



Interim Condensed Financial Statements

Period Ended September 30, 2022

Nanalysis Scientific Corp.



Interim Condensed Consolidated Statement of Financial Position

(unaudited)		September 30, 2022	December 31, 2021
(\$000's)	Note		
ASSETS			
Current			
Cash		7,925	10,405
Accounts receivable		7,134	4,972
Other receivables		1,025	1,128
Sales lease receivable	14	1,321	-
Inventory	5	7,049	3,679
Prepaid expenses and other assets		951	578
		25,405	20,762
Prepaid expenses and other assets		378	-
Sales lease receivable	14	953	-
Property and equipment	6	3,534	1,268
Right of use assets	6	3,038	1,271
Goodwill	7	12,229	385
Intangible assets	7	27,349	14,107
		47,481	17,031
Total Assets		72,886	37,793
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current			
Accounts payable and accrued liabilities		8,557	4,441
Line of credit	8	2,007	-
Warranty provision		248	209
Unearned revenue and grants	12	1,523	1,798
Current portion of promissory note	8	177	233
Current portion of lease liability	9	749	262
Current portion of contingent consideration liability		804	-
Current portion of long-term debt/repayable contributions	8	1,682	1,703
		15,747	8,646
Unearned revenue and grants	12	798	822
Promissory note	8	120	233
Lease liability	9	2,461	1,042
Long-term debt/repayable contributions	8	2,061	2,512
Contingent consideration liability		1,184	319
Deferred income tax liability		915	258
Total Liabilities		23,286	13,832
SHAREHOLDERS' EQUITY			
Share capital	10	48,365	31,295
Share purchase w warrants	10	847	549
Contributed surplus		2,649	1,644
Deficit		(15,903)	(9,692)
Accumulated other comprehensive income		798	165
Non-controlling interest	2	12,844	-
Total Shareholders' Equity		49,600	23,961
Total Liabilities and Shareholders' Equity		72,886	37,793

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

Interim Condensed Consolidated Statement of Comprehensive (Loss) Profit

(unaudited) (\$000s)	Note	Three months ended September 30		Nine months ended September 30	
		2022	2021	2022	2021
Product sales		6,145	3,336	15,695	10,954
Service revenue		733	-	1,923	-
Total sales and revenue		6,878	3,336	17,618	10,954
Cost of product sold	11[a]	3,359	1,224	6,845	3,802
Cost of services	11[b]	547	-	1,269	-
Total cost of sales		3,906	1,224	8,114	3,802
Gross profit		2,972	2,112	9,504	7,152
Sales and marketing	11[c]	1,218	838	3,662	2,706
General and administration	11[d]	1,926	1,016	6,021	2,411
Research and development	11[e]	446	246	1,224	529
		3,590	2,100	10,907	5,646
(Loss) income before other items		(618)	12	(1,403)	1,506
Other Items					
Business acquisition costs		107	96	210	98
Depreciation and amortization expense	6, 7	1,090	620	3,331	1,885
Finance expense (income)		45	121	200	(84)
Stock-based compensation	10	425	103	1,102	346
Foreign exchange (gain) loss		84	(102)	159	(44)
RS2D earn-out		-	-	-	177
(Loss) income before tax		(2,369)	(826)	(6,405)	(872)
Current income tax (recovery) expense		(9)	-	197	-
Deferred income tax expense		239	31	21	255
Net (loss) income		(2,599)	(857)	(6,623)	(1,127)
Other comprehensive (loss) income		689	27	633	74
Total comprehensive (loss) income		(1,910)	(830)	(5,990)	(1,053)
Attributable to:					
Equity holder of Nanalysis Scientific Corp.		(2,465)	(857)	(6,211)	(1,127)
Non-controlling interest		(134)	-	(412)	-
(Loss) income per share					
Basic (loss) income per common share	10	(0.03)	(0.01)	(0.07)	(0.02)
Diluted (loss) income per common share	10	(0.03)	(0.01)	(0.07)	(0.02)

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 \$	Non- Controlling Interest \$	Total \$
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
Balance at January 1, 2022	77,166	549	31,295	1,644	165	(9,692)	-	23,961
Exercise of options & RSUs	455	-	328	(97)	-	-	-	231
Stock-based compensation	-	-	-	1,102	-	-	-	1,102
Issuance of common shares and warrants (net of issuance costs)	13,841	298	13,588	-	-	-	-	13,886
Shares issued for purchase of K'Prime	2,760	-	3,154	-	-	-	-	3,154
Non-controlling interest	-	-	-	-	-	-	13,256	13,256
Net loss for the period	-	-	-	-	-	(6,211)	(412)	(6,623)
Other comprehensive loss	-	-	-	-	633	-	-	633
Balance at September 30, 2022	94,222	847	48,365	2,649	798	(15,903)	12,844	49,600

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

Interim Condensed Consolidated Statement of Cashflow

Nine months ended
September 30

(unaudited) (\$000's)	Note	2022	2021
Cash flows from operating activities			
Net loss		(6,211)	(1,127)
Add (deduct) non-cash items:			
Non cash expenses / (income)		96	(149)
Depreciation of property and equipment	6	1,333	555
Amortization of intangible assets	7	2,056	1,380
Deferred tax recovery		21	255
Stock based compensation	10	1,102	346
Finance expense		200	130
Changes in non-cash working capital		(1,717)	(1,078)
Cash flows (used in) provided by operating activities		(3,120)	312
Cash flows from investing activities			
Purchases of property and equipment	6	(2,292)	(368)
Additions to intangible assets	7	(4,444)	(1,639)
Proceeds on disposal of property and equipment		55	-
Issuance and Exercise of convertible debenture	4	(1,348)	-
Acquisition of K'Prime (net of cash)	4	(475)	-
Acquisition of Quad (net of cash)	4	(135)	-
Acquisition of One Moon Scientific (net of cash)		-	(346)
Changes in non-cash working capital		(2,439)	-
Cash flows used in investing activities		(11,078)	(2,353)
Cash flows from financing activities			
Proceeds from financing net of finance fees		13,886	9,977
Finance expense		(200)	(130)
Payment of lease obligations	9	(565)	(162)
Proceeds from long-term debt	8	52	1,590
Repayment of line of credit		(581)	-
Repayment of long-term debt	8	(1,105)	(185)
Exercise of stock options	10	231	365
Cash flows provided by financing activities		11,718	11,455
Increase / (decrease) in cash and equivalents		(2,480)	9,414
Cash and cash equivalents, beginning of period		10,405	3,158
Cash and cash equivalents, end of period		7,925	12,572

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

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2022, and 2021 (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 innovative magnetic resonance (“MR”) products for security, pharmaceutical, biotech, nutraceutical, chemical, food, materials, education, life science and medical applications. Building a name for itself as a pioneer of benchtop nuclear magnetic resonance spectrometers (“benchtop NMR”), Nanalysis established itself as a world leader in highly homogenous compact magnet technology with a vision to democratize and proliferate MR through method validation and productization.

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 specializes in the design of compact, cutting-edge electronics components for a wide range of precision analytical MR instruments, including both NMR and magnetic resonance imaging (“MRI”). On July 21, 2021, the Company acquired One Moon Scientific (“OMS”), a software company based in New York, USA specializing in a suite of software tools to streamline and automate Magnetic Resonance data analysis and management. On January 10, 2022, Nanalysis acquired a scientific sales and service organization, K’Prime Technologies Inc. (“K’Prime”), headquartered in Calgary, Canada and Phoenix, USA to further increase its reach and support in all major MR markets, and within targeted market verticals. On March 11, 2022, Nanalysis 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 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, 2021. 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, 2021, filed under the Company’s profile on SEDAR at www.sedar.com.

These unaudited interim condensed consolidated financial statements were approved by the Company’s Board of Directors on November 29, 2022.

[b] Basis of measurement

These unaudited 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 subsidiaries: Nanalysis Corp., Nanalysis GmbH, RS2D S.A.S., One Moon Scientific, K’(Prime) Technologies Inc., Quad Systems AG and Quad Systems Ltd. All significant intercompany transactions and balances have been eliminated.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2022, and 2021 (unaudited)

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

2. BASIS OF PRESENTATION (continued)

Subsidiary	Ownership	Ownership December 31,		
	September 30, 2022	2021	Incorporated	Nature
Nanalysis Corp.	100%	100%	Canada	Technology, Manufacturing Direct Sales, Marketing,
Nanalysis GmbH	100%	100%	Germany	Technical Support
RS2D S.A.S.	100%	100%	France	Technology
One Moon Scientific	100%	100%	USA	Software
K'(Prime) Technologies Inc.	100%	-	Canada	Sales, Distribution, Service
KPrime Group USA	100%	-	USA	Sales, Distribution, Service
KPrime Technologies	100%	-	USA	Sales, Distribution, Service
Quad Systems AG	43%	-	Switzerland	Technology
Quad Systems Ltd.	43%	-	United Kingdom	Technology

Subsidiaries are those entities over which the Company has control. The Company controls an entity when it is exposed to or has the rights to variable returns from its involvement with the investment and can affect those returns through its power over the investee. The existence and effect of voting rights are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are deconsolidated from the date control ceases. Non-controlling interests represent interests in subsidiaries owned by outside parties. Non-controlling interests are measured at the proportionate interest in the recognized amounts of the assets and liabilities on the date acquired plus their proportionate share of subsequent changes in equity, less distributions made to minority partners in those entities.

[d] Functional and foreign currency

These unaudited interim condensed consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The financial statements of each subsidiary 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, K'(Prime) Technologies Inc. whose functional currency is the USD, Quad Systems AG whose functional currency is the Swiss Franc, and Quad Systems Ltd. whose functional currency is the Pound Sterling. Foreign exchange gains and losses resulting from the settlement of transactions denominated in a currency other than an entity's functional currency are recognized in the consolidated statements of (loss) profit. 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 period end translation adjustments are included in other comprehensive (loss) income.

Certain comparative information has been reclassified to conform with the presentation adopted in the current period.

3. SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

The preparation of these unaudited 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. Notes 2 and 3 to the Company's audited consolidated financial statements as at and for the year ended December 31, 2021, contain descriptions of the accounting policies, judgements, estimates and assumptions that are considered significant.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2022, and 2021 (unaudited)

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3. SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (continued)

Lease Accounting as a Lessor

Sales Leases as a Lessor

As a lessor, the Company determines at inception whether each lease is a finance lease or an operating lease. The Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incremental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

Operating lease commitments – Company as lessor

The Company has entered into rental contracts for certain of its assets. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the asset, that it retains all the significant risks and rewards of ownership of these assets and accounts for the contracts as operating leases.

4. BUSINESS ACQUISITIONS

K'Prime

On January 10, 2022, the Company acquired all of the outstanding shares of K'(Prime) Technologies Inc. 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 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 in working capital adjustments and the issuance of 2.76 million common shares of the Company, 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 into subsequent to the acquisition. These earnouts have been valued at \$1,520K, 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.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2022, and 2021 (unaudited)

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

4. BUSINESS ACQUISITIONS (continued)

(\$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	<u>4,658</u>
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	<u>3,994</u>
Net assets before cash	664
Acquired cash	<u>2,525</u>
Net assets	3,189
Intangible assets	2,081
Goodwill	<u>4,822</u>
Purchase consideration	<u>10,092</u>

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

Quad

On March 11, 2022, the Company funded an initial equity investment in 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 into between the Company and Quad, the Company has been 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 assessed IFRS 10 and has determined that due to the Option and the criteria outlined in the standard, 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:

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2022, and 2021 (unaudited)

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

4. BUSINESS ACQUISITIONS (continued)

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.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2022, and 2021 (unaudited)

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

4. BUSINESS ACQUISITIONS (continued)

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

5. INVENTORY

(\$000's)	September 30, 2022	December 31, 2021
Raw materials	4,476	2,228
Work in process	357	280
Finished goods	2,251	1,216
Inventory provision	(35)	(45)
Total inventory	7,049	3,679

During the three and nine months ended September 30, 2022, raw materials, consumables and change in finished goods recognized as cost of goods sold amount to \$2,170K and \$4,087K respectively (three and nine months ended September 30, 2021 - \$856K and \$2,764K).

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2022, and 2021 (unaudited)

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

6. PROPERTY, EQUIPMENT AND RIGHT OF USE ASSETS

(\$000's)	Office Furniture and Equipment	Computer Hardware	Manufacturing Equipment	Leasehold Improvements	Right of Use Assets	Total
Cost:						
Balance, December 31, 2020	141	168	1,821	238	1,079	3,447
Additions	40	151	162	242	936	1,531
Disposals	(52)	-	(1)	-	(472)	(525)
Foreign exchange	-	(5)	(8)	-	-	(13)
Balance, December 31, 2021	129	314	1,974	480	1,543	4,440
Acquisition of KPrime	26	12	214	13	306	571
Acquisition of Quad	26	9	365	-	638	1,038
Additions	242	360	1,628	62	1,549	3,841
Disposals	-	(18)	(45)	-	(163)	(226)
Foreign exchange	(13)	(6)	30	1	(44)	(32)
Balance, September 30, 2022	410	671	4,166	556	3,829	9,632
Accumulated amortization:						
Balance, December 31, 2020	114	102	823	108	350	1,497
Depreciation	28	51	338	94	240	751
Disposals	(29)	-	-	-	(357)	(386)
Foreign exchange	-	-	-	-	39	39
Balance, December 31, 2021	113	153	1,161	202	272	1,901
Depreciation	86	73	386	119	669	1,333
Disposals	-	-	(8)	-	(128)	(136)
Foreign exchange	(6)	(6)	(5)	1	(22)	(38)
Balance, September 30, 2022	193	220	1,534	322	791	3,060
Net book value:						
Balance, December 31, 2021	16	161	813	278	1,271	2,539
Balance, September 30, 2022	217	451	2,632	234	3,038	6,572

During the three and nine months ended September 30, 2022, depreciation of \$20K and \$58K was recognized as an expense in cost of goods sold (three and nine months ended September 30, 2021 - \$18K and \$52K). The Company did not identify any indicators of impairment as at September 30, 2022.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2022, and 2021 (unaudited)

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

7. INTANGIBLE ASSETS

(\$000's)	Development & technology costs	Customer Relationships	Patents	Software	Goodwill	Total
Cost:						
Balance, December 31, 2020	13,877	-	730	195	-	14,802
Additions	2,203	-	155	51	-	2,409
Acquisition of One Moon Scientific	-	-	-	991	385	1,376
Foreign exchange	(156)	-	(2)	-	-	(158)
Balance, December 31, 2021	15,924	-	883	1,237	385	18,429
Acquisition of K'Prime	24	2,081	-	-	4,822	6,927
Acquisition of Quad	8,681	-	-	-	7,022	15,703
Additions	4,311	-	108	25	-	4,444
Foreign exchange	60	-	-	(2)	-	58
Balance, September 30, 2022	29,000	2,081	991	1,260	12,229	45,561
Accumulated amortization:						
Balance, December 31, 2020	1,784	-	249	82	-	2,115
Amortization	1,653	-	106	57	-	1,816
Foreign exchange	3	-	3	-	-	6
Balance, December 31, 2021	3,440	-	358	139	-	3,937
Amortization	1,636	150	93	177	-	2,056
Foreign exchange	(8)	-	-	(2)	-	(10)
Balance, September 30, 2022	5,068	150	451	314	-	5,983
Net book value:						
As of December 31, 2021	12,484	-	525	1,098	385	14,492
Balance, September 30, 2022	23,932	1,931	540	946	12,229	39,578

Development costs consist of proprietary technology acquired from RS2D that is used in the 100MHz unit, proprietary technology acquired from Quad and 100MHz and 60Mhz development costs. Customer relationships consist of existing relationships with K'Prime customers. These are amortized on a straight-line basis over 10 years. The Company did not identify any indicators of impairment as at September 30, 2022.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2022, and 2021 (unaudited)

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8. LOANS AND BORROWINGS

(\$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 loans and borrowings		6,047	4,681
Less: current portion		3,866	1,936
Non-current portion of loans and borrowings		2,181	2,745

Credit Facilities

Note A - Nanalysis

The Company has two 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 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. 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. As at September 30, 2022, covenant was in compliance.

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.

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8. LOANS AND BORROWINGS (continued)

Note B – RS2D

RS2D 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.
- Procedure 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 (Note 16).

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.

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8. LOANS AND BORROWINGS (continued)

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. As at September 30, 2022, the Company had no drawings on 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.

9. 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.

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 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 and non-brokered private placement the Company issued 13,840,637 common shares.

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10. SHARE CAPITAL (continued)

Common shares

At September 30, 2022, Nanalysis had 94,221,526 common shares outstanding. There are 2.4 million shares under lock up issued for the acquisitions 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 obligations until December 31, 2023.

[i] During the nine months 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.

[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				
(Loss) income 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 (loss) income per common share (\$/share)	(0.03)	(0.01)	(0.07)	(0.02)
Diluted (loss) income 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

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10. SHARE CAPITAL (continued)

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-months periods ended September 30, 2022, the Company recorded stock-based compensation expense related to RSUs 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.

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10. SHARE CAPITAL (continued)

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.

11. OPERATING EXPENSES

[a] Cost of products sold

(\$000's)	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Direct material costs	2,170	856	4,087	2,764
Salaries and wages	634	223	1,533	646
Direct overhead	508	106	1,123	285
Warranty expense	27	21	44	55
Depreciation	20	18	58	52
	3,359	1,224	6,845	3,802

[b] Cost of services

(\$000's)	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Direct material costs	192	-	290	-
Salaries and wages	317	-	925	-
Direct overhead	38	-	54	-
	547	-	1,269	-

[c] Sales and marketing

(\$000's)	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Salaries, benefits, subcontracts	648	419	1,977	1,323
Selling commissions	331	128	1,046	354
Travel & accommodation	57	28	129	69
Advertising, conferences, trade shows	174	131	473	411
Office & other expenses	8	132	37	549
	1,218	838	3,662	2,706

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11. OPERATING EXPENSES (continued)

[d] General and administrative expenses

(\$000's)	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Salary related expenses	910	397	2,867	1,139
Consulting and professional fees	237	172	755	407
Investor relations expenses	59	165	275	274
IT expenses	101	79	326	246
Travel expenses	35	41	262	43
Bad debt expense	100	-	145	3
Office and general expenses	484	162	1,391	299
	1,926	1,016	6,021	2,411

[e] 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 Nanalysis, RS2D and Quad research and are expensed in the period they occur.

(\$000's)	Three months ended September 20		Nine months ended September 30	
	2022	2021	2022	2021
Salary related expenses	343	246	879	529
Consulting and professional fees	73	-	185	-
Materials and supplies	30	-	160	-
	446	246	1,224	529

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12. UNEARNED REVENUE AND GRANTS

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, 2022, and the time frame in which the Company expects to recognize this revenue.

As at September 30, 2022	Less than 12 months	12 to 24 months	Thereafter	Total
Extended warranty	400	370	224	994
Prepayment RS2D contracts	578	143	-	721
Prepayment Nanalysis sales	423			423
Prepayment K'Prime sales lease	122	17	44	183
Total	1,523	530	268	2,321

(\$000's)

As at December 31, 2021	Less than 12 months	12 to 24 months	Thereafter	Total
Extended warranty	256	215	57	528
Prepayment RS2D contracts	863	369	181	1,413
Prepayment on Nanalysis sales	679	-	-	679
Total	1,798	584	238	2,620

For the three and nine months ended September 30, 2022, \$761K and \$2,187K in revenue and grants were recognized relating to performance obligations satisfied during the period (three and nine months ended September 30, 2021 - \$561K and \$1,779K). Included in unearned revenue and grants for RS2D are \$438K of unearned grants as at September 30, 2022 (December 31, 2021 - \$682K).

13. REVENUE AND SEGMENT INFORMATION

The Company's activities are carried out through four reportable segments: Nanalysis, RS2D, K'Prime, and Corporate. The Company's executive leadership is responsible for strategic decision making, resource allocation, and assessing financial performance and, as a group, is identified as our chief operating decision maker for the purposes of reporting segment information under International Financial Reporting Standards ("IFRS").

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

(\$000's)

Three months ended September 30, 2022	Nanalysis	RS2D	K'Prime	Corporate	Total
Revenue	4,120	1,135	1,623	-	6,878
Operating income (loss) earnings	504	(474)	(104)	(544)	(618)
Net (loss) income	(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

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13. REVENUE AND SEGMENT INFORMATION (continued)

(\$000's)

Three months ended September 30, 2021	Nanalysis	RS2D	Corporate	Total
Revenue	2,173	1,163	-	3,336
Operating (loss) earnings	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)

Nine months ended September 30, 2022	Nanalysis	RS2D	K'Prime	Corporate	Total
Revenue	10,072	2,416	5,130	-	17,618
Operating income (loss) earnings	80	(351)	663	(1,795)	(1,403)
Net (loss) income	(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 September 30, 2021	17,683	6,799	11,185	35,667

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13. REVENUE AND SEGMENT INFORMATION (continued)

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

14. SALES LEASE RECEIVABLE

The Company leases out equipment with lease terms of 2 – 5 years. The Company determines at the inception of the lease if the lease is to be classified as an operating lease or financing type lease, in accordance with IFRS 16.

To classify each lease, the Company makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership, incidental to ownership of the underlying equipment. If this is the case, the lease is a finance lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the equipment.

Sales lease receivables are recorded at an amount equal to the net investment in the lease using the interest rate implicit in the lease agreement. Lease income from finance leases for the three- and nine-months ended September 30, 2022, is \$69K and \$468K, respectively (three- and nine-months ended September 30, 2021 - \$Nil and \$Nil). Lease income from operating leases for the three- and nine-months ended September 30, 2022, is \$44K and \$112K, respectively (three- and nine-months ended September 30, 2021 - \$Nil and \$Nil). The following table sets out the maturity of lease receivables:

(\$000's)	
Less than a year	1,321
1-3 years	1,390
3-5 years	13
Total undiscounted lease payments receivable	2,724

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15. 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, maintenance and expansion of its operating segments. The Company attempts to maximize return to shareholders.

The Company defines its capital as share capital and contributed surplus. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's liquidity needs in the short and long term can be addressed in multiple ways 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.

16. 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 unmatured 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.

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.

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16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2022, and 2021 (unaudited)

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

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2022, and 2021 (unaudited)

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16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 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, 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)	-
Debt and lease liabilities	(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).

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2022, and 2021 (unaudited)

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

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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, were €2,761K (2021 - €2,280K). 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 nine months ended September 30, 2022, and 2021, fluctuations in the market interest rates had no significant impact on its interest expense.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2022, and 2021 (unaudited)

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

17. 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).

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2022, and 2021 (unaudited)

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 ⁽³⁾
President & Chief Executive Officer

Randall McRae, CPA, CA
Interim Chief Financial Officer

Julien Muller
Chief Technology Officer

Martin Burian, CPA, CA, ICD.D ⁽¹⁾⁽³⁾
Chairman of the Board

Werner Gartner CPA, CMA ⁽¹⁾
Director

Dr. Michal Okoniewski ⁽²⁾
Director

Guido Cloetens ⁽¹⁾⁽²⁾
Director

René Lenggenhager ⁽³⁾
Director

Kham Lin ⁽²⁾
Director

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Corporate Governance and Nomination Committee

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TSX Venture
Trading Symbol: NSCI

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