



Q3 2022

Management's Discussion & Analysis

Nanalysis Scientific Corp.

nanalysis

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READER AND FORWARD LOOKING STATEMENT ADVISORY

The Management's Discussion and Analysis ("MD&A") for the three- and nine-month periods ended September 30, 2022, of the financial condition and results of operations of Nanalysis Scientific Corp. ("the "Company"), is prepared as at November 29, 2022. 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, 2022, 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 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 29, 2022. All dollar figures are in thousands of Canadian dollars, except per share amounts or unless otherwise stated.

This discussion should not be considered all-inclusive as it does not include all changes regarding general economic, political, governmental and environmental events.

Forward Looking Statements

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.



BUSINESS OVERVIEW

Overview

Nanalysis Scientific Corp. (the "Company") 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 under the symbol "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 channel of distributors and dealers in other geographical areas to ensure penetration in the current market. In 2022, the Company acquired K'(Prime) Technologies Inc. ("K'Prime"), 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. Also in 2022, the Company acquired 40% of Quad Systems AG ("Quad"), a company based in Zurich, Switzerland that offers traditional MR technology with innovative solutions to address long standing limitations of MR technology, including accelerated data acquisition and improved sensitivity in biological samples. The Company also provided Quad with a CHF 1,000,000 loan, which was convertible into 40,000 shares in the capital of Quad. The loan was converted on June 22, 2022, increasing the Company's ownership in Quad from 40% to 43%.

The Company's activities are carried out through four reportable segments: Nanalysis, RS2D, K'Prime, and Corporate:

Nanalysis: The segment 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. Into 2023, the Company continues to develop its 60Mhz and 100Mhz platforms to further improve manufacturability and continue to enhance end user experience.

RS2D: In March 2020, the Company acquired all outstanding shares of RS2D S.A.S., 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") Nuclear Magnetic Resonance ("NMR") and Magnetic Resonance Imaging ("MRI") that can further advance Nanalysis' existing product line, while rounding out the Company's magnetic resonance technology portfolio.

K'Prime; In January 2022, the Company acquired all outstanding shares of K'Prime Technologies Inc. Founded in 1997, K'Prime has two primary business lines made up of sales and service of chemical analysis laboratory instrumentation and sales and service of a complete spectrum of security equipment, including security cameras, access controls, and screening systems including millimeter wave and X-Ray technology.

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

Critical Accounting Policies and Estimates

The preparation of interim condensed consolidated financial statements and this MD&A 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. Notes 2 and 3 to the Company's audited consolidated financial statements as at and for the year ended December 31, 2021, contain a description of the accounting policies, judgements, estimates and assumptions that are considered significant.

Business Acquisitions

K'Prime

As noted above, on January 10, 2022, the Company acquired all of the outstanding shares of K'Prime Technologies Inc. ("K'Prime"). The Company acquired K'Prime to leverage their sales and service organization to complement existing product lines.

The base consideration paid for K'Prime was \$3,000K in cash, \$2,418K working capital adjustment and the issuance of 2.76 million Company common shares, which are to be released from lock-up in stages through December 31, 2023 and, once released, are subject to certain contractual trading obligations until that time. Subsequent to September 30, 2022, the working capital amount was paid in full. The former shareholders of K'Prime may also receive two separate earn-outs over the next two years. The first earnout is up to a maximum of \$1.0 million based on revenue targets over the two years. The second earn-out is based on a percentage of revenue tied to a key contract entered subsequent to the acquisition. These earnouts were valued at \$1,520K on acquisition, based on probability of these targets being achieved. Transaction costs for the acquisition were \$101K.

The acquisition was accounted for as a business combination. The Company determined the purchase consideration to be \$10,092K, comprised of the following:

Purchase Price Allocation:

| (\$000's) | |
|--------------------------|--------|
| Cash | 5,418 |
| Share consideration | 3,154 |
| Contingent consideration | 1,520 |
| Purchase consideration | 10,092 |

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.

Nanalysis Scientific Corporation
Management's Discussion and Analysis

For the three- and nine-month periods ended September 30, 2022



| (\$000's) | Fair value recognized on acquisition |
|--|--------------------------------------|
| ASSETS | |
| Accounts receivable | 885 |
| Other receivables | 2,598 |
| Inventory | 557 |
| Prepaid expenses and deposit | 24 |
| Property and equipment | 264 |
| Right of use assets | 306 |
| Intangible assets | 24 |
| Total assets | 4,658 |
| LIABILITIES | |
| Accounts payable and accrued liabilities | 572 |
| Deferred income tax liability | 272 |
| Unearned revenue | 354 |
| Lease liabilities | 306 |
| Debt and repayable contributions | 2,490 |
| Total liabilities | 3,994 |
| Net assets before cash | 664 |
| Acquired cash | 2,525 |
| Net assets | 3,189 |
| Intangible assets | 2,081 |
| Goodwill | 4,822 |
| Purchase consideration | 10,092 |

Since acquisition, the Company has recognized \$5,130K in revenue and \$8K of net income from K'Prime.

Quad Systems AG

On March 11, 2022, the Company funded an initial equity investment in Quad Systems AG ("Quad"), acquiring 40% ownership and an option to purchase the remaining shares. Quad is a Zurich-based Nuclear Magnetic Resonance ("NMR") company focused on high-field NMR for pharmaceutical and other vertical markets. The acquisition provides numerous synergies to the Company's existing NMR business.

Pursuant to the subscription agreement entered between the Company and Quad, the Company was issued 260,000 Quad ordinary shares for a subscription price of CHF 6,500,000 and a second representative of the Company has been appointed to Quad's Board of Directors. Additionally, until July 1, 2023, (the "Option Period"), the Company has an option to acquire 100% of the issued and outstanding shares of Quad at a pre-set valuation formula in a combination of cash and common shares of the Company (the "Option"). During the Option Period, the Company has a right of first refusal on all debt and equity offerings of Quad. Transaction costs for the acquisition were \$146K.

The Company has determined that due to the Option and the criteria outlined in IFRS 10, the Company has the power to govern the financial and operating policies of Quad. Therefore, the acquisition was accounted for as a business combination. For each business combination, the Company elects to measure any non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets on a historical cost basis. The Company has elected to use the proportionate share of the acquiree's identifiable net assets on a historical basis. The Company determined the purchase consideration to be \$9,031K, comprised of the following:

Nanalysis Scientific Corporation
Management's Discussion and Analysis

For the three- and nine-month periods ended September 30, 2022



Purchase Price Allocation:

| (\$000's) | |
|------------------------|-------|
| Cash | 9,031 |
| Purchase consideration | 9,031 |

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.

| (\$000's) | Fair value recognized on acquisition |
|--|--------------------------------------|
| ASSETS | |
| Accounts and subscription receivable | 8,837 |
| Other receivables | 101 |
| Prepays | 81 |
| Intangible assets | 287 |
| Property and equipment | 1,037 |
| Total assets | 10,343 |
| LIABILITIES | |
| Accounts payable and accrued liabilities | 625 |
| Lease liabilities | 638 |
| Deferred taxes | 364 |
| Debt and repayable contributions | 1,903 |
| Total liabilities | 3,530 |
| Net assets before cash | 6,813 |
| Acquired cash | 58 |
| Net assets | 6,871 |
| Intangible assets | 8,394 |
| Goodwill | 7,022 |
| Non-controlling interest | (13,256) |
| Purchase consideration | 9,031 |

As part of the subscription agreement, the Company had provided Quad with a CHF 1,000,000 loan, which was convertible into 40,000 shares in the capital of Quad. The loan was converted on June 22, 2022, increasing the Company's ownership in Quad from 40% to 43% and was accounted for as an increase in the investment in Quad subsequent to the business combination. This resulted in a corresponding increase in the share capital of Quad, both of which are eliminated on consolidation.

Since acquisition the Company has recognized \$457K in revenue, and a net loss of \$334K attributable to its equity in Quad.

Measurement adjustments made to the initial purchase price allocation resulted in a change to net assets and goodwill of \$1,228K, as noted below:

| (\$000's) | |
|--|--------------|
| Property and equipment | 688 |
| Accounts payable and accrued liabilities | (492) |
| Lease liabilities | (638) |
| Deferred taxes | 1,458 |
| Other | 212 |
| Change in net assets | 1,228 |

PRODUCTS AND SERVICES

Product Overview

Magnetic Resonance Test, Measure and Diagnostic Systems

The Company'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, SME 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 workhorses of medical diagnostics and chemical analysis. Given the capital and operating expenditures of these instruments, however, 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 requirements of customers needing higher sensitivity and resolution than the 60 MHz platform can provide. 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.

High-field NMR



Gecho

NMR is largely considered to be the most information rich analytical technique available to chemists. NMR, however, is limited in sensitivity when compared to ultra-sensitive characterization techniques such as Mass Spectrometry ("MS"). Gecho is aimed at improving industrial QA/QC by allowing higher sensitivity.

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 provide 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 data integrity and automation.

SPINit

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



NMRFx

The newest component to Nanalysis' MR offerings, the NMRFx 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 and search algorithms.

By combining these premium data analysis tools with the NMRGui software interface, Nanalysis offers analysis and application of MR solutions it has been validating.

Sales and Service

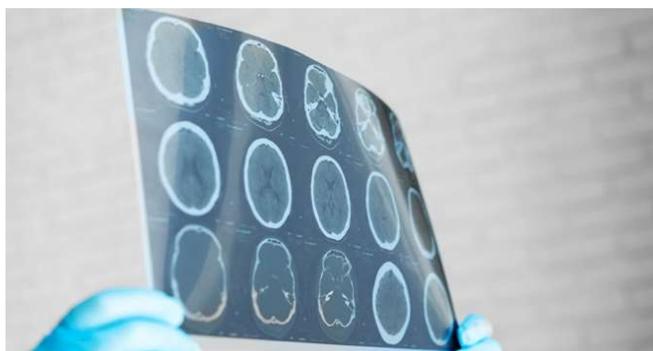
K'Prime Third Party Sales

K'Prime is a prominent science analytical instrumentation sale organization that places a top priority on customer satisfaction. With Third Party Sales headquarters in both the USA and Canada, K'Prime has a wide customer base and provides primary service lines in the sale and service of third-party chemical laboratory and analytical instruments for a wide variety of customers. Nanalysis and K'Prime have combined to integrate Nanalysis' existing product offerings with K'Prime's experience in equipment sales, leasing and service, bundling total laboratory solution packages. This includes offering premium training and servicing packages and better targeting specific market verticals where K'Prime has historically developed a significant user base.

K'Prime Security Services

K'Prime has been operating in the security equipment industry for a number of years, offering a variety of security solutions, including specializing in the maintenance of large-scale security systems, such as those used in airport security. In the second quarter of 2022 K'Prime was awarded a six-year \$160 million contract to service and maintain airport security equipment for the Canadian Air Transportation Security Authority, significantly expanding its presence in the airport security market. The Company has begun the gradual phase in period of the contract and anticipates full-service coverage to be completed in H1 2023. Contracts such as this are commonly renewed for an additional five-year term, allowing for a potential 11-year recurring revenue opportunity with inflation-based contractual price increases.

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, the Company 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 as well as

explosion 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 manner.

Full High-Field NMR Systems

To offer traditional NMR users improved performance and innovative MR components, as well as improved product scalability, Nanalysis acquired Quad Systems and their team of experienced MR specialists who have made significant contributions to the manufacture, integration, and development of NMR methods and components. In addition to the Cam4™ based consoles, Quad Systems manufactures magnets, shim systems, probes, and sample changers for both MR system upgrades and new installations in the academic, pharmaceutical, and chemical industry market. With a focus on MR innovation, Quad looks to uniquely address throughput limitations in MR, with improved sensitivity probes and reduced overhead (e.g., shimming, tuning and sample changes). Additionally, they look to increase sustainability of superconducting magnets with patented sample containers to slow cryogen boil off.

FINANCE AND OPERATIONS

| (\$000's) | Three months ended September 30 | | | Nine months ended September 30 | | |
|---|---------------------------------|--------------|----------------|--------------------------------|----------------|----------------|
| | 2022 | 2021 | (\$ Change) | 2022 | 2021 | (\$ Change) |
| Product sales | 6,145 | 3,336 | 2,809 | 15,695 | 10,954 | 4,741 |
| Service revenue | 733 | - | 733 | 1,923 | - | 1,923 |
| Total sales and revenue | 6,878 | 3,336 | 3,542 | 17,618 | 10,954 | 6,664 |
| Cost of products sold | 3,359 | 1,224 | 2,135 | 6,845 | 3,802 | 3,043 |
| Cost of services | 547 | - | 547 | 1,269 | - | 1,269 |
| Total cost of sales | 3,906 | 1,224 | 2,682 | 8,114 | 3,802 | 4,312 |
| Gross profit | 2,972 | 2,112 | 860 | 9,504 | 7,152 | 2,352 |
| Expenses | | | | | | |
| Sales and marketing | 1,218 | 838 | 380 | 3,662 | 2,706 | 956 |
| General and administration | 1,926 | 1,016 | 910 | 6,021 | 2,411 | 3,610 |
| Research and development | 446 | 246 | 200 | 1,224 | 529 | 695 |
| Income (loss) before other items | (618) | 12 | (630) | (1,403) | 1,506 | (2,909) |
| Other Items | | | | | | |
| Business acquisition costs | 107 | 96 | 11 | 210 | 98 | 112 |
| Depreciation and amortization expense | 1,090 | 620 | 470 | 3,331 | 1,885 | 1,446 |
| Finance expense (income) | 45 | 121 | (76) | 200 | (84) | 284 |
| Stock-based compensation | 425 | 103 | 322 | 1,102 | 346 | 756 |
| Foreign exchange (gain) loss | 84 | (102) | 186 | 159 | (44) | 203 |
| RS2D earn-out | - | - | - | - | 177 | (177) |
| Income (loss) before tax | (2,369) | (826) | (1,543) | (6,405) | (872) | (5,533) |
| Current income tax expense | (9) | - | (9) | 197 | - | 197 |
| Deferred income tax expense (recovery) | 239 | 31 | 208 | 21 | 255 | (234) |
| Net income (loss) | (2,599) | (857) | (1,742) | (6,623) | (1,127) | (5,496) |
| Other comprehensive income (loss) | 689 | 27 | 662 | 633 | 74 | 559 |
| Total comprehensive income (loss) | (1,910) | (830) | (1,080) | (5,990) | (1,053) | (4,937) |
| Share Information | | | | | | |
| (Loss) income per share (basic and diluted) | (0.03) | (0.01) | (0.02) | (0.07) | (0.02) | (0.05) |
| Share price (September 30) | 0.85 | 1.29 | (0.44) | 0.85 | 1.29 | (0.44) |
| Other Information | | | | | | |
| Capitalized property plant and equipment | 2,225 | 222 | 2,003 | 3,841 | 368 | 3,473 |
| Capitalized intangible assets | 1,718 | 501 | 1,217 | 4,444 | 1,639 | 2,805 |

| (\$ 000's) | September 30, 2022 | December 31, 2021 | \$ Change |
|---|--------------------|-------------------|-----------|
| Financial Position | | | |
| Total assets | 72,886 | 37,793 | 35,093 |
| Total long-term debt/repayable contributions (includes current portion) | 3,743 | 4,215 | (472) |
| Total liabilities | 23,286 | 13,832 | 9,454 |
| Shareholders' equity | 49,600 | 23,961 | 25,639 |

Overall Performance and Discussion of Operations

Revenue

The Company derives revenue from three operating segments, Nanalysis, RS2D and K'Prime. Nanalysis has been involved in the development, manufacturing, and sale of MR spectrometers from inception in 2009. As such, all revenue is related to product sales and extended warranties. Nanalysis does not engage in consulting services or any other revenue generating activity unrelated to product sales. 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. K'Prime is a sales and service company, located in Canada and the United States of America with a particular focus on the selling of scientific instrumentation for pharma, food, chemical and oil & gas customers and servicing imaging systems for security applications.

For the three-month period ended September 30, 2022, the Company reported consolidated product sales of \$6,145K, an 84% increase from the comparable period ended September 30, 2021. The increase in revenue is due to revenue added via acquisition of the K'Prime operating segments third party equipment sales as well as increased sales in Nanalysis and RS2D. The Company also reported \$733K in service revenue, representing the revenue generated by pre-existing security service contracts in the K'Prime segment. For the third quarter, no revenues were yet generated from the CATSA airport security project (the "Airport Security Project"). Revenue generation on that project will begin in the fourth quarter of 2022.

For the nine months ended September 30, 2022, the company reported product sales of \$15,695K, an increase of \$4,741K or 43% growth over the comparative period in 2021. The increase for the nine months ended September 30, 2022, compared to the nine months ended September 30, 2021, is due to increased shipments of the flagship 100MHz product in the Nanalysis segment, added product sales revenue from the acquisition of K'Prime, offset by lower revenue in RS2D. The Company also generated \$1,923K of service revenues on the same airport security projects serviced by K'Prime.

Cost of products sold

Cost of products sold for the Company includes the costs of manufacturing its products as well as the costs of servicing those products. 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 in its facility in Calgary, Alberta.

Cost of products sold for the three months ended September 30, 2022, was \$3,359K or 55% of revenue as compared to \$1,224K or 37% of revenue for the same period of the prior year. For the nine months ended September 30, 2022, costs of products sold were \$6,845K or 44% of revenue as compared to \$3,802K or 35% of revenue for the same period of the prior year. Cost of products sold has increased in both the three and nine months ended due to the addition of the K'Prime operating segment. Additionally, Nanalysis began investing in its manufacturing workforce during the second quarter to increase manufacturing capacity in the future. The associated training and wages impacted Nanalysis margins for the third quarter. The Company expects as manufacturing capacity and sales increase in the future, margins will improve. In Q3, RS2D completed a project that had higher than normal costs of product sales as a result of the specific structure of that project. Lastly, global supply chain constraints and inflation has contributed to compressed margins.

Cost of services

Cost of services include the materials, direct labour, and direct overhead related to existing airport security services provided in the K'Prime segment. In the quarter, the Company also recorded costs related to training for the Airport Security Project which cannot be deferred under IFRS. Revenue generation from that project began in Q4 2022.

Sales and marketing ("S&M")

S&M expenses include the salaries, benefits, commissions, advertising, marketing expenses, and all related selling costs.

S&M for the three months ended September 30, 2022, was \$1,218K as compared to \$838K for the same period of the prior year. The quarter over quarter increase is due to higher sales in each segment over the prior year, as well as the addition of the K'Prime segment and its chemistry and security equipment sales in 2022.

For the nine months ended September 30, 2022, S&M expenses were \$3,662K as compared to \$2,706K for the same period of the prior year. For the nine months ended, increased sales expenses were primarily driven by increased Nanalysis segment sales and the acquisition of the K'Prime segment. This was partially offset by lower sales expenses in the RS2D segment versus prior years.

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 operations of each segment of the Company.

For the three months ended September 30, 2022, G&A was \$1,926K as compared to \$1,016K for the same period of the prior year. G&A has increased quarter over quarter primarily as a result of the acquisitions of Quad and K'Prime in 2022.

For the nine months ended September 30, 2022, G&A was \$6,021K as compared to \$2,411K for the same period of the prior year. The increase for the nine months ended was primarily because of increased salaries and wages due to overall increased head count stemming from the two new acquisitions and increased consulting and professional fees.

Amortization of property, plant, equipment and intangibles

For the three and nine months ended September 30, 2022, amortization was \$1,090K and \$3,331K as compared to \$620K and \$1,885K for the respective periods in the prior year. The increase is due primarily to the amortization of intangible assets acquired on the acquisitions of One Moon Scientific and K'Prime, as well as increased amortization of intangibles in the Nanalysis segment.

For the three- and nine-month periods ended September 30, 2022

Finance expense (income)

For the three and nine months ended September 30, 2022, finance expense was \$45K and \$200K, respectively, as compared to expense of \$121K and income of (\$84K) from the comparable periods in 2021. For the three months ended interest expenses were lower due to lower non-cash accretion expense on loans due to repayments made in 2022. For the nine months ended in the prior year drawings resulting in accounting gains offsetting non-cash interest accretion. In 2022, no drawings have taken place resulting in no gains recognized to offset expense.

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 resulting in exposure to foreign exchange gains and losses.

Net loss

The Company incurred a net loss of \$2,599K for the third quarter up from a net loss of \$857K in Q3 2021. The increase in net loss was driven by higher costs in G&A expenses, depreciation and amortization, sales and marketing, and stock-based compensation expense. These were driven, in large part, by the acquisitions of K'Prime and Quad. In addition, while increased sales offset some of the expense increases, margins were compressed in the quarter reducing the impact of increased sales.

The Company's net loss for the nine months ended was \$6,623K, as compared to the nine-month loss September 30, 2021, of \$1,127K. The increased loss was due to higher costs, specifically G&A expenses, depreciation and amortization, sales and marketing, stock-based compensation expense, and R&D expenses not eligible for capitalization, both in existing segments of the Company and newly acquired businesses. The impact of increased sales were again muted by compressed margins versus the nine months ended in the prior year.

Significant transactions

Significant transactions in the nine months ended September 30, 2022, include:

- The acquisitions of 100% of the outstanding shares of K'Prime and the subscription for shares of Quad, as well as the advancement and eventual exercise of the CHF 1,000,000 convertible loan to Quad resulting in the Company holding 43% of the outstanding shares of Quad, as discussed above.
- February 11, 2022, the Company closed an upsized public offering and a non brokered private placement for gross proceeds of \$15,224K.
- March 17, 2022, the Company received interest free repayable funding commitment of \$4,985K to expand manufacturing operations from the Canadian government.
- On May 25, 2022, the Company was awarded the Airport Security Project, a six-year contract valued up to \$160 million to service and maintain airport security equipment for Canadian airports.

Investment in capital development costs and research and development expenditures

| (\$000'S) | Three months ended September 30 | | Nine months ended September 30 | |
|--|---------------------------------|-------|--------------------------------|-------|
| | 2022 | 2021 | 2022 | 2021 |
| Gross research and development costs | 2,277 | 1,014 | 5,939 | 2,921 |
| Less: research expenses | (446) | (246) | (1,224) | (529) |
| Development costs | 1,831 | 768 | 4,715 | 2,392 |
| Less: government grants | (122) | (308) | (404) | (902) |
| Development costs capitalized to intangibles | 1,709 | 460 | 4,311 | 1,490 |

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 a variety of programs, provincial grants, as well as foreign grants related to work performed in RS2D.

Capitalized development costs are development costs that have met the criteria listed under IFRS for capitalization and represent capital expenditures that the Company believes hold future benefit. Capitalized development costs for the three and nine months ended September 30, 2022, were \$1,709K and \$4,311K, respectively (three and nine months ended September 30, 2021 - \$460K and \$1,490K). These increases of \$1,249K (272%) and \$2,821K (189%) are related to increased research and development activity in the Company in 2022 to support future product initiatives as well as integrate acquired software and products into the existing product line for the Company to create future benefit. Capitalized development costs also increased due to the acquisition of Quad and its R&D activities taking place related to High Field NMR.

Research and development ("R&D") expenses are research costs that do not meet IFRS criteria to be capitalized to intangible assets and are therefore expensed in the period in which they are incurred. These costs currently stem from research activities from the Nanalysis and RS2D segments, which also include Quad. The activities support and are integral to the R&D strategy for the Company. For the three months ended September 30, 2022, R&D was \$446K as compared to \$246K for the same period of the prior year (81% increase). For the nine months ended September 30, 2022, R&D was \$1,224K as compared to \$529K for the same period of the prior year (131% increase). As a greater percentage of the projects being undertaken by the Company meet the capitalization criteria under IFRS, the increase in current R&D expense is trending lower than the increase in capitalized development costs during the three and nine months ended.

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, 2022.

| (\$000's) (except per share information) | 2022 | | | 2021 | | | 2020 | |
|--|---------|---------|---------|---------|--------|-------|--------|---------|
| | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | |
| Revenue | 6,878 | 5,187 | 5,554 | 5,077 | 3,336 | 4,343 | 3,277 | 2,680 |
| Cash (used in) generated from operating activities | (1,465) | (696) | (959) | (1,511) | 312 | (367) | 823 | (1,141) |
| Net income (loss) for the period | (2,599) | (2,532) | (1,492) | (658) | (857) | 222 | (910) | (1,225) |
| Income (loss) per share basic and diluted | (0.03) | (0.02) | (0.02) | (0.01) | (0.01) | - | (0.01) | (0.02) |

- In Q3 2022, net losses were higher than in Q3 2021, despite strong revenue growth. This is due primarily to increased expense in G&A, depreciation and amortization, and sales and marketing expenses. The increases were due in large part to the acquisitions of K'Prime and Quad. In addition, the Company began incurring non-deferrable training expense, recorded in cost of services, related to the phase in period of the Airport Security Project. During Q4 the Company began generating revenue on this project but will continue to incur expenses to train new employees as the phase in period of the contract continues. The project is expected to reach profitability during the first half of 2023.
- In Q2 2022, net losses increased despite revenue growth over prior year, as the Company continued to execute on its growth plans. Losses also increased due to increased stock-based compensation, increased depreciation and amortization and compressed margins in 2022. During the quarter, the Company also invested \$1,304K in property, plant and equipment, primarily related to expanding manufacturing capacity for MR product lines.
- Q1 2022 saw increased revenue quarter over quarter, net loss increased due to increased costs stemming from acquisitions, specifically increased stock-based compensation, increased depreciation and amortization and compressed margins.
- Q4 2021 continued to see a significant increase to revenue and led to a strong YTD revenue. Results were slightly hindered due to severance costs, increased stock-based compensation, increased depreciation and amortization and slightly reduced margins.
- Q3 2021 continued to trend with previous quarters, showing a 96% increase in revenue compared to the three months ended of Q3 2020. The increased revenue also resulted in increased 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 was the second quarter of shipping the new 100MHz product. These shipments, coupled with the completion of outstanding RS2D contracts, resulted in 115% period over period growth in revenue.
- Q4 2020 marked the first quarter that had revenue generated from the shipment of Nanalysis' new product, the 100MHz. The Company shipped four systems at the end of Q4. Coupled with performance of RS2D on contract work, Q4 2020 had a 26% increase compared to Q4 2019.

LIQUIDITY & CAPITAL RESOURCES

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, maintenance and expansion of its operating segments.

The Company defines its capital as share capital, debt 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 the short and long term can be addressed in multiple ways including with 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 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.

Working Capital

| (\$000's) | September 30, 2022 | December 31, 2021 | \$ Change |
|---------------------------------|--------------------|-------------------|-----------|
| Cash | 7,925 | 10,405 | (2,480) |
| Loans and leases ⁽²⁾ | 6,953 | 5,519 | 1,434 |
| Working capital ⁽¹⁾ | 9,658 | 12,116 | (2,458) |

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

(2) Loans and leases are calculated as the current and long-term portions of Long-term debt/repayable contributions and Lease liabilities.

As at September 30, 2022, the Company had \$9,658K of working capital (December 31, 2021 – \$12,116K). This includes \$7,925K of cash (December 31, 2021 - \$10,405K). The decrease in working capital is due to lower cash balances as the Company is investing in new initiatives, primarily the Airport Security Project. As previously discussed, the Company expects to invest cash in the ramp up period of this project and begin to turn positive cash flow for the Airport Security Project in early 2023. The Company has sufficient liquidity resources available at September 30, 2022, to support all research, development, and project initiatives including the Airport Security Project.

Debt

| (\$000's) | Note | September 30, 2022 | December 31, 2021 |
|---|------|--------------------|-------------------|
| Western Economic Diversification Canada Interest free loans | A | 2,160 | 2,490 |
| Prêt garanti par l'état Euro denominated loan | B | 101 | 130 |
| Procédure de sauvegarde interest free Euro denominated loan | B | 490 | 695 |
| Regional Recovery Relief Fund (RRRF) interest-free loan | A | 900 | 860 |
| K'Prime US credit facility | C | 1,249 | - |
| K'Prime Canadian credit facility | C | 758 | - |
| Other | | 92 | 40 |
| Loans and borrowings | | 5,750 | 4,215 |
| Add: Promissory note on acquisition of One Moon Scientific | D | 297 | 466 |
| Total long-term debt | | 6,047 | 4,681 |
| Less: current portion | | 3,866 | 1,936 |
| Non-current portion of loans and borrowings | | 2,181 | 2,745 |

Note A - Nanalysis

The company has interest free loans "Western Economic Diversification Canada as per below:

- WINN #1: \$496K repayable in monthly installments of \$8K commencing June 30, 2017, and maturing February 28, 2023. The obligation is recorded at its present value using a 7.04% discount rate.
 - WINN #2: \$2,773K repayable in monthly installments of \$46K commencing February 1, 2022, and maturing January 31, 2027. The obligation is recorded at 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. Both loans are unsecured.

Nanalysis also has a "Regional Recovery Relief Fund ("RRRF")" interest-free loan of \$1.0 million 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. The Company does not have an unconditional right to defer payment, and as such, this liability has been recorded as current.

Furthermore, 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 \$2,000K (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.

The borrowing base is calculated using the aggregate of 75% of eligible USD receivables, 85% of eligible CAD investment grade receivables, and 50% of eligible inventory.

As at September 30, 2022, all covenants were in compliance.

Note B – RS2D

The company has two Euro denominated loans as per below:

- Prêt garanti par l'état – (PGE) is an unsecured Euro denominated loan granted by the French state to RS2D. The loan bears interest at 0.7% and is repayable in monthly installments of \$2.5K commencing on July 20, 2021, maturing June 20, 2026. The obligation is recorded as its present value using a 2.5% discount rate.
- Procédure de sauvegarde is an unsecured interest free Euro denominated loan repayable in annual payments due each March, with the final payment maturing March 2024. The obligation is recorded as its present value using a 2.5% discount rate.

Note C - K'Prime

K'Prime has a line of credit agreement with a major Canadian financial institution, pursuant to which it may borrow up to maximum of \$4,000K (the "K'Prime Credit Facility"), repayable on demand. Borrowings under the K'Prime Credit Facility bear interest at prime plus 0.65%. Under the terms of the K'Prime Credit Facility, the Company is required to comply with the following financial covenant:

- Maintain debt to tangible net worth less than or equal to 2.5:1. As at September 30, 2022, this covenant was in compliance.

The borrowing base is calculated using the aggregate of 75% of eligible CAD and USD receivable (including sales lease receivables), 90% of eligible CAD investment grade receivable, 50% of eligible inventory (to a maximum of \$500K), and 75% of the valuation of equipment under operating lease.

K'Prime also has a line of credit with a major US financial institution, pursuant to which it may borrow up to a maximum of USD \$2,000K ("USD Credit Facility"), repayable on demand. Borrowing under the USD Credit Facility bears interest at prime plus 0.40%. The USD Credit Facility is guaranteed by the former shareholders of K'Prime, and cross guaranteed with other K'Prime legal entities. Under the terms of the USD Credit Facility, the Company is required to comply with the following financial covenants:

- Maintain minimum debt service coverage ratio of not less than 1.25.
- Maintain minimum adjusted tangible net worth of not less than USD \$1.0 million.
- Maintain minimum liquidity of USD \$300K.

The borrowing base is calculated using the aggregate of 75% of eligible receivables (including sales lease receivables), 50% of eligible inventory (to a maximum of \$500K).

As at September 30, 2022, all covenants were in compliance.

Note D - 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 assigned to each promissory note of \$87.5K 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 promissory note is unsecured and bears no interest. The obligation is accounted for as a derivative financial liability as a result of its settlement in a foreign currency that differs from the Company's functional currency and its measurement being based on the share price of the Company at settlement date. It will be revalued to fair value at each reporting period.

The first and second promissory notes are recorded as current liabilities, as they are expected to be settled in the next twelve months. The third and fourth promissory notes mature on December 31, 2023, and December 31, 2024, respectively.

Funding contribution from the Canadian Government

On March 17, 2022, the Company received a funding contribution commitment of \$5.0 million from the Canadian government. The funding is provided through Prairies Economic Development Canada's Business Scale-up and Productivity program, which provides fast growing tech firms with support to scale-up and enter new markets. The grant is an unsecured interest free loan. The Company will draw down on the facility over the next three years with repayments commencing on September 1, 2025. Subsequent to September 30, 2022, the Company received \$1.5 million as an advance under this facility.

Subsequent event

On November 18, 2022, the Company consolidated the operating line facilities listed under note A and note C into one operating facility with a major Canadian financial institution. Under the consolidated facility the Company may borrow up to \$9,000K at an interest rate of prime plus 0.65%. The facility also bears a standby fee of 0.2% per annum on the unused portion of the facility.

The Company will be required to meet certain covenants under this credit facility and, as of the advancement of this facility, is in compliance with its covenants.

Lease Liabilities

| (\$000's) | Nine months ended September 30, 2022 | Twelve months ended December 31, 2021 |
|------------------------------------|---|--|
| Balance beginning of the period | 1,304 | 752 |
| Additions | 1,549 | 784 |
| Additions from K'Prime acquisition | 306 | - |
| Additions from Quad acquisition | 638 | - |
| Interest expense | 92 | 51 |
| Lease payments | (565) | (218) |
| Foreign exchange | (22) | (14) |
| Balance, end of the period | 3,210 | 1,304 |
| Current portion | 749 | 262 |
| Long-term portion | 2,461 | 1,042 |

The Company and its subsidiaries have commitments under leases for buildings, office space and vehicles with varying terms that expire between 2022 and 2027.

Off-Balance Sheet Arrangements

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

Financial Management

| (\$000's) | Nine months ended September 30, | | |
|---------------------------------------|---------------------------------|---------|-----------|
| | 2022 | 2021 | \$ Change |
| Cash generated provided by (used in): | | | |
| Operating activities | (3,120) | 312 | (3,432) |
| Investing activities | (11,078) | (2,353) | (8,725) |
| Financing activities | 11,718 | 11,455 | 263 |
| Increase (decrease) in cash | (2,480) | 9,414 | (11,894) |

Cash flows from operating activities has decreased for the nine months ended September 30, 2022, from the same period in 2021 by \$3,432K. The decrease is due to higher expenses overall, specifically, G&A expenses and sales and marketing expenses versus the nine months ended September 30, 2021. As a result of reorganization of the sales organization within the Company, sales and marketing costs as a percentage of revenue generated has decreased, but overall sales and marketing costs have increased as a result of acquiring the sales and marketing organization within K'Prime in the first quarter of 2022.

Cash flows used in investing activities increased significantly for the nine months ended September 30, 2022, from the same period in 2021 by \$8,725K. The increase is primarily due to the acquisition of K'Prime and Quad, coupled with increased property, plant and equipment including the development of a centralized logistics center for the Airport Security Project and investment in new equipment for improved manufacturing and research and development capability for the Nanalysis and RS2D segments. In addition, capitalized development costs increased over the prior year due to increased research and development activity, in large part due to the acquisition of Quad and continued development of their High Field NMR system.

Cash flows provided by financing activities for the nine months ended September 30, 2022, were consistent with those from the same period in 2021 increasing only by \$263K. In the prior year cash flows were provided by a financing and draw on debt facilities. In the current period, cash flows were provided by a financing in Q1 generating \$13,886K in net proceeds, offset by repayments made against debt and leases.

Below is a reconciliation of the manner in which the net proceeds from the Company's best efforts public offering were used by the Company compared to the disclosure in the Company's final short form prospectus dated February 7, 2022. In the original estimate of use of net proceeds, the expected proceeds before over-allotment and private placement were \$10,525K. The Company closed the financing for net proceeds of \$13,886K. This amount represents additional amount available for the Company's working capital. The table reflects the actual use of net proceeds as of September 30, 2022.

(\$000's)

| Principal Purpose | Estimated Allocation of Net Proceeds (\$) | Actual Use of Net Proceeds (\$) | Explanation of variances and the impact, if any, on your company's ability to achieve its business objectives and milestones |
|--|--|--|---|
| <i>Expenses relating to the Offering (Underwriters' Fee and estimated Offering expenses)</i> | 1,126K | 1,339K | <i>The expenses related to the offering were higher than what was estimated.</i> |
| <i>Sales and marketing</i> | 250K | 250K | <i>The Company has applied \$250,000 of the net proceeds for sales and marketing.</i> |
| <i>Research and development</i> | 500K | 1,500K | <i>The Company has applied \$1,500K of the net proceeds for activities undertaken by the Company's scientists and engineers to create new nuclear magnetic resonance ("NMR") products or improve existing NMR products.</i> |
| <i>Quad Systems acquisition</i> | 4,534K | 4,534K | <i>The Company funded the initial equity investment in Quad Systems AG, acquiring a 40% ownership stake and an option to purchase the remaining shares. Cash used was \$9,031K.</i> |

| | | | |
|------------------------|--------|--------|--|
| <i>Working capital</i> | 2,115K | 2,300K | <i>As at September 30, 2022, the Company has applied \$2,300K to fund working capital requirements. The Company expects to use the remaining proceeds of \$1,963 for working capital and general corporate purposes over the next 18-month period.</i> |
| <i>Acquisitions</i> | 2,000K | 2,000K | <i>The Company funded the initial equity investment in Quad Systems AG, acquiring 40% ownership and an option to purchase the remaining shares, the cash used was \$9,031K.</i> |

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 February 11, 2022, the Company closed a best efforts marketed public offering of common shares of the Company, including the full exercise of the over-allotment option and a non-brokered private placement of common shares, for combined gross proceeds of \$15.2 million at a price of \$1.10. Pursuant to the terms of the public offering non-brokered private placement the Company issued 13,840,637 common shares.

Common shares

As at September 30, 2022, the Corporation had 94,221,526 common shares outstanding. There are 2.4 million shares under lock-up issued for the acquisition of RS2D and K'Prime. These common shares are scheduled for release as follows:

- 690,000 on December 31, 2022
- 159,667 on January 31, 2023
- 870,000 on March 3, 2023
- 690,000 on December 31, 2023

Shares issued in consideration for K'Prime are also subject to certain contractual trading obligations until December 31, 2023.

During the nine-month period ended September 30, 2022, the Company issued the following common shares:

- 455,026 shares upon the exercise of options and RSUs for cash consideration of \$231K
- 2,760,000 shares issued for the purchase of K'Prime
- 13,840,637 shares issued through issuance of common shares for cash in conjunction with the public offering and non-brokered private placement discussed above.

[c] Loss per share

| (\$000's) except for number of shares | Three months ended September 30 | | Nine months ended September 30 | |
|---|------------------------------------|--------|-----------------------------------|---------|
| | 2022 | 2021 | 2022 | 2021 |
| Numerator | | | | |
| Income (loss) attributable to common shares (\$) | (2,465) | (857) | (6,211) | (1,127) |
| Denominator | | | | |
| Weighted average number of shares for basic earning per share calculation (000's) | 94,215 | 71,371 | 91,878 | 68,191 |
| Weighted average number of shares for diluted earning per share calculation (000's) | 94,215 | 71,371 | 91,878 | 68,191 |
| Basic income (loss) per common share (\$/share) | (0.03) | (0.01) | (0.07) | (0.02) |
| Diluted income (loss) per common share (\$/share) | (0.03) | (0.01) | (0.07) | (0.02) |

All potentially dilutive instruments were excluded from the diluted weight-average share calculation as they were anti-dilutive to the loss for the period.

[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, with the 10% including both stock options and restricted share units. The maximum number of outstanding options issued for investor relations must be no more than 2% of the issued and outstanding shares, and options issued for 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, 2020 | 4,687,250 | 0.53 |
| Granted | 1,598,000 | 0.84 |
| Exercised | (1,255,499) | (0.37) |
| Forfeitures | (136,417) | (0.45) |
| Balance, December 31, 2021 | 4,893,334 | 0.62 |
| Granted | 2,839,000 | 1.30 |
| Exercised | (435,026) | (0.54) |
| Forfeitures | (33,000) | (1.32) |
| Balance, September 30, 2022 | 7,264,308 | 0.97 |

During the three- and nine-month periods ended September 30, 2022, and 2021, the Company recorded stock-based compensation of \$406K and \$1,044K, respectively, for stock options granted (three and nine months ended September 30, 2021 - \$103K and \$346K).

The fair values of stock options granted were estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

| | 2022 | 2021 |
|---|-----------------|-----------------|
| Risk-free interest rate | 1.39% - 3.27% | 0.9% - 1.6% |
| Estimated annualized volatility based on historical performance | 73% - 75% | 70% - 75% |
| Expected life | 5.0 years | 5.0 years |
| Expected dividend yield | 0% | 0% |
| Exercise price | \$1.10 - \$1.50 | \$0.60 - \$1.70 |
| Fair value | \$0.55 - \$0.83 | \$0.27 - \$0.81 |

As at September 30, 2022, the Company had the following stock options outstanding and exercisable:

| Exercise Price (\$) | Number of Options Outstanding | Weighted Average Life | Number of Options Exercisable |
|------------------------|----------------------------------|-----------------------|-------------------------------|
| \$ 0.45 | 83,500 | 0.17 | 83,500 |
| \$ 0.60 | 3,724,808 | 2.54 | 2,324,482 |
| \$ 0.75 | 200,000 | 1.78 | 200,000 |
| \$ 1.10 | 377,500 | 4.91 | - |
| \$ 1.20 | 35,000 | 4.72 | - |
| \$ 1.24 | 50,000 | 4.04 | - |
| \$ 1.30 | 100,000 | 3.76 | 100,000 |
| \$ 1.32 | 2,243,500 | 4.41 | - |
| \$ 1.50 | 350,000 | 4.22 | - |
| \$ 1.70 | 100,000 | 1.97 | 75,000 |
| | 7,264,308 | 3.30 | 2,782,982 |

[e] Restricted Share Units ("RSU")

On February 28, 2022, the Company granted 60,000 RSU's. These RSUs vest in two stages; one half 18 months from the date of grant and one half 36 months from the date of grant. Each vested RSU entitles the holder to receive one common share of the Company. For the three- and nine-month periods ended September 30, 2022, the Company recorded stock-based compensation expense related to RSU's of \$19K and \$58K respectively (three and nine months ended September 30, 2021 - \$14K and \$67K).

Total RSU's outstanding as of September 30, 2022, was 320,000 (December 31, 2021 – 280,000).

[f] Warrants

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 5,119,038 warrants that expire on August 25, 2023. As at September 30, 2022, all 5,119,038 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; fair value being 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 share purchase warrant reserve. The fair value of the warrants was determined based on the residual value method to be \$0.08 per warrant.

On February 11, 2022, the Company completed a public offering and a concurrent private placement of common shares. The combined offering resulted in the Company issuing 784,875 broker warrants that expire on February 11, 2024. As at September 30, 2022, all 784,875 outstanding warrants were vested and exercisable at a price of \$1.70.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of Financial Instruments

The carrying values of cash, accounts receivable, other receivables, accounts payable and accrued liabilities, and the line of credit approximate fair value due to the short-term nature of these instruments. The fair value of our sales lease receivable approximates fair value based on recognition of expected allowances for doubtful amounts as risk factors indicate.

The Company accounts for its promissory note as a derivative financial liability and revalues the note using the Company's quoted market share price at the reporting period for unmaturing portions of the liability, based on a specified formula within the note. During the nine months ended September 30, 2022, the value of the promissory note decreased from \$466K to \$297K, resulting in an unrealized gain to the Company of \$169K.

For the three- and nine-month periods ended September 30, 2022

Contingent consideration related to the K'Prime acquisition is based on K'Prime reaching certain performance goals related to overall segment performance to be settled in cash, as well as contingent consideration related to the performance on a specific contract to be settled in shares of the Company. The cash settled portion is based on revenue targets for K'Prime for 2022 and 2023, which the Company believes are likely to be met. The contingent consideration has therefore been valued using an income approach, discounted using a risk-adjusted discount rate estimated to best reflect K'Prime's ongoing operations. The Company evaluates the risk-adjusted discount rate at each reporting period. The share settled portion of contingent consideration is based on a set percentage of revenue from a specific contract within K'Prime. The Company has determined, using internal forecasts, the estimated amount of share consideration and valued it using an income approach, discounted using a risk-adjusted discount rate specific to that contract. Forecast amounts of contingent consideration and the risk-adjusted discount rate are evaluated by the Company at each reporting period.

Contingent consideration payable to One Moon Scientific is based on performance goals related to specific targets that One Moon Scientific must meet over through the end of 2024. The Company has used internal forecasts to estimate the amount of each component of contingent consideration and valued it using an income approach, discounted using a risk-adjusted discount rate. The entity reassesses the forecast and estimated amount of contingent consideration and revises the risk-free discount rate based on available market data at each reporting period.

As a result of revaluations, for the three months ended the Company has recognized an unrealized loss of \$(107K) in business acquisition costs (2021 - \$10K). For the nine months ended, the Company has recognized a net unrealized gain of \$20K in business acquisition costs (2021 - \$10K).

The three-level hierarchy reflects the significance of inputs used when determining fair value:

- **Level 1:** Fair value is determined using readily observable inputs from public or active markets.
- **Level 2:** Fair value is determined using inputs other than those quoted in public or active markets and may be both directly and indirectly observable.
- **Level 3:** Fair value is derived using unobservable inputs for which there is little to no available market data, and therefore the Company must develop its own assumptions for valuation.

September 30, 2022

| (\$000's) | Level 1 | Level 2 | Level 3 | Total |
|---|------------|----------|--------------|--------------|
| Financial liabilities at fair value through profit or loss | | | | |
| Contingent consideration | - | - | 1,988 | 1,988 |
| Derivative liabilities not designated as hedging instruments | | | | |
| Promissory note | 297 | - | - | 297 |
| Total | 297 | - | 1,988 | 2,285 |
| Current portion | 177 | - | 804 | 981 |
| Long-term portion | 120 | - | 1,184 | 1,304 |

December 31, 2021

| (\$000's) | Level 1 | Level 2 | Level 3 | Total |
|---|------------|----------|------------|------------|
| Financial liabilities at fair value through profit or loss | | | | |
| Contingent consideration | - | - | 319 | 319 |
| Derivative liabilities not designated as hedging instruments | | | | |
| Promissory note | 466 | - | - | 466 |
| Total | 466 | - | 319 | 785 |
| Current portion | 233 | - | - | 233 |
| Long-term portion | 233 | - | 319 | 552 |

The Company did not transfer any financial instruments between valuation hierarchy levels between December 31, 2021, and September 30, 2022.

Risk Management

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

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

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

Credit risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk in the event of non-performance by counterparties in connection with its cash, accounts receivable, and other receivables. The Company's maximum exposure to credit risk at September 30, 2022, 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 six months ended September 30, 2022, bad debts of \$145K were recognized as an expense (2021 - \$3K).

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, 2022, the Company had working capital of \$9,697K (December 31, 2021 - \$12,116K). 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, and 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 conditions, 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 exchange 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, 2022 | December 31, 2021 |
|--------------------------------------|--------------------|-------------------|
| | US\$ | US\$ |
| Cash | 1,896 | 424 |
| Accounts receivable | 3,038 | 2,481 |
| Prepaid | 19 | - |
| Lease receivable | 1,323 | - |
| Inventory | 207 | - |
| Accounts payable & accrued liability | (1,566) | (409) |
| Unearned revenue | (95) | - |
| Line of credit | (1,508) | - |
| Total | 3,314 | 2,496 |

The above assets and liabilities were translated using an exchange rate of 1.37 at September 30, 2022 (December 31, 2021 – 1.27). Based on the above net exposure as at September 30, 2022, and December 31, 2021, 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 \$454K (December 31, 2021 - \$317K) in the Company's net earnings/loss. Total sales in U.S. dollars for the nine months ended September 30, 2022, were \$9,629K (2021 - \$5,466K). A 10% appreciation or deterioration of the Canadian dollar against the U.S. dollar would result in a change of approximately \$1,235K (2021 - \$694K).

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

| (\$000's) | September 30, 2022 | December 31, 2021 |
|--|-----------------------|-------------------|
| | Euro (€) | Euro (€) |
| Cash | 2 | 415 |
| Accounts receivable | 1,455 | 1,294 |
| Inventory | 216 | 127 |
| Prepays | 221 | 154 |
| Unearned revenue | (665) | (981) |
| Debt and lease liabilities | (629) | (835) |
| Accounts payable and accrued liabilities | (1,243) | (1,450) |
| Total | (643) | (1,276) |

The above assets and liabilities were translated at 1.34 at September 30, 2022 (December 31, 2021 - 1.44). Based on the above net exposure, as at September 30, 2022, and December 31, 2021, 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 \$86K (December 31, 2021 - \$184K) in the Company's other comprehensive income. Total sales in Euros for the nine months ended September 30, 2022, was €2,761 (2021 - €2,280). A 10% appreciation or deterioration of the Canadian dollar against the Euro would result in a change of approximately \$377K (2021 - \$337K).

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

| (\$000's) | September 30, 2022 | December 31, 2021 |
|--|--------------------|-------------------|
| | CHF | CHF |
| Cash | 2,787 | - |
| Accounts receivable | 240 | - |
| Prepays | 48 | - |
| Accounts payable and accrued liabilities | (219) | - |
| Total | 2,856 | - |

The above assets and liabilities were translated at 1.40 at September 30, 2022. Based on the above net exposure as at September 30, 2022, assuming that all other variables remain constant, a 10% appreciation or deterioration of the Canadian dollar against the Swiss Franc would result in a change of approximately \$399K (December 31, 2021 -\$Nil) in the Company's other comprehensive income. Total sales in Swiss Francs for the nine months ended September 30, 2022, were CHF \$52K (2021 – CHF \$Nil). A 10% appreciation or deterioration of the Canadian dollar against the Swiss Franc would result in a change of approximately \$7K (2021 - \$Nil).

[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 six months ended September 30, 2022, and 2021, fluctuations in the market interest rates had no significant impact on its interest expense.

A more detailed description of the business risks is set forth in the Annual Information Form, which is dated April 27, 2022, and is available on SEDAR at www.sedar.com

REVENUE AND SEGMENT INFORMATION

(\$000's)

| Three months ended September 30, 2022 | Nanalysis | RS2D | K'Prime | Corporate | Total |
|--|---------------|--------------|--------------|---------------|---------------|
| Revenue | 4,120 | 1,135 | 1,623 | - | 6,878 |
| Operating income (loss) | 504 | (474) | (104) | (544) | (618) |
| Net loss | (597) | (615) | (261) | (1,126) | (2,599) |
| Depreciation and amortization expense | 772 | 147 | 171 | - | 1,090 |
| Capital expenditures | 2,121 | 42 | 232 | - | 2,395 |
| Total assets as at September 30, 2022 | 23,968 | 2,264 | 4,864 | 41,790 | 72,886 |

(\$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 |

Nanalysis Scientific Corporation
Management's Discussion and Analysis

For the three- and nine-month periods ended September 30, 2022



(\$000's)

| Nine months ended September 30, 2022 | Nanalysis | RS2D | K'Prime | Corporate | Total |
|---------------------------------------|-----------|-------|---------|-----------|---------|
| Revenue | 10,072 | 2,416 | 5,130 | - | 17,618 |
| Operating income (loss) | 80 | (351) | 663 | (1,795) | (1,403) |
| Net loss | (2,613) | (857) | 8 | (3,161) | (6,623) |
| Depreciation and amortization expense | 2,374 | 462 | 495 | - | 3,331 |
| Capital expenditures | 6,405 | 78 | 253 | - | 6,736 |
| Total assets as at September 30, 2022 | 23,968 | 2,264 | 4,864 | 41,790 | 72,886 |

(\$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 June 30, 2021 | 17,683 | 6,799 | 11,185 | 35,667 |

Geographic Location

During the nine months ended September 30, 2022, the Company was not economically dependent on any customers accounting for more than 10% of revenue (2021 – None). The Company's revenues are allocated to geographic segments as follows:

| (\$000's) | Three months ended September 30 | | Nine months ended September 30 | |
|--|------------------------------------|-------|-----------------------------------|--------|
| | 2022 | 2021 | 2022 | 2021 |
| United States of America | 3,307 | 1,386 | 9,479 | 4,373 |
| Canada | 1,382 | - | 3,699 | 680 |
| Europe | 1,155 | 932 | 2,362 | 3,421 |
| Asia | 689 | 294 | 947 | 484 |
| Other (Brazil, Chile, India, Mexico, Morocco, Nigeria) | 345 | 724 | 1,131 | 1,996 |
| | 6,878 | 3,336 | 17,618 | 10,954 |

RELATED PARTY DISCLOSURE

The Company has retained the lease of the building for K'Prime Canada. This facility is leased from a company related to a director of the Company. During the three and nine months ended September 30, 2022, the Company incurred \$41K for lease expenses. (2021 - \$Nil). These amounts have been recorded at the amounts that have been agreed upon by the two parties. Furthermore, amounts paid to relatives of a director as compensation were \$93K for the three and nine months ended September 30, 2022 (2021 - \$Nil).

During the three and nine months ended September 30, 2022, the Company paid consulting fees to a director of the Company in the amount of \$31K and \$71K, respectively (Three and nine months ended September 30, 2021 - \$Nil).

As at September 30, 2022, \$21K was in accounts payable due to related parties (2021 - \$Nil).