



Interim Condensed Financial Statements

Period Ended September 30, 2023

Nanalysis Scientific Corp.



Interim Condensed Consolidated Statement of Financial Position

(unaudited) (\$000's)	Note	September 30, 2023	December 31, 2022
ASSETS			
Current			
Cash		1,271	3,525
Accounts receivable		5,512	6,085
Other receivables		920	1,845
Sales leases receivable	15	39	1,053
Inventory	5	7,167	7,387
Prepaid expenses and other assets	6	1,471	2,060
		16,380	21,955
Prepaid expenses and other assets	6	2,848	939
Loan to associate	4	324	-
Deferred income tax asset		981	104
Investment in associate	4	5,998	-
Sales lease receivable	15	-	770
Property and equipment	7	1,944	3,138
Right of use assets	7	2,480	3,286
Goodwill	8	5,696	13,083
Intangible assets	8	15,928	26,627
		36,199	47,947
Total Assets		52,579	69,902
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current			
Accounts payable and accrued liabilities		4,710	5,759
Line of credit	9	-	2,541
Warranty provision		446	565
Unearned revenue and grants	13	1,205	1,932
Current portion of promissory note	9	40	58
Current portion of lease liability	10	650	785
Current portion of contingent consideration liability	17[c]	814	810
Current portion of long-term debt/repayable contributions	9	2,913	1,056
		10,778	13,506
Unearned revenue and grants	13	891	1,117
Promissory note	9	40	58
Lease liability	10	1,921	2,527
Long-term debt/repayable contributions	9	12,561	3,728
Contingent consideration liability	17[c]	808	1,138
Deferred income tax liability		180	256
Total Liabilities		27,179	22,330
SHAREHOLDERS' EQUITY			
Share capital	11	53,062	49,016
Share purchase w warrants	11	358	847
Contributed surplus		4,486	3,091
Deficit		(32,866)	(18,793)
Accumulated other comprehensive income		360	969
Non-controlling interest		-	12,442
Total Shareholders' Equity		25,400	47,572
Total Liabilities and Shareholders' Equity		52,579	69,902

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

Interim Condensed Consolidated Statement of Loss and Comprehensive Loss

(unaudited) (\$000s)	Note	Three months ended September 30		Nine months ended September 30	
		2023	2022	2023	2022
Product sales		3,941	6,145	10,892	15,695
Service revenue		3,095	733	7,774	1,923
Total sales and revenue		7,036	6,878	18,666	17,618
Cost of product sold	12[a]	2,233	3,476	6,774	7,049
Cost of services	12[b]	3,177	589	9,640	1,311
Total cost of sales and services		5,410	4,065	16,414	8,360
Gross profit		1,626	2,813	2,252	9,258
Sales and marketing	12[c]	909	1,218	3,323	3,662
General and administration	12[d]	1,873	1,767	5,496	5,775
Research and development	12[e]	198	446	733	1,224
		2,980	3,431	9,552	10,661
Loss before other items		(1,354)	(618)	(7,300)	(1,403)
Other Items					
Business acquisition costs and contingent consideration (gain) loss		184	107	139	210
Depreciation and amortization expense	7,8	1,073	1,090	3,361	3,331
Finance expense		289	45	241	200
Stock-based compensation	11[f]	281	425	861	1,102
Foreign exchange loss		79	84	249	159
Loss on loss of control of subsidiary	4	2,810	-	2,810	-
Loss from associate	4	256	-	256	-
Restructuring costs		82	-	437	-
Loss before tax		(6,408)	(2,369)	(15,654)	(6,405)
Current income tax expense (recovery)		13	(9)	16	197
Deferred income tax (recovery) expense		(134)	239	(1,009)	21
Net loss		(6,287)	(2,599)	(14,661)	(6,623)
Other comprehensive income		97	689	67	633
Total comprehensive loss		(6,190)	(1,910)	(14,594)	(5,990)
Net loss attributable to:					
Equity holder of Nanalysis Scientific Corp.		(6,287)	(2,465)	(14,073)	(6,211)
Non-controlling interest		-	(134)	(588)	(412)
Total comprehensive income attributable to:					
Equity holder of Nanalysis Scientific Corp.		97	421	42	468
Non-controlling interest		-	268	25	165
Loss per share					
Basic loss per common share	11	(0.06)	(0.03)	(0.14)	(0.07)
Diluted loss per common share	11	(0.06)	(0.03)	(0.14)	(0.07)

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, 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 KPrime	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 income (loss)	-	-	-	-	468	-	165	633
Balance at September 30, 2022	94,222	847	48,365	2,649	633	(15,903)	13,009	49,600
Balance at January 1, 2023	94,448	847	49,016	3,091	969	(18,793)	12,442	47,572
Exercise of options & RSUs	96	-	40	(15)	-	-	-	25
Stock-based compensation	-	-	-	861	-	-	-	861
Issuance of common shares and warrants (net of issuance costs)	6,881	60	4,006	-	-	-	-	4,066
Expiration of warrants	-	(549)	-	549	-	-	-	-
Net loss for the period	-	-	-	-	-	(14,073)	(588)	(14,661)
Other comprehensive (loss) income	-	-	-	-	42	-	25	67
Loss of control of subsidiary	-	-	-	-	(651)	-	(11,879)	(12,530)
Balance at September 30, 2023	101,425	358	53,062	4,486	360	(32,866)	-	25,400

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	2023	2022
Cash flows from operating activities			
Net loss		(14,073)	(6,211)
Add (deduct) non-cash items:			
Non-cash expenses		121	96
Depreciation of property and equipment	7	1,309	1,333
Amortization of intangible assets	8	2,266	2,056
Deferred tax recovery		(1,009)	21
Stock-based compensation	11[f]	861	1,102
Finance expense		241	200
Loss on loss of control of subsidiary	4	2,810	-
Changes in non-cash working capital	19	(1,378)	(1,717)
Cash flows used in operating activities		(8,852)	(3,120)
Cash flows from investing activities			
Purchases of property and equipment	7	(617)	(2,292)
Additions to intangible assets	8	(3,118)	(4,444)
Proceeds on disposal of property and equipment, and intangibles	7,8	49	55
Issuance and exercise of convertible debenture		-	(1,348)
Acquisition of K'Prime (net of cash)		-	(475)
Acquisition of Quad (net of cash)		-	(135)
Loan to associate	4	(324)	-
Loss of control of subsidiary	4	(326)	-
Changes in non-cash working capital	19	(361)	(2,439)
Cash flows used in investing activities		(4,697)	(11,078)
Cash flows from financing activities			
Proceeds from financing net of finance fees		4,006	13,886
Finance expense		(241)	(200)
Payment of lease obligations	10	(580)	(565)
Proceeds from long-term debt net of finance fees	9	11,433	52
Funds withdrawn from line of credit	9	3,155	162
Repayment of line of credit	9	(5,696)	(743)
Repayment of long-term debt	9	(867)	(1,105)
Exercise of stock options	11	25	231
Changes in non-cash working capital	19	60	-
Cash flows provided by financing activities		11,295	11,718
Decrease in cash and equivalents		(2,254)	(2,480)
Cash, beginning of period		3,525	10,405
Cash, end of period		1,271	7,925

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, 2023, and 2022 (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.

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, 2022. 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, 2022, 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, 2023. No requirement exists for these unaudited interim condensed consolidated financial statements to be reviewed by the Company’s auditor and, as such, no review was performed.

[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., KPrime Group USA, and K’Prime Technologies. 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, 2023, and 2022 (unaudited)

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

2. BASIS OF PRESENTATION (continued)

Subsidiaries and Associates	Ownership	Ownership December 31,	Incorporated	Nature
	September 30, 2023	2022		
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%	100%	Canada	Sales, Distribution, Service
KPrime Group USA	100%	100%	USA	Sales, Distribution, Service
KPrime Technologies	100%	100%	USA	Sales, Distribution, Service
Quad Systems AG	43%	43%	Switzerland	Technology
Quad Systems Ltd.	43%	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, and KPrime Group USA, KPrime Technologies, and One Moon Scientific whose functional currency is the USD. Foreign exchange gains and losses resulting from the settlement of transactions denominated in a currency other than an entity's functional currency are recognized in the consolidated statements of loss and comprehensive loss. Assets and liabilities of entities with functional currencies other than the Canadian dollar are translated into Canadian dollars at the period-end exchange rate, and the results of their operations are translated at the average rates for the period. Period end translation adjustments are included in other comprehensive loss.

[e] Comparative Figures

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, 2022, contain descriptions of the accounting policies, judgements, estimates and assumptions that are considered significant.

Accounting for investment in associate

The Company has determined that it holds significant influence in Quad Systems AG and its subsidiary, Quad Systems Ltd. (collectively, "Quad") by virtue of its equity ownership interest and its board participation and will account for its investment in Quad using the equity method subsequent to July 1, 2023, as explained in Note 4.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2023, and 2022 (unaudited)

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

4. LOSS OF CONTROL OF SUBSIDIARY AND INVESTMENT IN ASSOCIATE

[a] Loss of control of subsidiary

On March 11, 2022, Nanalysis acquired 40% of 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%.

Until July 1, 2023, (the "Option Period"), the Company had 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 had a right of first refusal on all debt and equity offerings of Quad.

The Company has assessed IFRS 10 and has determined that due to the Option and the level of integration between the Company and Quad, the Company had the power to govern the financial and operating policies of Quad. Therefore, the Company considered that until the period ending June 30, 2023, it had control over Quad and fully consolidated the results of Quad into its interim condensed consolidated financial statements.

On July 1, 2023, the Company allowed its unilateral option to acquire the remaining shares of Quad to expire. As a result, from the date of expiry the Company no longer has the power to govern the financial and operating policies of Quad under IFRS 10 and will cease to consolidate the results of Quad into its interim condensed consolidated financial statements. The expiry of the options resulted in a loss of control of Quad, and the Company derecognized the related assets, liabilities and non-controlling interest on July 1, 2023. These interim financial statements include the results of Quad from January 1, 2023, to June 30, 2023, which is the period prior to the loss of control.

From July 1, 2023, onward, the Company is accounting for its investment in Quad as an investment in an associate and any income or loss from Quad is included within the income (loss) from associate account in the consolidated statement of loss and comprehensive loss (Note 3).

The assets and liabilities of Quad over which the Company lost control on July 1, 2023, are as follows:

	As at July 1, 2023
(\$000's)	Total
Current Assets	
Cash	326
Other current assets	1,689
Non-current Assets	20,798
Total Assets	22,813
Current Liabilities	(401)
Non-current Liabilities	(818)
Net assets	21,594

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2023, and 2022 (unaudited)

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4. LOSS OF CONTROL OF SUBSIDIARY AND INVESTMENT IN ASSOCIATE (continued)

The loss on loss of control of Quad recognized in the consolidated statement of loss during the three and nine months ended September 30, 2023, was \$2,810K, which represents the fair value of the investment on July 1, 2023, less the net assets of Quad, non-controlling interest and accumulated foreign currency translation adjustments. This was calculated as follows:

(\$000's)	July 1, 2023
Fair value of equity interest retained in Quad on loss of control on July 1, 2023 (300,000 common shares)	6,254
Less:	
Net assets of Quad, as above	21,594
Non- controlling interest	(11,879)
Accumulated foreign currency translation adjustment (OCI)	(651)
Loss on loss of control of Quad	(2,810)

[b] Investment in Associate

As at September 30, 2023, the Company owns a total of 300,000 common shares of Quad AG representing a 43.48% equity interest in Quad AG (December 31, 2022 – 43.48%). During the three months ended September 30, 2023, the Company recognized a loss of \$256K from its share of Quad's results.

The loss from equity accounting in associate during the nine-month period ended September 30, 2023, comprises:

(\$000's)	September 30, 2023	September 30, 2022
Quad Systems AG	256	-
Total loss from associate	256	-

On July 18, 2023, the Company paid out the first tranche of CHF 218K to Quad AG as per a Shareholders Loan Agreement dated July 4, 2023. The loan is interest bearing at standard interest rates for this type of loan as established under Swiss law. As at the reporting date the interest rate is 3.75%. The loan is granted on a fixed basis for five calendar years from advancement date.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2023, and 2022 (unaudited)

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

5. INVENTORY

(\$000's)	September 30, 2023	December 31, 2022
Raw materials	3,655	4,169
Work in process	965	822
Finished goods	2,606	2,431
Inventory provision	(59)	(35)
Total inventory	7,167	7,387

During the three and nine months ended September 30, 2023, raw materials, consumables and change in finished goods recognized as cost of product sold and cost of services was \$1,688K and \$5,084K (three and nine months ended September 30, 2022 - \$2,362K and \$4,378K).

6. PREPAID EXPENSES AND OTHER ASSETS

(\$000's)	September 30, 2023	December 31, 2022
Deferred wages	3,459	928
Other prepayments and other assets	860	2,071
Total prepaid expenses and other assets	4,319	2,999
Less: Current portion	1,471	2,060
Non-current portion of prepaid expenses and other assets	2,848	939

For the three and nine months ended September 30, 2023, the Company, subject to requirements of IFRS 15, deferred \$912K and \$2,595K of wages related to its CATSA airport security services expansion within prepaid expenses (three and nine months ended September 30, 2022 - \$Nil). Upon full transition of each airport within the project, deferred wages are recognized on a straight-line basis for the duration of the contract.

During the three and nine months ended September 30, 2023, the Company amortized \$45K and \$64K of previously deferred wages into cost of services (three and nine months ended September 30, 2022 - \$Nil) (Note 12).

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2023, and 2022 (unaudited)

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7. PROPERTY, EQUIPMENT AND RIGHT OF USE ASSETS

(\$000's)	Office Furniture and Equipment	Computer Hardware	Equipment	Leasehold Improvements	Right of Use Assets	Total
Cost:						
Balance, December 31, 2021	129	314	1,974	480	1,543	4,440
Acquisition of K'Prime	26	12	213	13	306	570
Acquisition of Quad	8	9	382	-	638	1,037
Additions	170	296	1,558	103	1,873	4,000
Disposals	(44)	(139)	(396)	(12)	(304)	(895)
Foreign exchange	6	3	88	1	41	139
Balance, December 31, 2022	295	495	3,819	585	4,097	9,291
Additions	6	22	588	1	461	1,078
Transfers to inventory	-	-	(38)	-	-	(38)
Foreign exchange	-	(1)	9	-	15	23
Loss of control of subsidiary	(81)	(34)	(1,181)	-	(853)	(2,149)
Balance, September 30, 2023	220	482	3,197	586	3,720	8,205
Accumulated amortization:						
Balance, December 31, 2021	113	153	1,161	202	272	1,901
Depreciation	53	108	612	151	758	1,682
Disposals	(44)	(103)	(350)	(12)	(226)	(735)
Foreign exchange	2	1	9	-	7	19
Balance, December 31, 2022	124	159	1,432	341	811	2,867
Depreciation	36	97	474	46	656	1,309
Foreign exchange	(1)	(1)	(1)	-	2	(1)
Loss of control of subsidiary	(15)	(8)	(142)	-	(229)	(394)
Balance, September 30, 2023	144	247	1,763	387	1,240	3,781
Net book value:						
Balance, December 31, 2022	171	336	2,387	244	3,286	6,424
Balance, September 30, 2023	76	235	1,434	199	2,480	4,424

During the three and nine months ended September 30, 2023, depreciation of \$76K and \$230K was recognized as an expense in cost of product sold (three and nine months ended September 30, 2022 - \$20K and \$58K). The Company did not identify any indicators of impairment as at September 30, 2023.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2023, and 2022 (unaudited)

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

8. INTANGIBLE ASSETS

(\$000's)	Development & technology costs	Customer relationships	Patents	Software	Goodwill	Total
Cost:						
Balance, December 31, 2021	15,924	-	883	1,237	385	18,429
Acquisition of K'Prime	24	2,081	-	-	5,311	7,416
Acquisition of Quad	7,822	-	-	287	7,387	15,496
Additions	4,766	-	134	174	-	5,074
Disposals	-	-	-	(87)	-	(87)
Foreign exchange	184	-	-	23	-	207
Balance, December 31, 2022	28,720	2,081	1,017	1,634	13,083	46,535
Additions	3,018	-	86	14	-	3,118
Disposals	(14)	-	-	-	-	(14)
Foreign exchange	27	-	-	2	-	29
Loss of control of subsidiary	(11,416)	-	-	(312)	(7,387)	(19,115)
Balance, September 30, 2023	20,335	2,081	1,103	1,338	5,696	30,553
Accumulated amortization:						
Balance, December 31, 2021	3,440	-	358	139	-	3,937
Amortization	2,364	202	124	277	-	2,967
Disposals	-	-	-	(87)	-	(87)
Foreign exchange	3	-	-	5	-	8
Balance, December 31, 2022	5,807	202	482	334	-	6,825
Amortization	1,902	156	102	106	-	2,266
Disposals	(3)	-	-	-	-	(3)
Foreign exchange	(2)	-	-	5	-	3
Loss of control of subsidiary	(62)	-	-	(100)	-	(162)
Balance, September 30, 2023	7,642	358	584	345	-	8,929
Net book value:						
As of December 31, 2022	22,913	1,879	535	1,300	13,083	39,710
Balance, September 30, 2023	12,693	1,723	519	993	5,696	21,624

Development costs consist of proprietary technology acquired from RS2D that is used in the 100MHz unit and the Company's MRI technology, as well as its 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 related to intangible assets or goodwill as at September 30, 2023.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2023, and 2022 (unaudited)

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

9. LOANS AND BORROWINGS

(\$000's)	Note	September 30, 2023	December 31, 2022
Western Economic Diversification Canada Interest-free loans	A	1,672	2,021
Prêt garanti par l'état Euro denominated loan	B	79	102
Procédure de sauvegarde interest free Euro denominated loan	B	286	538
Regional Recovery Relief Fund interest-free loan	A	700	913
Business Scale-up interest-free loan	A	2,885	1,121
Line of credit	C	-	2,541
Term Bank loan	D	10,000	-
Other		82	89
Loans and borrowings		15,704	7,325
Add: Promissory note on acquisition of One Moon Scientific	E	80	116
Total loans and borrowings		15,784	7,441
Less : Deferred finance fees	D	(230)	-
Total loans and borrowings net of finance fees		15,554	7,441
Less: current portion		2,953	3,655
Non-current portion of loans and borrowings		12,601	3,786

Credit Facilities

Note A - Nanalysis

The Company has two interest free loans Western Economic Diversification Canada ("WINN") as per below:

- WINN #1: \$496K repayable in monthly installments of \$8K commencing June 30, 2017, which matured and was fully repaid on February 28, 2023.
- 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. This loan is unsecured.
- Regional Recovery Relief Fund: \$1,000K repayable in 35 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. This loan is unsecured.
- Business Scale-up: In 2022, the Company received a funding contribution commitment of \$5.0 million from Prairies Economic Development Canada's Business Scale-up and Productivity program. The Company began drawing on the loan in 2022 and will continue to draw on the loan until the earlier of drawing the full available amount of the facility or the beginning of repayments on September 1, 2025. As at September 30, 2023, the Company had withdrawn 78% of the available funding (December 31, 2022 – 30%). The obligation is recorded at its present value using a 6.0%-7.6% discount rate depending on the timing of each drawdown on the facility. Any amounts in default will incur interest at the Bank of Canada's interest rate plus 3% compounded monthly. This loan is unsecured.

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.
- Procédure de sauvegarde is an unsecured interest free Euro denominated loan repayable in annual payments due each June, with the final payment maturing June 2024. The obligation is recorded as its present value using a 2.5% discount rate.

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For the three and nine months ended September 30, 2023, and 2022 (unaudited)

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

9. LOANS AND BORROWINGS (continued)

Note C – Line of Credit

On November 18, 2022, the Company consolidated its varied operating line facilities into one operating facility with a single Canadian financial institution. Under the consolidated facility, the Company could borrow up to the lesser of its borrowing base, which is based on its accounts receivable, inventory, and sales lease receivable balances, and \$9,000K, at an interest rate of prime plus 0.65%. The facility also bore a standby fee of 0.2% per annum on the unused portion of the facility. The facility was secured by a general security agreement over the property of Nanalysis Scientific Corp. and its significant subsidiaries.

On June 29, 2023, the Company repaid this facility and replaced it with a revolving line of credit from ATB Financial as well as a \$10,000K term loan (Note D). Under this revolving line of credit, the Company may borrow up to \$5,000K at an interest rate of prime plus 1%. This facility also bears a standby fee of 0.4% per annum on the unused portion of the facility. The borrowing base of the facility is based on the value of the Company's accounts receivables and inventory, less any amounts outstanding on its \$300K credit card facility, also advanced by ATB Financial. The available borrowing base for the Company at September 30, 2023, was \$4,504K.

Note D – Term Bank Loan

In conjunction with the advancement of a new revolving operating facility under Note C, the Company obtained a term loan of \$10,000K from ATB Financial. This term loan was advanced in one tranche on June 29, 2023, and bears interest at a rate of prime plus 2.50% until March 31, 2024, and thereafter, subject to the satisfactory review of the financial covenants, at a rate of prime plus 2%.

The loan amortizes over 48 months, with repayments beginning in January 2024.

Both facilities are secured by a general security agreement over the property of Nanalysis Scientific Corp. and its significant subsidiaries. As a condition of both the operating and term facilities, the Company must maintain a current ratio of 1.10:1:00. At September 30, 2023, the Company's applicable current ratio was 1.58:1:00.

Furthermore, beginning in the quarter ending March 31, 2024, the Company must maintain two additional covenants; funded debt to EBITDA must not exceed 3.50:1 and the Company must maintain a fixed charge coverage ratio of greater than or equal to 1.20:1.

Note E - Promissory note

The Company issued, as part of its consideration for the acquisition of One Moon Scientific during the year ended December 31, 2021, four promissory notes for 82,472 common shares which, at the date of acquisition, were valued at 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 is revalued to fair value at each reporting period (Note 17).

The first and second promissory notes were settled in shares during the financial year ended December 31, 2022. The third and fourth promissory notes mature on December 31, 2023, and December 31, 2024, respectively.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2023, and 2022 (unaudited)

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

10. LEASE LIABILITIES

(\$000's)	Nine months ended September 30, 2023	Twelve months ended December 31, 2022
Balance beginning of the period	3,312	1,304
Additions	414	1,874
Additions from K'Prime acquisition	-	306
Additions from Quad acquisition	-	638
Interest expense	148	159
Lease payments	(580)	(832)
Loss of control of subsidiary	(588)	-
Foreign exchange	13	22
Balance, end of the period	2,571	3,312
Current portion	650	785
Long-term portion	1,921	2,527

The Company and its subsidiaries have commitments under leases for buildings, office space, and vehicles, with varying terms that expire between 2023 and 2029.

The Company also has contractual commitments for leases that are short-term or low-value and accounts for them as operating leases. These operating leases relate to airport spaces and the leases are due as follows:

(\$000's)	2023
Within one year	55
1-3 years	60
4-5 years	26
Total operating leases payable	141

11. 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

Common shares

Common Shares Issued	Number
Balance, December 31, 2021	77,165,693
Issuance of common shares	13,840,637
Acquisition of K'Prime	2,760,000
Exercise of stock options and RSUs	517,000
Settlement of promissory notes	164,944
Balance, December 31, 2022	94,448,274
Issuance of common shares	6,881,167
Exercise of stock options and RSUs	96,000
Balance, September 30, 2023	101,425,441

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2023, and 2022 (unaudited)

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

11. SHARE CAPITAL (continued)

There are 690,000 shares under lock up issued for the acquisition of K'Prime. These common shares are scheduled for release on December 31, 2023. Shares issued in consideration for K'Prime are also subject to certain contractual obligations until December 31, 2023.

During the nine months ended September 30, 2023, the Company completed a non-brokered private placement of 6,881,167 units of the Company at a price of \$0.60 per unit and aggregate gross proceeds of \$4,129K and net proceeds of \$4,006K. Each unit consisted of one common share of the Company and one full warrant exercisable at \$0.80 for a period of one year after the closing date of the offering. The Company closed the offering in two tranches on April 26, 2023, and May 3, 2023.

[c] Loss per share

(\$000's) except for number of shares	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Numerator				
Loss attributable to common shares (\$)	(6,287)	(2,465)	(14,073)	(6,211)
Denominator				
Weighted average number of shares for basic earning per share calculation (000's)	101,424	94,215	98,403	91,878
Weighted average number of shares for diluted earning per share calculation (000's)	101,424	94,215	98,403	91,878
Basic loss per common share (\$/share)	(0.06)	(0.03)	(0.14)	(0.07)
Diluted loss per common share (\$/share)	(0.06)	(0.03)	(0.14)	(0.07)

All potentially dilutive instruments were excluded from the diluted weighted-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.

Stock Options Outstanding	Number	Weighted Average Exercise Price (\$)
Balance, December 31, 2021	4,893,334	0.62
Granted	3,598,000	1.28
Exercised	(496,695)	0.54
Forfeitures	(304,000)	0.76
Balance, December 31, 2022	7,690,639	1.04
Granted	1,098,249	1.10
Exercised	(56,000)	0.45
Forfeitures	(832,478)	0.96
Balance, September 30, 2023	7,900,410	1.12

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2023, and 2022 (unaudited)

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

11. SHARE CAPITAL (continued)

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

	2023	2022
Risk-free interest rate	2.9% - 4.09%	1.39% - 3.32%
Estimated annualized volatility based on historical performance	74% - 76%	73% - 75%
Expected life	5.0 years	5.0 years
Expected dividend yield	0%	0%
Exercise price	\$1.10	\$1.10 - \$1.50

As at September 30, 2023, the Company had the following stock options outstanding and exercisable:

Exercise Price (\$)	Number of Options Outstanding	Weighted Average Life	Number of Options Exercisable
\$ 0.60	3,145,001	1.51	2,869,167
\$ 0.75	200,000	0.78	200,000
\$ 1.10	1,628,909	4.32	105,833
\$ 1.20	35,000	3.73	11,667
\$ 1.24	50,000	3.04	50,000
\$ 1.30	100,000	2.76	100,000
\$ 1.32	2,291,500	3.42	763,833
\$ 1.50	350,000	3.23	250,000
\$ 1.70	100,000	3.13	33,000
	7,900,410		4,383,500

[e] Restricted Share Units (“RSUs”)

The Company maintains an RSU plan as compensation for certain directors of the Company. These RSUs vest over three years from the grant date and expire at the end of the third full calendar year subsequent to the grant date.

RSUs Outstanding	Number
Balance, December 31, 2021	280,000
Granted	60,000
Exercised	(20,000)
Balance, December 31, 2022	320,000
Granted	135,000
Exercised	(40,000)
Balance, September 30, 2023	415,000

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2023, and 2022 (unaudited)

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

11. SHARE CAPITAL (continued)

[f] Stock-based compensation expense

(\$000's)	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Stock-based compensation expenses related to stock options	259	406	794	1,044
Stock-based compensation expenses related to RSUs	22	19	67	58
Total	281	425	861	1,102

[g] Warrants

Warrants Outstanding	Number	Weighted Average Exercise Price (\$)
Balance, December 31, 2021	5,119,038	1.70
Issued	784,875	1.70
Balance, December 31, 2022	5,903,913	1.70
Issued	7,381,167	0.80
Expired	(5,119,038)	1.70
Balance, September 30, 2023	8,166,042	

Type of Warrant	Expiry Date	Exercise Price (\$)	Number of Warrants	
			Outstanding	Vested and Exercisable
Warrant	August 25, 2023	\$ 1.70	-	-
Broker warrant	August 25, 2023	\$ 1.70	-	-
Broker warrant	February 11, 2024	\$ 1.70	784,875	784,875
Warrant	April 26, 2024	\$ 0.80	3,738,667	3,738,667
Warrant	May 3, 2024	\$ 0.80	3,142,500	3,142,500
Warrant	June 29, 2025	\$ 0.80	500,000	500,000
			8,166,042	8,166,042

The warrants expiring on April 26 and May 3, 2024, were issued as part of each unit issued in the private placement discussed in Note 9[a].

On June 29, 2023, the Company issued 500,000 standalone warrants to its financial institution in connection with the closing of its revolving loan and term loan facilities (Note 9). The fair value of the warrants was determined to be \$0.12 per warrant.

During the period ended September 30, 2023, 5,119,038 warrants expired resulting in an increase to contributed surplus of \$549K.

Notes to the Interim Condensed Consolidated Financial Statements

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

12. OPERATING EXPENSES

[a] Cost of product sold

(\$000's)	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Direct material costs	1,160	2,326	3,268	4,244
Salaries and wages	425	745	1,825	1,698
Direct overhead	248	358	749	1,005
Warranty expense	324	27	702	44
Depreciation	76	20	230	58
	2,233	3,476	6,774	7,049

[b] Cost of services

(\$000's)	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Direct material costs	528	36	1,816	134
Salaries and wages	1,554	359	4,238	967
Training and related costs	782	156	2,673	156
Direct overhead	313	38	913	54
	3,177	589	9,640	1,311

[c] Sales and marketing

(\$000's)	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Salaries and wages	675	648	2,347	1,977
Selling commissions	117	331	449	1,046
Travel and accommodation	5	57	123	129
Advertising, conferences, and trade shows	58	174	187	473
Other expenses	54	8	217	37
	909	1,218	3,323	3,662

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2023, and 2022 (unaudited)

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

12. OPERATING EXPENSES (continued)

[d] General and administrative expenses

(\$000's)	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Salary related expenses	783	758	2,464	2,661
Consulting and professional fees	374	237	879	755
Investor relations expenses	83	59	244	275
IT expenses	174	101	470	326
Travel and accomodation	33	35	130	262
Bad debts (recovered) / expense	-	100	(55)	145
Office and facility expenses, and other	426	477	1,364	1,351
	1,873	1,767	5,496	5,775

During the year, the Company reclassified certain costs from General and administrative expenses to better reflect the nature of the costs. As the presentation was adjusted in the current period, no reclassifications were required for the three months ended September 30, 2023. For the nine months ended September 30, 2023, \$527K was reclassified to Cost of product sold and \$463K to Cost of services relating to the period from January 1, 2023, to June 30, 2023.

For the three months ended September 30, 2022, the Company reclassified \$117K to Cost of product sold and \$42K to Cost of services. For the nine months ended September 30, 2022, the Company reclassified \$203K to Cost of product sold and \$42K to Cost of services.

[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 30		Nine months ended September 30	
	2023	2022	2023	2022
Salary related expenses	80	343	299	879
Consulting and professional fees	86	73	291	185
Materials and supplies	32	30	143	160
	198	446	733	1,224

Notes to the Interim Condensed Consolidated Financial Statements

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

13. 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, 2023, and the time frame in which the Company expects to recognize this in the statement of comprehensive loss.

(\$000's)

As at September 30, 2023	Less than 12 months	12 to 24 months	Thereafter	Total
Extended warranty	581	465	426	1,472
Prepayment RS2D contracts	367	-	-	367
Prepayment on Nanalysis sales	-	-	-	-
Prepayment on K'Prime sales leases	13	-	-	13
Other unearned amounts	244	-	-	244
Total	1,205	465	426	2,096

(\$000's)

As at December 31, 2022	Less than 12 months	12 to 24 months	Thereafter	Total
Extended warranty	497	597	326	1,420
Prepayment RS2D contracts	906	69	-	975
Prepayment on Nanalysis sales	160	-	-	160
Prepayment on K'Prime sales leases	70	31	25	126
Other unearned amounts	299	69	-	368
Total	1,932	766	351	3,049

For the three and nine months ended September 30, 2023, \$307K and \$1,734K in revenue and grants were recognized relating to performance obligations satisfied during the period (three and nine months ended September 30, 2022 - \$761K and \$2,187K). Included in unearned revenue and grants for RS2D are \$244K of unearned grants as at September 30, 2023 (December 31, 2022 - \$366K).

14. REVENUE AND SEGMENT INFORMATION

[a] 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, 2023	Nanalysis	RS2D	K'Prime	Corporate	Total
Revenue	2,462	750	3,824	-	7,036
Loss before other items	(63)	(195)	(502)	(594)	(1,354)
Net loss	(496)	(673)	(563)	(4,555)	(6,287)
Depreciation and amortization expense	681	153	239	-	1,073
Capital expenditures	497	98	9	-	604
Total assets as at September 30, 2023	22,291	6,234	17,142	6,912	52,579

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2023, and 2022 (unaudited)

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

14. REVENUE AND SEGMENT INFORMATION (continued)

(\$000's)

Three months ended September 30, 2022	Nanalysis	RS2D	K'Prime	Corporate	Total
Revenue	4,120	1,135	1,623	-	6,878
Loss before other items	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	50,362	6,191	15,228	1,105	72,886

(\$000's)

Nine months ended September 30, 2023	Nanalysis	RS2D	K'Prime	Corporate	Total
Revenue	6,189	2,482	9,995	-	18,666
Loss before other items	(2,349)	(314)	(2,806)	(1,831)	(7,300)
Net loss	(4,274)	(1,124)	(2,774)	(6,489)	(14,661)
Depreciation and amortization expense	2,215	445	701	-	3,361
Capital expenditures	3,237	423	75	-	3,735
Total assets as at September 30, 2023	22,291	6,234	17,142	6,912	52,579

(\$000's)

Nine months ended September 30, 2022	Nanalysis	RS2D	K'Prime	Corporate	Total
Revenue	10,072	2,416	5,130	-	17,618
Income (loss) before other items	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	50,362	6,191	15,228	1,105	72,886

[b] Non-controlling interest

Quad results from January 1, 2023, through June 30, 2023, were included within the Nanalysis segment. From July 1, 2023, onward, the results of Quad are accounted for using the equity method of accounting (Note 4).

The proportion of equity in Quad held by non-controlling interests is 57% at September 30, 2023 (September 30, 2022 - 57%). The non-controlling interest revenue portion for Quad is as follows:

	For the nine months ended September 30,	
	2023	2022
Revenue	517	457
Attributable to:		
Equity holders of Nanalysis Scientific Corp.	222	191
Non-controlling interest	295	265

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2023, and 2022 (unaudited)

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

14. REVENUE AND SEGMENT INFORMATION (continued)

[c] Geographic segments

The Company's revenues are allocated to geographic segments as follows:

(\$000's)	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Canada	3,635	1,382	9,690	3,699
United States of America	2,003	3,307	4,675	9,479
Europe	1,164	1,155	2,728	2,362
Asia	226	689	1,400	947
Other (Brazil, Chile, India, Mexico, Morocco, Nigeria)	8	345	173	1,131
	7,036	6,878	18,666	17,618

15. SALES LEASES RECEIVABLE

The Company leases equipment with lease terms of two to five 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. The Company manages risk associated with leased assets by conducting credit checks and financial reviews of potential lessees, as well as retaining title on underlying assets during the lease period.

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, 2023, is \$23K and \$153K, respectively (three and nine months ended September 30, 2022 - \$69K and \$468K). Lease income from operating leases for the three and nine months ended September 30, 2023, is \$24K and \$190K (three and nine months ended September 30, 2022 - \$44K and \$112K).

During the nine months ended September 30, 2023, the Company closed the sale of the US portion of its leases for proceeds of \$519K and realized a loss of \$2K. The remaining leases in the Canadian entity will expire in the first quarter of 2024.

Notes to the Interim Condensed Consolidated Financial Statements

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

16. 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, debt, and contributed surplus. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's liquidity needs in 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.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

[a] 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 carrying value of sales lease receivables approximates fair value less costs to sell based on management's best estimate of costs to sell at the reporting date.

[b] Fair value of promissory notes

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 three and nine months ended September 30, 2023, the value of the promissory note decreased / increased resulting in an unrealized (loss) gain to the Company of (\$2K) and \$35K (three and nine months ended September 30, 2022 - \$43K and \$170K).

[c] Fair value of contingent consideration

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 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 all inputs, including 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.

For the three and nine months ended September 30, 2023, the Company recognized an unrealized (loss) gain of (\$176K) and \$174K related to revaluation of contingent consideration related to the K'Prime acquisition within business acquisition costs (three and nine months ended September 30, 2022 - (\$279K) and (\$279K)).

Contingent consideration payable to One Moon Scientific ("OMS") is based on performance goals related to specific targets that OMS 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.

For the three and nine months ended September 30, 2023, the Company recognized an unrealized (loss) gain of (\$6K) and \$Nil related to revaluation of contingent consideration related to the OMS acquisition within business acquisition costs (three and nine months ended September 30, 2022 - \$130K and \$130K).

Significant assumptions used in valuation of contingent consideration include forecasted revenue and applicable discount rates.

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For the three and nine months ended September 30, 2023, and 2022 (unaudited)

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

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

[d] Fair value hierarchy

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, 2023				
(\$000's)	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss				
Contingent consideration	-	-	1,622	1,622
Derivative liabilities not designated as hedging instruments				
Promissory note	80	-	-	80
Total	80	-	1,622	1,702
Current portion	40	-	814	854
Long-term portion	40	-	808	848

December 31, 2022				
(\$000's)	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss				
Contingent consideration	-	-	1,948	1,948
Derivative liabilities not designated as hedging instruments				
Promissory note	116	-	-	116
Total	116	-	1,948	2,064
Current portion	58	-	810	868
Long-term portion	58	-	1,138	1,196

The Company did not transfer any financial instruments between valuation hierarchy levels between December 31, 2022, and September 30, 2023.

[e] Risk management

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

- Credit risk,
- Liquidity risk,
- Market risk,
- Currency risk,
- Interest rate risk, and,
- Economic dependence.

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

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2023, and 2022 (unaudited)

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17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

[i] 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.

[ii] 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, 2023, is the carrying amount of cash, accounts receivable, and other receivables on the consolidated statements of financial position. The Company mitigates this risk by holding its cash in major Canadian financial institutions and performing credit enquiries on its customers.

Management regularly assesses the Company's exposure to credit risk and provides allowances for potentially uncollectible accounts receivable as they become known. Although collection of these receivables could be influenced by economic factors, management considers the risk of significant loss to be mitigated by the number, reputation, and nature of the companies with which the Company does business. Trade accounts receivable are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of the counterparty to engage in a repayment plan with the Company and a failure to make contractual payments for a period of greater than 180 days past due. During the nine months ended September 30, 2023, \$55K of previously recognized bad debts were recovered (expense for the nine months ended September 30, 2022 - \$145K).

[iii] 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, 2023, the Company had working capital of \$5,602K (December 31, 2022 - \$8,449K). 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, continue research and development, and service contracts. The Company manages liquidity risk by management of working capital, cash flows, availability of borrowing facilities and share issuances.

[iv] 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.

[v] 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.

Notes to the Interim Condensed Consolidated Financial Statements

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

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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

(\$000's)	September 30, 2023	December 31, 2022
	US\$	US\$
Cash	144	580
Accounts receivable	1,789	3,460
Prepayments	127	127
Lease receivables	-	1,182
Inventory	95	212
Accounts payable & accrued liabilities	(613)	(1,225)
Unearned revenue	(696)	(772)
Debt and lease liabilities	(496)	(574)
Total	350	2,990

The above assets and liabilities were translated using an exchange rate of 1.35 at September 30, 2023 (December 31, 2022 – 1.35). Based on the above net exposure, as at September 30, 2023, and December 31, 2022, 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 \$47K (December 31, 2022 - \$405K) in the Company's other comprehensive income. Total sales in U.S. dollars for the nine months ended September 30, 2023, were \$5,886K (2022 - \$9,629K). A 10% appreciation or deterioration of the Canadian dollar against the U.S. dollar would result in a change of approximately \$792K (2022 - \$1,235K).

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

(\$000's)	September 30, 2023	December 31, 2022
	Euro (€)	Euro (€)
Cash	220	293
Accounts receivable	659	662
Prepayments and other receivables	505	49
Inventory	140	193
Accounts payable and accrued liabilities	(1,002)	(1,008)
Unearned revenue	(684)	(1,178)
Debt and lease liabilities	(347)	(574)
Total	(509)	(1,563)

The above assets and liabilities were translated at 1.43 at September 30, 2023 (December 31, 2022 – 1.45). Based on the above net exposure as at September 30, 2023, and December 31, 2022, 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 \$73K (December 31, 2022 - \$226K) in the Company's other comprehensive income. Total sales in Euros for the nine months ended September 30, 2023, were €1,895K (2022 - €2,761K). A 10% appreciation or deterioration of the Canadian dollar against the Euro would result in a change of approximately \$276K (2022 - \$377K).

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2023, and 2022 (unaudited)

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

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

[vi] Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. During the three and nine months ended September 30, 2023, and 2022, fluctuations in the market interest rates had an insignificant impact on the Company's interest expense. At September 30, 2023, the Company had \$10,000K of outstanding debt on its interest-bearing term loan. If the prime borrowing rate changed by 4%, it would have an impact of \$400K on interest expense on an annualized basis (December 31, 2022 - \$101K).

[vii] Economic dependence

During the nine months ended September 30, 2023, the Company was dependent on one customer for 34% of its revenue (2022 - None). There were no other customers who accounted for more than 10% of the Company's revenue during the period.

18. RELATED PARTY DISCLOSURE

Related party transactions are assessed for significance within the Company's normal process for transaction approval. Transactions determined to be significant by Management are approved by the Audit Committee of the Board of Directors.

The Company has approved several transactions with directors of the Company or parties related to directors:

- 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 nine months ended September 30, 2023, the Company incurred \$88K for lease expenses (2022 - \$29K). These amounts have been recorded at the amounts that have been agreed upon by the two parties.
- Amounts paid to relatives of a director as employment compensation were \$284K for the nine months ended September 30, 2023 (2022 - \$93k).
- During the nine months ended September 30, 2023, the Company paid consulting fees to a director of the Company in the amount of \$101K (2022 - \$71K).

As at September 30, 2023, there were no balances in accounts payable due to related parties (December 31, 2022 - \$Nil). Total undiscounted payments remaining on the related party lease at September 30, 2023, are \$10K (December 31, 2022 - \$97K).

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2023, and 2022 (unaudited)

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19. SUPPLEMENTAL CASH FLOW INFORMATION

(\$000's)	Nine months ended September 30,	
	2023	2022
Changes in items of non-cash working capital in operating activities		
Accounts receivable and other receivables	1,590	(1,649)
Inventory	(555)	(2,807)
Other assets	(612)	(1,481)
Accounts payable and accrued liabilities	(1,469)	4,632
Loss from associate	256	-
Non-controlling interest	(588)	(412)
	(1,378)	(1,717)
Changes in items of non-cash working capital in investing activities		
K'Prime acquisition working capital payment	-	(2,418)
K'Prime acquisition earnout	(500)	-
Revaluation of contingent consideration	174	149
Revaluation of promissory notes	(35)	(170)
	(361)	(2,439)
Changes in items of non-cash working capital in financing activities		
Share purchase warrants	60	-
	60	-

20. SUBSEQUENT EVENT

On November 15, 2023, the Company paid out the second and final tranche of CHF 218K to Quad AG as per Shareholders loan agreement dated July 4, 2023. The loan is interest bearing at standard interest rates for this type of loan as established under Swiss law. As at the reporting date the interest rate is 3.75%.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2023, and 2022 (unaudited)

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

DIRECTORS AND OFFICERS

Sean Krakowsky, M.Sc ⁽³⁾
President & Chief Executive Officer

Randall McRae, CPA, CA
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

CORPORATE OFFICE

Nanalysis Scientific Corp
1, 4600 – 5 Street NE
Calgary, Alberta T2E 7C3
Phone: 403.769.9499
Email: IR@nanalysis.com

BANKER
ATB Financial
Calgary, Alberta

LAWYERS
DLA Piper (Canada) LLP
Calgary, Alberta

AUDITORS
Ernst & Young LLP
Calgary, Alberta

STOCK EXCHANGE
TSX Venture
Trading Symbol: NSCI

TRANSFER AGENT AND REGISTRAR
Odyssey Trust Company
Calgary, Vancouver, Toronto

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Corporate Governance and Nomination Committee