 1.56). Based on the above net exposure as at September 30, 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 \$204K (December 31, 2020 - \$215K) in the Company's other comprehensive income. Total sales in Euros for the nine months ended September 30, 2021 was €2,280K, a 10% appreciation or deterioration of the Canadian dollar against the Euro would result in a change of approximately \$337K.

[ii] Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. During the quarter ended September 30, 2021 and 2020, fluctuations in the market interest rates had no significant impact on its interest expense.

REVENUE AND SEGMENT INFORMATION

(\$000's)

Three months ended September 30, 2021	Nanalysis	RS2D	Corporate	Total
Revenue	2,173	1,163	-	3,336
Income (loss) before other items	448	97	(533)	12
Net income (loss)	13	(152)	(718)	(857)
Depreciation and amortization expense	457	163	-	620
Capital expenditures	700	22	-	722
Total assets as at September 30, 2021	17,683	6,799	11,185	35,667

(\$000's)

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

(\$000's)

Nine months ended September 30, 2021	Nanalysis	RS2D	Corporate	Total
Revenue	7,035	3,919	-	10,954
Income (loss) before other items	1,797	860	(1,151)	1,506
Net income (loss)	422	207	(1,756)	(1,127)
Depreciation and amortization expense	1,333	552	-	1,885
Capital expenditures	1,932	75	-	2,007
Total assets as at September 30, 2021	17,683	6,799	11,185	35,667

(\$000's)

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

GEOGRAPHIC LOCATION

During the nine months ended September 30, 2021 the Company was not economically dependent on any customer accounting for more than 10% of revenue (2020 – one customer). The Company's revenues are allocated to geographic segments as follows:

(\$000's)	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
United States of America	1,386	309	4,373	2,070
Europe	932	771	3,421	1,654
Canada	-	48	680	355
Asia	294	397	484	509
Other (Brazil, Chile, India, Mexico, Morocco, Nigeria)	724	175	1,996	631
	3,336	1,700	10,954	5,219

SUBSEQUENT EVENTS

On November 9, 2021 the Company entered into a binding agreement to acquire 100% of K'(Prime) Technologies Inc. ("KPrime"), a North American sales and service company, with a particular focus on scientific instrumentation for pharma, food, chemical and oil

& gas customers, as well as imaging systems for security applications. The base consideration paid for KPrime is \$3 million in cash and the issuance of 2.76 million Nanalysis shares, which are subject to a two-year lock-up period. The former shareholders of KPrime may also receive earn-out consideration of up to \$1 million over two years based on future revenue objectives and additional consideration for a two year period of 5% commission on a specific potential contract related to airport passenger screening.

The closing of this transaction is subject to several customary closing conditions, such as TSX approval. Final closing of this deal is expected before December 31, 2021, in Calgary, Canada, but may be extended to January 31, 2022, if time requires.

On October 21, 2021 the Company announced that it has received conditional acceptance from the TSX Venture Exchange to make a Normal Course Issuer Bid ("NCIB") to purchase for cancellation, during the 12-month period starting October 25, 2021, up to 3,844,081 of the Common Shares, representing 5% of the Common Shares outstanding as of October 25, 2021. The program will end on October 24, 2022, or earlier if the maximum amount of common shares is purchased before then or Nanalysis provides earlier notice of termination.

OFF-BALANCE SHEET ARRANGMENTS

The Company does not have any off-balance sheet financing arrangements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of 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.

ADDITIONAL CORPORATE INFORMATION

The Company is a publicly-traded Company listed on the TSX Venture Exchange under the symbol "NSCI".

Forward Looking Statement Advisory

This Management's Discussion and Analysis ("MD&A") contains certain forward looking statements and forward looking information (collectively referred to herein as "forward looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward looking statements. Forward looking information is often, but not always, identified by the use of words such as "could", "should", "can", "anticipate", "expect", "believe", "will", "may", "projected", "sustain", "continues", "strategy", "potential", "projects", "grow", "take advantage", "estimate", "well positioned" or similar words suggesting future outcomes. In particular, this MD&A may contain forward looking statements relating to future opportunities, business strategies, development and production plans and competitive advantages.

The forward looking statements regarding the Company are based on certain key expectations and assumptions of the Company concerning anticipated financial performance, business prospects, strategies, regulatory developments, exchange rates, tax laws, the sufficiency of budgeted capital expenditures in carrying out planned activities, the availability and cost of labour and services and the ability to obtain financing on acceptable terms and future costs and expenses being based on historical costs and expenses, adjusted for inflation, all of which are subject to change based on market conditions and potential timing delays. Although management of the Company consider these assumptions to be reasonable based on information currently available to them, they may prove to be incorrect.

By their very nature, forward looking statements involve inherent risks and uncertainties (both general and specific) and risks that forward looking statements will not be achieved. Undue reliance should not be placed on forward looking statements, as a number of important factors could cause the actual results to differ materially from the beliefs, plans, objectives, expectations and anticipations, estimates and intentions expressed in the forward looking statements, including among other things: general economic and market factors, including business competition, changes in government regulations or in tax laws; component prices; technology development or operational activities; inability to scale manufacturing; changes in market demand; changes in international trade regulations, affecting the Company; timing and availability of external financing on acceptable terms; and lack of qualified, skilled labour or loss of key individuals; as well as those factors detailed from time to time in the Company's interim and annual financial statements and management's discussion and analysis of those statements. Readers are cautioned that the foregoing list is not exhaustive.

The forward looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward looking statements included in this MD&A are made as of the date of this MD&A and the Company does not undertake and is not obligated to publicly update such forward looking statements to reflect new information, subsequent events or otherwise unless so required by applicable securities laws.