



Interim Condensed Financial Statements

Period Ended September 30, 2021

Nanalysis Scientific Corp.



Interim Condensed Consolidated Statement of Financial Position

(unaudited)		September 30, 2021	December 31, 2020
(\$000's)	Note		
ASSETS			
Current			
Cash		12,572	3,158
Accounts receivable		3,355	1,840
Other receivables		584	1,205
Inventory	5	3,380	2,830
Prepaid expenses and deposit		366	319
		20,257	9,352
Property and equipment			
Property and equipment	6	1,184	1,221
Right of use assets	6	521	729
Intangible assets	7	13,705	12,687
		15,410	14,637
Total Assets		35,667	23,989
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current			
Accounts payable and accrued liabilities		2,657	2,619
RS2D earn-out payable		-	276
Warranty provision		160	106
Unearned revenue	12	2,345	2,200
Current portion of lease liability	9	231	225
Current portion of long-term debt/repayable contributions	8	303	209
		5,696	5,635
Non-current liabilities			
Deferred tax liability		255	-
Unearned revenue	12	836	668
Lease liability	9	331	527
Long-term debt/repayable contributions	8	3,913	2,815
Promissory note	8	431	-
Total Liabilities		11,462	9,645
SHAREHOLDERS' EQUITY			
Share capital	10	31,103	20,665
Share purchase warrants	10	367	-
Contributed surplus		1,493	1,384
Deficit		(9,047)	(7,920)
Accumulated other comprehensive income		289	215
Total Shareholders' Equity		24,205	14,344
Total Liabilities and Shareholders' Equity		35,667	23,989

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

Interim Condensed Consolidated Statement of Comprehensive Loss

(unaudited) (\$000s)	Note	Three months ended September 30		Nine months ended September 30	
		2021	2020	2021	2020
Revenue		3,336	1,700	10,954	5,219
Cost of products sold	11[a]	1,224	644	3,802	1,855
Gross profit		2,112	1,056	7,152	3,364
Sales and marketing	11[b]	838	822	2,706	2,200
General and administration	11[c]	1,016	668	2,411	2,187
Research and development	11[d]	246	-	529	-
		2,100	1,490	5,646	4,387
Income (loss) before other items		12	(434)	1,506	(1,023)
Other Items					
Business acquisition costs		96	-	98	275
Depreciation and amortization expense	6,7	620	466	1,885	1,187
Finance expense (income)		121	3	(84)	(86)
Stock-based compensation	10	103	150	346	313
Foreign exchange (gain) loss		(102)	130	(44)	17
RS2D earn-out		-	-	177	-
Loss before tax		(826)	(1,183)	(872)	(2,729)
Deferred income tax expense (recovery)		31	(84)	255	(259)
Net loss		(857)	(1,099)	(1,127)	(2,470)
Other comprehensive income		27	40	74	182
Total comprehensive loss		(830)	(1,059)	(1,053)	(2,288)
Loss per share					
Loss per common share (basic)	10	(0.01)	(0.02)	(0.02)	(0.04)
Loss per common share (diluted)	10	(0.01)	(0.02)	(0.02)	(0.04)

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 (000's)	Share purchase warrants \$	Share Capital \$	Contributed Surplus \$	Accum. Other Comp. Loss \$	Deficit \$	Total \$
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	777	-	368	(126)	-	-	242
Stock-based compensation	-	-	-	313	-	-	313
Net loss for the period	-	-	-	-	-	(2,470)	(2,470)
Other comprehensive income	-	-	-	-	182	-	182
Balance at September 30, 2020	66,038	-	20,665	1,281	182	(6,712)	15,416
Balance at January 1, 2021	66,037	-	20,665	1,384	215	(7,920)	14,344
Exercise of options & RSUs	1,148	-	602	(237)	-	-	365
Stock-based compensation	-	-	-	346	-	-	346
RS2D earn-out	479	-	226	-	-	-	226
Issuance of common shares and warrants (net of issuance costs)	9,165	367	9,610	-	-	-	9,977
Net loss for the period	-	-	-	-	-	(1,127)	(1,127)
Other comprehensive income	-	-	-	-	74	-	74
Balance at September 30, 2021	76,829	367	31,103	1,493	289	(9,047)	24,205

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

Interim Condensed Consolidated Statement of Cashflow

		Nine months ended September 30	
(Unaudited)			
(\$000's)	Note	2021	2020
Cash flows from operating activities			
Net loss		(1,127)	(2,470)
Add (deduct) non-cash items:			
Grant income		(149)	(36)
Depreciation of property plant and equipment	6	555	572
Amortization of intangible assets	7	1,380	733
Deferred tax (expense) recovery		255	(259)
Stock based compensation	10	346	313
Finance expense		130	37
Changes in non-cash working capital		(1,078)	1,628
Cash flows provided by operating activities		312	518
Cash flows from investing activities			
Purchases of property and equipment	6	(368)	(391)
Additions to intangible assets	7	(1,639)	(2,154)
Acquisition of RS2D (net of cash)		-	(1,209)
Acquisition of One Moon Scientific (net of cash)	4	(346)	-
Cash flows used in investing activities		(2,353)	(3,754)
Cash flows from financing activities			
Proceeds from financing net of finance fees		9,977	-
Finance expense		(130)	(37)
Payment of lease obligations	9	(162)	(183)
Proceeds from long-term debt	8	1,590	1,183
Repayment of long-term debt	8	(185)	(120)
Exercise of stock options	10	365	242
Cash flows provided by financing activities		11,455	1,085
Increase (decrease) in cash and equivalents		9,414	(2,151)
Cash and cash equivalents, beginning of period		3,158	6,619
Cash and cash equivalents, end of period		12,572	4,468

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

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 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”. On July 21, 2021, the Company acquired One Moon Scientific, see note 4 for details.

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 and nine months ended September 30, 2021.

These unaudited interim condensed consolidated financial statements were approved by the Company’s Board of Directors on November 18, 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, RS2D S.A.S and One Moon Scientific. All significant intercompany transactions and balances have been eliminated.

Subsidiary	Ownership September 30, 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
One Moon Scientific	100%	-	USA	Software

[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

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2021 and 2020 (unaudited)

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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.

[e] Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted for the current reporting periods.

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 contain a description of the accounting policies, judgements, estimates and assumptions that are considered significant.

Change in accounting policies

The International Financial Reporting Standards ("IFRS") Interpretations Committee has issued an agenda decision on what costs to include when determining net realisable value ("NRV") of inventories, in particular what costs are necessary to sell inventories under IAS 2 Inventories. On 23 June 2021, the International Accounting Standards Board (the "IASB") agreed to publish the agenda decision in accordance with the new due process for agenda decisions. The company has made an assessment on the financial impact and concluded that the decision is not expected to have a material impact.

4. 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) USD 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.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2021 and 2020 (unaudited)

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(unaudited)	Fair value recognized on acquisition
(\$000's)	
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

5. INVENTORY

(\$000's)	September 30, 2021	December 31, 2020
Raw materials	2,083	1,484
Work in process	388	463
Finished goods	954	928
Inventory provision	(45)	(45)
Total inventory	3,380	2,830

During the three and nine months ended September 30, 2021 raw materials, consumables and change in finished goods, recognized as cost of goods sold amount to \$856K and \$2,846K respectively (three and nine months ended September 30, 2020 - \$295K and \$776K).

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2021 and 2020 (unaudited)

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6. PROPERTY, EQUIPMENT AND RIGHT OF USE ASSET

(\$ 000's)	Office Furniture and Equipment	Computer Hardw are	Manufacturing Equipment	Leasehold Improvements	Right of Use Assets	Total
Cost:						
Balance, December 31, 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	23	83	137	125	-	368
Disposal	-	-	(51)	-	-	(51)
Foreign exchange	(7)	(5)	(12)	-	(40)	(64)
Balance, September 30, 2021	157	246	1,895	363	1,039	3,700
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	21	35	257	61	181	555
Disposal	-	-	(29)	-	-	(29)
Foreign exchange	(4)	(5)	(6)	-	(13)	(28)
Balance, September 30, 2021	131	132	1,045	169	518	1,995
Net book value:						
Balance, December 31, 2020	27	66	998	130	729	1,950
Balance, September 30, 2021	26	114	850	194	521	1,705

During the nine months ended September 30, 2021, depreciation of \$18K and \$52K respectively was recognized as an expense in cost of goods sold (three and nine months ended September 30, 2020 - \$17K and \$50K). The Company did not identify any indicators of impairment as at September 30, 2021.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2021 and 2020 (unaudited)

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7. INTANGIBLE ASSETS

(\$ 000's)	Development costs	Patents	Software	RS2D 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
Acquisition of OMS	-	-	799	-	799
Addition	1,490	111	38	-	1,639
Foreign exchange	(12)	-	(1)	(34)	(47)
Balance, September 30, 2021	10,650	841	1,031	4,671	17,193
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	869	78	41	392	1,380
Foreign exchange	(6)	-	(1)	-	(7)
Balance, September 30, 2021	2,467	327	122	572	3,488
Net book value:					
As of December 31, 2020	7,568	481	113	4,525	12,687
Balance, September 30, 2021	8,183	514	909	4,099	13,705

The RS2D acquired intangible asset is proprietary technology acquired from RS2D that is used in the 100MHz. As such the useful life of the acquired intangible is 10 years, with 9 years and 2 months remaining as at September 30, 2021. The Company did not identify any indicators of impairment as at September 30, 2021.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2021 and 2020 (unaudited)

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8. 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.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2021 and 2020 (unaudited)

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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.

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.

9. 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

10. SHARE CAPITAL

[a] Authorized

Unlimited number of common shares, without nominal or par value

Unlimited number of Class A voting preferred shares without par value

Unlimited number of Class B non-voting preferred shares without par value

[b] Issued

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.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2021 and 2020 (unaudited)

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[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).

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	0.87% - 0.93%	0.35%-1.6%
Estimated annualized volatility based on historical performance	70% - 75%	74% -79%
Expected life	5.0 years	5.0 years
Expected dividend yield	0%	0%
Exercise price	\$0.60 - \$1.70	\$0.60-\$0.65

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2021 and 2020 (unaudited)

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

As at September 30, 2021, the Company had the following stock options outstanding and exercisable:

Exercise Price (\$)	Number of Options Outstanding	Weighted Average Life	Number of Options Exercisable
0.42	118,250	0.33	118,250
0.45	200,000	1.13	200,000
0.60	4,097,000	3.51	1,296,667
0.65	50,000	3.33	16,667
0.75	200,000	2.78	66,667
1.30	100,000	4.76	-
1.70	75,000	4.90	-
	4,840,250	3.35	1,698,251

[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 (note 10b). 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.

11. OPERATING EXPENSES

[a] Cost of products sold

(\$000's)	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Direct material costs	856	295	2,764	776
Salaries and wages	223	255	646	677
Direct overhead	106	83	285	386
Warranty expense	21	(6)	55	(34)
Depreciation	18	17	52	50
	1,224	644	3,802	1,855

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For the three and nine months ended September 30, 2021 and 2020 (unaudited)

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

[b] Sales and marketing

(\$000's)	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Salaries, benefits, subcontracts	419	669	1,323	1,559
Selling commissions	128	41	354	149
Travel & accommodation	28	3	69	51
Advertising, conferences, trade shows	131	58	411	264
Office & other expenses	132	51	549	177
	838	822	2,706	2,200

[c] General and administrative expenses

(\$000's)	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Consulting and professional fees	172	175	399	781
Salary related expenses	485	320	1,355	915
Administrative and general expenses	359	145	654	426
Bad debt expense	-	28	3	65
	1,016	668	2,411	2,187

[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.

(\$000's)	Three months ended September 20		Nine months ended September 30	
	2021	2020	2021	2020
Salary related expenses	246	-	529	-
Consulting and professional fees	-	-	-	-
Materials and supplies	-	-	-	-
	246	-	529	-

12. 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 September 30, 2021 and the time frame in which the Company expects to recognize this revenue.

(\$000's)	Less than 12 months	12 to 24 months	Thereafter	Total
Extended warranty	303	274	87	664
Prepayment on RS2D contracts	1,060	352	123	1,535
Prepayment on 100MHz	974	-	-	974
Prepayment OMS software	8	-	-	8
Total	2,345	626	210	3,181

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For the three and nine months ended September 30, 2021, \$561K and \$1,779K in revenue was recognized relating to performance obligations satisfied during the period (three and nine months ended September 30, 2020 - \$110K and \$294K).

13. REVENUE AND SEGMENT INFORMATION

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

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(\$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 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:

(\$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

14. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and manage capital so that it can continue to provide returns for shareholders and benefits for other stakeholders through the development and sales of its spectrometers. The Company attempts to maximize return to shareholders by minimizing shareholder dilution.

The Company defines its capital as share capital and contributed surplus. The Company manages the capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's liquidity needs in short term and long term can be sourced multiple ways including: funds from operations, available cash balances, new debt instruments, equity issuances and government funding. The Company monitors its financing requirements through regular forecasting of its cash position. Financing decisions are based on the timing and extent of expected operating and capital cash outlays.

The Company has financed its capital requirements primarily through loans and share issuances since inception.

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

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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.

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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:

(\$000's)	September 30, 2021	December 31, 2020
	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

Notes to the Interim Condensed Consolidated Financial Statements

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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.

16. SUBSEQUENT EVENT

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.

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Tabular amounts are stated in thousands of 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

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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

Odyssey Trust

Calgary, Alberta