



Q3 2024

Management's Discussion & Analysis

Nanalysis Scientific Corp.

NANALYSIS SCIENTIFIC CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE- AND NINE-MONTHS ENDED SEPTEMBER 30, 2024



AMOUNTS ARE STATED IN THOUSANDS OF DOLLARS EXCEPT PER SHARE AMOUNTS AND
CERTAIN OTHER EXCEPTIONS AS NOTED

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READER AND FORWARD-LOOKING STATEMENT ADVISORY

The Management's Discussion and Analysis ("MD&A") for the three- and nine-months periods ended September 30, 2024, of the financial condition and results of operations of Nanalysis Scientific Corp. ("the "Company" or "Nanalysis"), is prepared as at November 21, 2024. This discussion should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the periods ended September 30, 2024, and notes thereto. Other information on Nanalysis, including the Company's Annual Information Form, is available on SEDAR+ at www.sedarplus.ca and on the Company's website at www.nanalysis.com.

This MD&A and the interim condensed consolidated financial statements were reviewed by the Audit Committee of the Company's Board of Directors and approved by Nanalysis' Board of Directors on November 20, 2024. All dollar figures are in thousands of Canadian dollars, except per share amounts or unless otherwise stated. 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.

This discussion should not be considered all-inclusive as it does not include all changes regarding general economic, political, governmental and environmental events. Certain comparative figures in this MD&A have been reclassified to conform with the presentation adopted in the current period.

Forward Looking Statements

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward-looking statements") within the meaning of applicable Canadian securities laws. All statements included herein that address activities, events, or developments that Company expects or anticipates will or may occur in the future are forward-looking statements. Forward-looking information is often, but not always, identified by the use of words such as "could", "should", "can", "anticipate", "expect", "believe", "will", "may", "projected", "sustain", "continues", "strategy", "potential", "projects", "grow", "take advantage", "estimate", "well positioned" or similar words or phrases suggesting future outcomes. In particular, this MD&A may contain forward-looking statements relating to: the continued stability in the Scientific Equipment segment through 2024; the replacement of units; the expectations regarding the Security Services segment; revenue increases from the Airport Security Maintenance Business; the issuance of new securities by the Company; expectations regarding cost reduction or efficiency improvement plans; future revenue, operations, opportunities, business strategies, development and production plans, and competitive advantages.

The forward-looking statements regarding the Company are based on certain key expectations and assumptions of the Company concerning anticipated financial performance, business prospects, strategies, regulatory developments, exchange rates, tax laws, the sufficiency of budgeted capital expenditures in carrying out planned activities, the availability and cost of labour and services and the ability to obtain financing on acceptable terms and future costs and expenses being based on historical costs and expenses, adjusted for inflation, all of which are subject to change based on market conditions and potential timing delays. Although management of the Company considers these assumptions to be reasonable based on information currently available to them, they may prove to be incorrect. Additionally, in the normal course of operations, the Company may become involved in, named as a party to, or be the subject of, various legal proceedings. The outcome of outstanding, pending, or future proceedings cannot be predicted with certainty. For claims in which outcomes are not determinable, no provision for settlement has been made in the interim condensed consolidated financial statements.

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By their very nature, forward-looking statements involve inherent risks, uncertainties (both general and specific) and other factors, which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. A number of important factors could cause the actual events or results to differ materially from the beliefs, plans, objectives, expectations and anticipations, estimates and intentions expressed in the forward-looking statements, including, among other things: general economic and market factors, including business competition; changes in government regulations or in tax laws; component prices; technology development or operational activities; inability to scale manufacturing; changes in market demand; changes in international trade regulations, affecting the Company; timing and availability of external financing on acceptable terms; the ability of the Company to maintain its debt covenants and servicing requirements, and lack of qualified, skilled labour or loss of key individuals; as well as those factors detailed from time to time in the Company's interim and annual financial statements, the management's discussion and analysis of those statements, and in the Company's annual information form filed with regulators in Canada at www.sedarplus.ca. Readers are cautioned that the foregoing list is not exhaustive.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those contained in forward-looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, investors should not place undue reliance on forward-looking statements or information.

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

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Business overview

Overview

The Company is the ultimate parent in the group. In June 2019, the Company completed a reverse takeover ("RTO") and obtained a listing on the TSX-V under the symbol "NSCI". The Company's executive leadership is responsible for strategic decision making, resource allocation, and assessing financial performance and, as a group, is identified as our chief operating decision maker for the purposes of reporting segment information under International Financial Reporting Standards ("IFRS").

The Company carries out its business within two reportable business segments: Scientific Equipment and Security Services.

Scientific Equipment Segment

Nanalysis is a provider of cutting edge, patent-protected magnetic resonance ("MR") technology to facilitate simple and rapid unknown chemical identification, quantification and diagnostics in a number of end markets including pharmaceutical, biotechnology, chemical, security, food, oil & gas and educational industries. Customers include Eli Lilly, Johnson & Johnson, Takeda Pharmaceutical, BASF, Hitachi Chemical, US Department of Agriculture, Lubrizol, Aramco Services, SABIC, Oxford University, Harvard University and many other Fortune 500 organizations.

The scientific equipment segment is primarily engaged in the development and distribution of magnetic resonance ("MR") technology into industrial, research and teaching markets through the sale of accessible, affordable, and automatable MR systems. By focusing on innovation in both method development and magnet and electronic design, the Company's product line addresses unmet needs of customers in a variety of applications, including pharmaceutical, academia, mining, oil and gas, and the cannabis industry, among others. Founded in 2009 with the specific intent of developing the world's first portable MR spectrometer, Nanalysis aimed to address the three main limitations of this powerful magnetic resonance technique – affordability, accessibility and automatability. After approximately four years of development, Nanalysis began shipping its first commercial product in 2012. Since this time, Nanalysis has expanded the functionality of this platform and launched the highest performing benchtop instrument available in the market to address the industrial market demands for increased performance metrics.

In March 2020, the Company acquired all outstanding shares of RS2D S.A.S., a complementary technology company based in Strasbourg, France, that specializes in the development of cutting-edge MR electronics. Based on a single electronic board, RS2D

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has developed MR product lines in high field ("HF"), Nuclear Magnetic Resonance ("NMR"), and Magnetic Resonance Imaging ("MRI") that can further advance Nanalysis' existing product lines in the Scientific Equipment segment, while rounding out the Company's magnetic resonance technology portfolio.

In July 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.

In January 2022, the Company acquired K'(Prime) Technologies Inc. ("K'Prime"). Founded in 1997, K'Prime is 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. Within the Scientific Equipment segment, the Company carries on providing manufacturer representative services as an outsourced sales force for original equipment manufacturers of chemical analysis laboratory instrumentation and providing ad hoc maintenance and other services on the same equipment.

Nanalysis continued to expand its presence in the NMR market with its 43% strategic investment in QUAD Systems AG in 2022 ("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. In April 2023, Quad launched its full high-field NMR system with a minimum resolution of 400MHz. Nanalysis supports Quad with the development and manufacture of an NMR console capable of resolutions from 300MHz to 800MHz.

Until July 1, 2023, the Company had an option (the "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 Company had assessed IFRS 10 and 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 determined that it had control over Quad and fully consolidated the results of Quad into its consolidated financial statements. Subsequent to June 30, 2023, the Company allowed its option to expire and no longer consolidates the results of Quad, instead using the equity method of accounting to account for its share of income or loss on associate.

In 2024, the Company has continued to develop its 60Mhz and 100Mhz platforms to further improve manufacturability and continue to enhance end user experience. The Company maintains a focused, direct sales force in the United States, Germany, France, and Canada, and works through a channel of distributors and dealers in other geographical areas to ensure penetration in the current market.

Security Services Segment

The Company's Security Services segment provides preventative and on-call maintenance services for technological detection equipment in a variety of security verticals as well as general sales and maintenance of commercial security equipment. Since the Company's acquisition of K'Prime in January 2022, the Company has been providing services for original equipment manufacturers and individual customers in service lines such as airport security equipment maintenance, secure facility detection equipment maintenance, and installation of such equipment. In May 2022, the Company was awarded a five-year, \$160 million contract to provide airport security equipment maintenance services within Canada. This contract allowed the Company to materially expand its security services business by providing preventative maintenance, on-call maintenance, and ad-hoc services in Canadian airports through the second quarter of 2028, with two five-year renewal options thereafter. Upon adding this new service (the "Airport Security

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Maintenance Business”), the Company expanded this segment rapidly. The Company began ramping up the Airport Security Maintenance Business in 2022 and completed its rollout of all basic services in all required locations in January 2024.

In 2024, the Company now has over 130 employees in the Security Services segment and operates in each province and territory in Canada, as well as in limited US markets. The Company provides preventative maintenance, corrective maintenance, and additional project work related to the Airport Security Maintenance Business in up to 89 active airports and training locations in Canada. This entails having technicians stationed in 24 primary locations while travelling for maintenance work in satellite locations tied to the primary location. Under the existing airport security maintenance contract in Canada, the Company must maintain strict response times in the event of equipment breakdown or malfunction and provide on-call services in its primary locations. Response times required vary from airport to airport. In addition, the Company provides inventory services to the customer by maintaining certain spare parts stock at various locations within Canada. This involves the Company monitoring inventory levels, ordering, and distributing inventory within Canada on behalf of the customer. With the project roll-out complete, the Company continues to enhance efficiency on this business and complete additional project work for the customer. Currently, this constitutes the majority of the Company’s security services segment.

In addition, the Company provides installation and maintenance for a wide spectrum of security equipment, including security cameras, access controls, and screening systems including millimeter wave and X-Ray technology within both Canada and the United States to a variety of customers. The Company is continuing to pursue growth initiatives in its services business, including exploring expansion within the scientific instrumentation industry and providing services to customers of the Benchtop NMR and MRI business.

The Company expects to expand all businesses within the Security Services segment by adding new customers and service agreements in the future.

Critical Accounting Policies and Estimates

The preparation of interim condensed consolidated financial statements and this MD&A requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the 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 the 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 of the Company’s audited consolidated financial statements as at and for the year ended December 31, 2023 (the “Financial Statements”), contain a description of the accounting policies, judgements, estimates and assumptions that are considered significant.

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Non-IFRS and Supplementary Financial Measures

The Company prepares and reports its interim condensed consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, as adopted by the Canadian Accounting Standards Board ("IFRS"). However, this MD&A may make reference to certain non-IFRS measures, including key performance indicators used by management. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and are, therefore, unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under IFRS.

The Company uses non-IFRS measures, including Flow-through inventory revenue and costs, Security service revenue and costs, Loans and leases, and Adjusted Earnings Before Interest, Tax, Depreciation and Amortization ("Adjusted EBITDA"), which may be calculated differently by other companies. These non-IFRS measures and metrics are used to provide investors with supplemental measures of the Company's operating performance and liquidity and thus highlight trends in the Company's business that may not otherwise be apparent when relying solely on IFRS measures. The Company also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of companies in similar industries. Management also uses non-IFRS measures and metrics to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts, and to determine components of executive compensation.

Security Services Revenue

Three months ended September 30

(\$000's)	2024	2023	(\$) Change
Security services revenue	5,420	2,629	2,791
Flow-through inventory revenue	908	466	442
Total Service Revenue	6,328	3,095	3,233
Security services costs	4,627	2,708	1,919
Flow-through inventory costs	908	466	442
Total Cost of Services	5,535	3,174	2,361

Nine months ended September 30

(\$000's)	2024	2023	(\$) Change
Security services revenue	15,408	6,131	9,277
Flow-through inventory revenue	3,938	1,643	2,295
Total Service Revenue	19,346	7,774	11,572
Security services costs	13,741	7,997	5,744
Flow-through inventory costs	3,938	1,643	2,295
Total Cost of Services	17,679	9,640	8,039

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Loans and Leases

(\$ 000's)	September 30, 2024	December 31, 2023
Total loans and borrowings net of finance fees	15,265	19,047
Promissory notes	(32)	(31)
Lease liabilities	2,379	2,921
Loans and Leases	17,612	21,937

Adjusted EBITDA

(\$000's)	Three months ended September 30		
	2024	2023	(\$ Change)
Net loss	(1,644)	(6,287)	4,643
Business acquisition costs and contingent consideration loss	5	184	(179)
Depreciation and amortization expense	1,098	1,073	25
Finance expense	341	289	52
Stock-based compensation	181	281	(100)
Foreign exchange (gain) loss	(141)	79	(220)
Loss on loss of control of subsidiary	-	2,810	(2,810)
Loss from associate	305	256	49
Impairment of associate receivable	74	-	74
Restructuring costs	42	82	(40)
Current income tax (recovery) expense	(22)	13	(35)
Deferred income tax expense (recovery)	25	(134)	159
Adjusted EBITDA	264	(1,354)	1,618

(\$000's)	Nine months ended September 30		
	2024	2023	(\$ Change)
Net loss	(6,161)	(14,661)	8,500
Business acquisition costs and contingent consideration loss	121	139	(18)
Depreciation and amortization expense	3,267	3,361	(94)
Finance expense	1,052	241	811
Stock-based compensation	829	861	(32)
Foreign exchange (gain) loss	(96)	249	(345)
Loss on loss of control of subsidiary	-	2,810	(2,810)
Loss from associate	740	256	484
Impairment of associate receivable	274	-	274
Restructuring costs	285	437	(152)
Current income tax expense	12	16	(4)
Deferred income tax expense (recovery)	(7)	(1,009)	1,002
Adjusted EBITDA	316	(7,300)	7,616

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Supplementary Financial Measures

The Company may also use supplementary financial measures which are intended to be disclosed on a periodic basis to depict the historical or expected future financial performance, cash position, or cash flow of the Company, are not a non-IFRS measure, and are not presented in the financial statements. The measures as discussed in the MD&A include:

- **One-time or Up-front training costs**, representing the required training costs to initially certify the Company's Airport Security Maintenance Business labour force as well as associated travel costs related to training;
- **Working capital**, which is defined as current assets less current liabilities;
- **Gross margin**, which is defined as either Product sales less Cost of product sold, or, Security services revenue less Security services cost; and,
- **Gross margin percentage**, which is defined as either (Product sales less Cost of product sold) divided by Product sales or (Security services revenue less Security services costs) divided by Security services revenue.

SCIENTIFIC EQUIPMENT SEGMENT

Product Overview

Magnetic Resonance Test, Measurement and Diagnostic Systems

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

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



Bridging the Gap in MR Accessibility

MRI and nuclear magnetic resonance ("NMR") spectroscopy have long been workhorses of medical diagnostics and chemical analysis. Given the capital and operating expenditures of these instruments, however, they are often limited by accessibility and other, often lesser techniques, are used to supplement these applications. To address this issue, in 2009, the Company's first focus was on developing powerful, extremely uniform, permanent magnet-based systems that were more affordable and required

little to no maintenance.

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

Technology Portfolio

		Underserved Traditional MR Markets				
		Teaching	Research	Industrial QA/QC	Process	Diagnostics
Benchtop NMR	60 MHz	✓		✓	✓	
	100 MHz	✓	✓			
	Accessories - Flow		✓		✓	
	Accessories - AUTOSampler		✓	✓		
HF-NMR	QUAD NMR Console	✓	✓	✓		
MRI	Cam 4 Console	✓	✓			✓
Software	NMRGui	✓	✓	✓		
	SPINit	✓	✓			✓
	NMRFx	✓	✓	✓	✓	✓

Benchtop NMR 60 MHz



60 MHz Platform

The initial flagship product of Nanalysis, this 60 MHz is the most compact, high-performance model in its class. Shipping commercially since 2012, there are almost 1,000 instruments in the field in a variety of applications within industries and market segments including academia, industrial QA/QC assay and process chemistry innovators and early adopters.

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

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Benchtop NMR 100 MHz



100 MHz Platform

With market-leading, unparalleled resolution, the 100 MHz platform was developed to meet the requirements of customers needing higher sensitivity and resolution than the 60 MHz platform can provide. Its easy-to-use ergonomic touchscreen and unparalleled data has been well received in the market since it began shipping in late 2020.

High-field NMR



QUAD NMR Console

Aimed as an OEM console for magnet manufacturers, this compact High-field electronics platform can be incorporated on existing super conducting systems ranging from 300-800 MHz.

The Company currently manufactures these High Field NMR consoles for QUAD, in which the Company holds a 43% direct investment.

MRI



Cameleon 4 Console

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

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Software Portfolio

NMRGui

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

SPINit

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

NMRFx

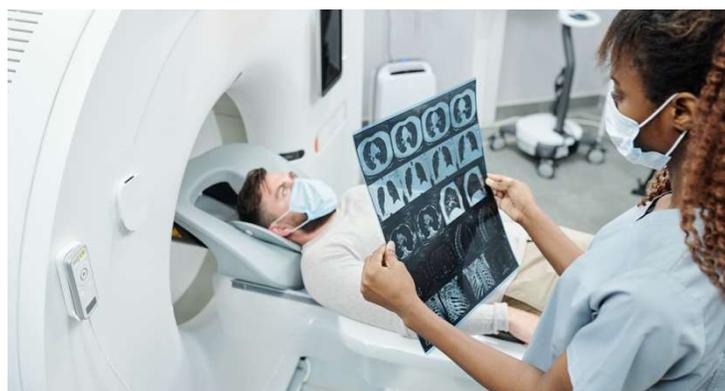
The newest component to Nanalysis' MR offerings, the NMRFx Platform offers a suite of premium software tools to streamline and automate MR data analysis and management. Originally developed in a leading pharmaceutical company, this advanced software platform was designed to be a powerful platform to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

By combining these premium data analysis tools with the NMRGui software interface, Nanalysis offers analysis and application software tools alongside its NMR equipment offerings.



Technology Under Development

MRI Technology Platform



Nanalysis works on research projects with a variety of third parties to further develop its existing Cam4™ console for MRI applications. Projects include improving the safety, innovation, portability, and economics for neonatal, intraoperative, and mobile MRI. Nanalysis also works on projects that apply MRI to non-human applications, such as the study of plants and other living things. These projects entail combining Nanalysis' innovative core competencies associated with MRI electronics and software with that of our research partner's expertise to develop next generation MRI technology. It is the Company's current vision to one day

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develop an FDA approved, application specific, prevention centric MRI machine for human use, in partnership with companies experienced in the FDA approval process and system wide product knowledge. While this vision is many years away from becoming a reality, the Company's current commercial technology in the area of NMR spectroscopy, combined with MRI research activity and commercial console technology, is taking us towards our vision, while continuing to establish a solid business.

Robust Industrial Detector

The unique magnet designs at Nanalysis enable the development of an industrial-hardened spectrometer, capable of being incorporated directly into chemical production and refinery-type applications. With high-pressure and high-temperature sampling as well as explosion proof requirements, Nanalysis is working to use their existing Benchtop NMR platforms to develop an online sensor that can improve safety, limit by-product formation, and improve yields in a completely automated manner.

Automated Industrial Analyzer

Benchtop NMR also lends itself to use in streamlining industrial quality control and quality assurance assays to get accurate, reliable, and quantitative information quickly without substantial expense or requiring a high level of technical expertise. Leveraging these inherent advantages, Nanalysis is developing an illicit drug analyzer to facilitate the rapid and accurate identification of known clandestine drugs and provide law enforcement officers a tool to aid rapid identification of new psychoactive substances.

Full High-Field NMR Systems

To offer traditional NMR users improved performance and innovative MR components, as well as improved product scalability, Nanalysis acquired a 43% equity stake in Quad and their team of experienced MR specialists, who have made significant contributions to the manufacture, integration, and development of NMR methods and components. In addition to using Nanalysis Cam4™ based consoles, Quad is entering the High-Field NMR market with full MR system upgrades and new installations in the academic, pharmaceutical, and chemical industry market. On April 18, 2023, Quad launched a full 400 MHz high-field NMR system in Monterrey, California, including the Company's High-Field NMR console.

Third Party Equipment Sales

The Company has a direct sales force in both Canada and United States that offers manufacturer representative sales services to a major chemistry equipment manufacturer in select sales territories in North America. The Company has a strong buyer network for these third-party sales and a long-standing relationship with its customer, resulting in a stable sales stream for the Company. The Company has begun efforts to combine its existing product offerings with its acquired equipment sales expertise to target new verticals.

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SECURITY SERVICES SEGMENT

Airport Security Maintenance Services

The Company offers a variety of security service solutions, in particular specializing in the maintenance of large-scale and highly complex security systems, such as those used in airport security. In May 2022, the Company was awarded a six-year, \$160 million contract to service and maintain airport security equipment in Canadian airports. This significantly expanded its existing footprint in the airport security market. The Company began to roll out the contract in the second quarter of 2022 and began providing services under that contract in the fourth quarter of that year. The Company continued to hire and train its workforce of over 130 employees through 2023, increasing services through the year. In January 2024, the Company completed its initial roll-out of the project and was providing all basic services under the contract in each required airport in Canada. Contracts such as this are commonly renewed for at least one additional five-year term, allowing for a potential long-term recurring business opportunity related to the Airport Security Maintenance Business.



Services provided by the security services group include scheduled preventative maintenance work, corrective maintenance work on both an on-call basis as well as by appointment, installation and upgrade projects related to both detection and general security equipment, and other technical maintenance services, as requested by its customer, on a wide variety of air passenger screening equipment.

Commercial Security Services

Through its security services business, the Company also provides installation and maintenance services for commercial security equipment such as scanning devices, metal detectors, detection equipment, and other general security equipment in Canada and the United States.

NANALYSIS SCIENTIFIC CORP. MANAGEMENT'S DISCUSSION AND ANALYSIS

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AMOUNTS ARE STATED IN THOUSANDS OF DOLLARS EXCEPT PER SHARE AMOUNTS AND CERTAIN OTHER EXCEPTIONS AS NOTED



FINANCE AND OPERATIONS

(\$000's)	Three months ended September 30			Nine months ended September 30		
	2024	2023	(\$ Change)	2024	2023	(\$ Change)
Product sales	4,242	3,941	301	13,860	10,892	2,968
Service revenue	6,328	3,095	3,233	19,346	7,774	11,572
Total sales and revenue	10,570	7,036	3,534	33,206	18,666	14,540
Cost of products sold	2,042	2,309	(267)	6,966	6,774	192
Cost of services	5,535	3,174	2,361	17,679	9,640	8,039
Total cost of sales	7,577	5,483	2,094	24,645	16,414	8,231
Gross profit	2,993	1,553	1,440	8,561	2,252	6,309
Expenses						
Sales and marketing	1,117	909	208	3,468	3,323	145
General and administration	1,494	1,800	(306)	4,337	5,496	(1,159)
Research and development	118	198	(80)	440	733	(293)
Income (loss) before other items	264	(1,354)	1,618	316	(7,300)	7,616
Other Items						
Business acquisition costs and contingent consideration loss	5	184	(179)	121	139	(18)
Depreciation and amortization expense	1,098	1,073	25	3,267	3,361	(94)
Finance expense	341	289	52	1,052	241	811
Stock-based compensation	181	281	(100)	829	861	(32)
Foreign exchange (gain) loss	(141)	79	(220)	(96)	249	(345)
Loss on loss of control of subsidiary	-	2,810	(2,810)	-	2,810	(2,810)
Loss from associate	305	256	49	740	256	484
Impairment of associate receivable	74	-	74	274	-	274
Restructuring costs	42	82	(40)	285	437	(152)
Loss before tax	(1,641)	(6,408)	4,767	(6,156)	(15,654)	9,498
Current income tax (recovery) expense	(22)	13	(35)	12	16	(4)
Deferred income tax recovery	25	(134)	159	(7)	(1,009)	1,002
Net loss	(1,644)	(6,287)	4,643	(6,161)	(14,661)	8,500
Other comprehensive (loss) income	(122)	97	(219)	(20)	67	(87)
Total comprehensive loss	(1,766)	(6,190)	4,424	(6,181)	(14,594)	8,413
Share Information						
Loss per share (basic and diluted)	(0.02)	(0.06)	0.04	(0.06)	(0.14)	0.08
Share price (September 30, 2024)	0.40	0.48	(0.08)	0.40	0.48	(0.08)
Other Information						
Capitalized property plant and equipment	6	190	(184)	144	1,078	(934)
Capitalized intangible assets	424	598	(174)	1,453	3,118	(1,665)
(\$ 000's)	September 30, 2024	December 31, 2023	\$ Change			
Financial Position						
Total assets	49,566	53,824	(4,258)			
Total loans, repayable contributions, notes and leases	17,644	21,968	(4,324)			
Total liabilities	27,006	30,343	(3,337)			
Shareholders' equity	22,560	23,481	(921)			

See Footnote 1

¹ Total loans, repayable contributions, notes, and leases include current and long-term portions of promissory notes, lease liabilities, and long-term debt/repayable contributions.

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Overall Performance and Discussion of Operations

Scientific Equipment Outlook and Gross Margin

Revenue and Outlook – Scientific Equipment

Scientific Equipment segment revenue is generated from sales of Benchtop NMR equipment, MRI equipment and contracted MRI installation services, licenses and software sales, consulting services related to NMR, High Field NMR consoles, and commission revenue from third-party equipment sales.

During the three months ended September 30, 2024, the Company saw an increase in product sales in comparison to the three months ended September 30, 2023. Despite slightly lower sales of Benchtop NMR in Q3 2024, the overall product sales increased by 8% compared to the same period in the prior year, primarily due to stronger medical imaging revenue. The Company expects continued stability in the Scientific Equipment segment through 2024.

(\$000's)	Three months ended September 30			
	2024	2023	(\$) Change	Change
Product sales	4,242	3,941	301	8%
Cost of products sold	2,042	2,309	(267)	-12%
Gross margin	2,200	1,632	568	35%
Gross margin percentage	52%	41%		

(\$000's)	Nine months ended September 30			
	2024	2023	(\$) Change	Change
Product sales	13,860	10,892	2,968	27%
Cost of products sold	6,966	6,774	192	3%
Gross margin	6,894	4,118	2,776	67%
Gross margin percentage	50%	38%		

Product sales

For the three- and nine-month periods ended September 30, 2024, the Company reported consolidated product sales of \$4,242 and \$13,860, respectively. This is an 8% and 27% increase over the three- and nine-month periods ended September 30, 2023. Benchtop NMR revenue decreased by \$237 for the three months ended due to larger seasonality impacts than in the prior year. As noted above, Benchtop NMR strength returned in September after the slow summer months and a number of sales spilled over into the early parts of the fourth quarter. For the nine months ended September 30, 2024, Benchtop NMR revenue increased by \$2,339 over the nine months ended September 30, 2023. The year-to-date increase in sales is due to returned strength in the product sales market and an improvement in the Company's Benchtop NMR sales pipeline throughout 2023, a trend which continued into the first nine months of 2024 and is expected to continue into the fourth quarter of 2024. MRI and medical imaging product sales were \$734 and \$1,303 higher than the three- and nine-month comparative periods ending September 30, 2023, primarily due to the sale and installation of third-party medical imaging systems that occurred in Q2 and Q3 of 2024. Offsetting this was a small decrease in third-party lab equipment sales for the three- and nine-month periods ended September 30, 2024, of \$196 and \$157, respectively.

For the nine months ended September 30, 2024, Quad sales were not consolidated into product sales for the Company resulting in a decrease in sales of \$517.

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Cost of products sold

Cost of products sold for the Company includes the costs of manufacturing its products and costs of providing warranties and service for those products. Cost of sales for products is comprised of raw materials, direct costs, direct labor, an allocation of overhead, freight charges, warranty, depreciation, and in certain cases finished goods costs for third-party equipment sales. The Company completes all its manufacturing at its facility in Calgary, Alberta.

Cost of products sold for the three months ended September 30, 2024, were \$2,042 or 48% of revenue compared to \$2,309 or 59% of revenue for the same period in the prior year. For the nine-months ended September 30, 2024, cost of products sold was \$6,966 or 50% of revenue, compared to \$6,774 or 62% of revenue for the same period in the prior year. The Company determined in the prior year, as a result of gains in manufacturing efficiency and lower sales volumes, that it had excess labour capacity in product manufacturing resulting in higher costs of product sold and lower utilization of labour. As a result, the Company reduced the size of its manufacturing labour force in 2023 and 2024, which accounts for a significant amount of the reduction in cost of products sold as a percentage of revenue. In addition, in the three- and nine-months ending September 30, 2023, the Company incurred additional warranty expenses of \$243 and \$378, respectively, related to replacement of a number of units that required greater than normal customer service intervention. Further replacement of these units, if any, is expected to be within the existing warranty provision recorded by the Company in 2023. Warranty expenses were \$39 and \$69, respectively, for the three- and nine-months ended September 30, 2024.

The Company continues to analyze a variety of methods to manage parts costs and opportunities for increased manufacturing efficiency, including greater harmonization between the Company's research and development and manufacturing labour force.

Gross margin

For the three- and nine-months ended September 30, 2024, scientific equipment sales gross margin was \$2,200 and \$6,894, compared to \$1,632 and \$4,118 for the same prior year periods. This represents an increase of \$568 and \$2,776, respectively, in comparison to the three- and nine months ended September 30, 2023.

Security Services Outlook and Gross Margin

Revenue and Outlook – Security Services

Through its Security Services segment the Company has become a leading provider of airport security equipment maintenance services in Canada. In addition to generating revenue from airport security equipment maintenance services, revenue is also generated from the purchase and resale of parts for the Company's airport security customer in Canada and installing and servicing commercial and complex security equipment for a variety of industries.

2023 was a transformational year for the Company and its Security Services segment, culminating in the Company completing the roll-out of its Airport Security Maintenance Business in early 2024, taking over fully from the incumbent provider. In the first three quarters of 2024, the Company generated positive Adjusted EBITDA in its Security Services segment and expects to continue improving efficiency and growing revenue throughout the remainder of 2024 and into 2025.

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Security service revenue

(\$000's)	Three months ended September 30			
	2024	2023	(\$ Change)	Change
Security services revenue	5,420	2,629	2,791	106%
Security services costs	4,627	2,708	1,919	71%
Gross margin	793	(79)	872	N/A
Gross margin percentage	15%	-3%		

(\$000's)	Three months ended September 30			
	2024	2023	(\$ Change)	Change
Flow-through inventory revenue	908	466	442	95%
Flow-through inventory costs	908	466	442	95%
Gross margin	-	-	-	

(\$000's)	Nine months ended September 30			
	2024	2023	(\$ Change)	Change
Security services revenue	15,408	6,131	9,277	151%
Security services costs	13,741	7,997	5,744	72%
Gross margin	1,667	(1,866)	3,533	N/A
Gross margin percentage	11%	-30%		

(\$000's)	Nine months ended September 30			
	2024	2023	(\$ Change)	Change
Flow-through inventory revenue	3,938	1,643	2,295	140%
Flow-through inventory costs	3,938	1,643	2,295	140%
Gross margin	-	-	-	

For the three-and nine-month periods ended September 30, 2024, the Company reported \$5,420 and \$15,408 in security service revenue versus \$2,629 and \$6,131 for the respective periods in 2023. This increase in revenue was driven by the Airport Security Maintenance Business, as the Company increased its airport coverage to entirely replace the incumbent provider from all airports in early Q1 2024 and then began working to increase average monthly service revenues. By comparison, in the first nine months of 2023 revenue generation on the project had just begun, and the Company was servicing a relatively small number of locations as it was training and certifying its labour force. The Company expects revenue from the Airport Security Maintenance Business to continue to increase as it expands its available services in 2024 and into 2025.

Cost of security services

Cost of security services include materials, direct labour, travel, and direct overhead related to existing airport security services provided in the Security Services segment, excluding flow-through parts costs.

During the three months ended September 30, 2024, the Company incurred \$4,627 in cost of security services compared to \$2,708 for the three months ended September 30, 2023. During the nine months ended September 30, 2024, the Company incurred \$13,741 in cost of security services compared to \$7,997 for the nine months ended September 30, 2023. These increases of \$1,919 for the three months ended and \$5,744 for the nine months ended September 30, 2024, were primarily due to increased wages expenses as the Company hired the full complement of employees required for its Airport Security Maintenance Business over the course of

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2023 and began providing services in all airport locations by Q1 2024. In addition to wage expenses, there were increases in travel costs and other variable costs associated with providing services under the Airport Security Maintenance Business.

During 2022 and 2023, the Company deferred direct labour on the Airport Security Maintenance Business while employees were training to take over a particular customer service location. If an airport was being partially served, expenses were recognized in the statement of loss and other comprehensive loss on a pro-rata basis. Upon all airports receiving basic services in early 2024, ongoing labour costs are no longer deferred under IFRS, and all remaining deferred costs will be amortized into income over the first five-year term of the airport security maintenance contract. As a result, during the three- and nine-months ended September 30, 2024, the Company did not defer any wages related to the Airport Security Maintenance Business within prepaid expenses (three- and nine-months ended September 30, 2023 - \$912 and \$2,595) and amortized \$214 and \$680 of previously deferred wages into cost of services for the three- and nine-months ended, respectively (three- and nine-months ended September 30, 2023 - \$45 and \$64).

Flow-through inventory revenue and costs

The Company provides inventory management services for its Airport Security Maintenance Business customer, buying and reselling spare parts and other inventory to the customer. No margin is generated on these sales; however, the Company charges a fixed service fee, which is included in Security service revenue.

Gross margin

For the three months ended September 30, 2024, gross margin for security services increased from (\$79) to \$793 as a result of the transition on the Airport Security Maintenance Business being completed in January 2024. Gross margin percentage for the same period increased correspondingly from (3%) to 15%.

For the nine months ended September 30, 2024, gross margin for security services increased from (\$1,866) to \$1,667 and gross margin percentage increased from (30%) to 11%.

As the Company now has coverage of all required locations within the Airport Security Maintenance Business contract, it has begun and will continue efforts to increase both revenue and efficiency on the project to drive higher gross margins in the future.

Sales and Marketing, General and Administration, Research and Development, and Other Items

Sales and marketing ("S&M")

S&M expenses include salaries, benefits, commissions, advertising, marketing expenses, and all related selling costs. S&M for the three- and nine-months ended September 30, 2024, were \$1,117 and \$3,468, respectively, as compared to \$909 and \$3,323 for the same periods of the prior year. Sales and marketing expenses were slightly up for the three and nine months ended September 30, 2024, over September 30, 2023, due to commissions on higher levels of product sales. The increase was partially offset by Quad sales expenses no longer being included in the results in 2024, while they were included up to June 30, 2023.

General and administration expenses ("G&A")

G&A includes the cost of maintaining a corporate office, all expenses related to being a publicly traded company, and administration costs incurred with respect to the day-to-day operations of each segment of the Company. For the three months ended September

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30, 2024, G&A was \$1,494 compared to \$1,800 for the same period of the prior year. For the nine months ended September 30, 2024, G&A was \$4,337 as compared to \$5,496 for the nine months ended September 30, 2023.

For both the three- and nine-months ended, G&A decreased because of both Company-wide cost reduction efforts (with a particular focus on the Scientific Equipment and Corporate segments) and, specifically for the nine months ended September 30, 2024, the deconsolidation Quad's G&A costs out of the results, which increased G&A expenses in the comparative period until June 30, 2023.

Research and development expenses ("R&D")

R&D expenses are research and development costs that do not meet IFRS criteria to be capitalized to intangible assets and are therefore expensed in the period in which they are incurred. These costs stem from research activities in the Scientific Equipment segment. These activities support and are integral to the R&D and product development strategy for the Company. For the three- and nine-months ended September 30, 2024, R&D expenses were \$118 and \$440 compared to \$198 and \$733 for the respective periods in the prior year. The decrease is primarily due to certain projects in 2024 meeting capitalization criteria under IFRS, reductions in R&D headcount, and the deconsolidation of Quad, for which R&D expenses were included in the Company's results until June 30, 2023.

Depreciation and amortization expense

For the three months ended September 30, 2024, depreciation and amortization was \$1,098 versus \$1,073 for the three months ended September 30, 2023. For the nine months ended September 30, 2024, depreciation and amortization was \$3,267 compared to \$3,361 in the prior year. For both the three- and nine-month periods, depreciation and amortization expenses were in line with the prior year as no major acquisitions of assets materially impacted depreciation of fixed assets, nor were any significant new intangibles assets placed into service.

Finance expense

For the three- and nine-months ended September 30, 2024, finance expenses were \$341 and \$1,052, respectively, compared to \$289 and \$241 for the same periods in 2023. For the three months ended September 30, 2024, interest was higher than in the prior year due to the Company's use of its operating line in the third quarter of 2024, which was not used during the same period in the prior year. For the nine months ended September 30, 2024, interest on the ATB term loan resulted in higher net interest expense as that loan was not advanced until June 30, 2023, and therefore did not impact the first six months of 2023.

Foreign exchange

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

For the three- and nine-months ended September 30, 2024, the Company had a foreign exchange gain of \$141 and \$96, respectively, compared to a foreign exchange loss of \$79 and \$249 for the same prior year periods.

Loss from associate

From the date of acquisition of Quad through June 30, 2023, the results of Quad were fully consolidated with the results of the Company. From July 1, 2023, onward, the Company accounts for its investment in Quad as an investment in an associate. Losses

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from Quad are included within the loss from the associate account in the interim condensed consolidated statement of loss and comprehensive loss at the Company's proportionate share of ownership.

For the three- and nine-months ended September 30, 2024, loss from associate was \$305 and \$740, respectively, compared to \$256 loss during the three- and nine-months ended September 30, 2023. For the six months ended June 30, 2023, the income and expenses of Quad were consolidated into the Company's results. Beginning on July 1, 2023, the Company recognized its proportionate share of Quad's results as loss from associate.

Impairment of associate receivable

During the three months ended September 30, 2024, the Company recognized \$74 of impairment of associate receivable compared to \$Nil recognized for the three months ended September 30, 2023. During the nine months ended September 30, 2024, the Company recognized an impairment provision of \$274 against outstanding balances due from its associate (nine months ended September 30, 2023 - \$Nil).

Restructuring costs

During the three- and nine-months ended September 30, 2024, the Company engaged in a cost reduction and headcount restructuring initiative that resulted in one-time restructuring expenses of \$42 and \$285 respectively (three- and nine-months ended September 30, 2023, \$82 and \$437).

Adjusted EBITDA and Net Loss

Adjusted EBITDA

The Company recorded Adjusted EBITDA of \$264 for the three months ended September 30, 2024, and \$316 for the nine months ended September 30, 2024. This represents an improvement of \$1,618 for the three months ended and \$7,616 for the nine months ended over the respective periods in the prior year. This was primarily a result of significantly increased security services revenue as well as reduced costs in the Scientific Equipment segment, due to the restructuring, which began in the second quarter of 2023 and has continued into 2024.

Net loss

The Company incurred a net loss of \$1,644 for the third quarter, down from a net loss of \$6,287 in Q3 2023. For the nine months ended September 30, 2024, the Company incurred a net loss of \$6,161 versus \$14,661 for the same period in the prior year. The decrease in net loss was driven by significant increases in gross profit due to the full roll-out of the Airport Security Maintenance Business, the deconsolidation of Quad, which resulted in Quad's losses not being included in the Company's net loss after June 30, 2023, cost reductions undertaken by the Company, and improved revenues and gross margins in the Scientific Equipment segment. Further, the Company incurred a onetime charge of \$2,810 related to deconsolidation of Quad in Q3 2023.

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Investment in Capital Development Costs and Research and Development Expenditures

(\$000'S)	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
Gross research and development costs	592	801	2,472	4,157
Less: research expenses	(118)	(198)	(440)	(733)
Development costs	474	603	2,032	3,424
Less: government grants and assistance	(299)	(54)	(915)	(406)
Development costs capitalized to intangibles	175	549	1,117	3,018
Less loss of control of subsidiary	-	-	-	(1,269)
Net development costs capitalized to intangible assets	175	549	1,117	1,749

The Company is engaged in R&D activities and has internally generated intangible assets. Total development costs that meet the criteria for capitalization are reduced by government grants with the net difference being capitalized. Government grants consist of Canadian federal grants received under a variety of programs, Canadian provincial grants, as well as foreign grants related to work performed in RS2D S.A.S.

Capitalized development costs are development costs that have met the criteria listed under IFRS for capitalization and represent capital expenditures that the Company believes hold future benefits. Capitalized development costs for the three- and nine-months ended September 30, 2024, were \$175 and \$1,117 (2023 - \$549 and \$1,749), respectively. The primary reason for the decline in R&D for the three months ended September 30, 2024, is a reduction in R&D headcount and overall expenditure as part of the Company's cost reduction efforts. For the nine months ended September 30, 2024, R&D is down primarily due to Quad's capitalized development costs no longer being included in gross research and development costs for the Company in 2024, while they were fully included up until June 30, 2023, in the prior year. In addition to the deconsolidation of Quad's results, as noted above, the Company reduced its R&D headcount in mid-2023 and scaled back R&D expenditures. Lastly, in 2024 the Company obtained new grant financing, which reduced the amount capitalized to R&D.

Summary of Quarterly Results

The following table highlights revenue, cash generated from (used in) operating activities, net loss, and loss per share for the eight most recently completed quarters ended September 30, 2024.

(\$000's) (except per share information)	2024			2023			2022	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	10,570	11,474	11,162	9,800	7,036	6,956	4,674	7,203
Cash (used in) generated from operating activities	(323)	1,055	1,464	(2,544)	(1,354)	(3,368)	(3,919)	(5,405)
Net loss for the period	(1,644)	(1,995)	(2,522)	(2,123)	(6,287)	(4,054)	(4,320)	(3,292)
Loss per share, basic and diluted	(0.02)	(0.02)	(0.02)	(0.02)	(0.06)	(0.04)	(0.04)	(0.03)

- In Q3 2024, revenue was down \$904 over Q2 2024 due mostly to seasonality in the Scientific Equipment segment, as sales are typically slow during the summer months. Cash generated from operations was down by \$1,378 over Q2 2024, primarily

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due to reduced sales in the third quarter as well as increased use of cash for working capital. Net loss decreased by \$351 in Q3 2024 compared to Q2 2024, due to improved margins in both the Security Services and Scientific Equipment segments.

- In Q2 2024, total revenues were up \$312 compared to Q1 2024 despite flow-through inventory revenue being down \$1,416. This was due to strong product sales driven by a sale and installation of a third-party medical imaging system that occurred in Q2 2024 and Security service revenue increasing \$542 over the first six months of 2024. Combined, this led to revenue (excluding flow-through inventory revenue) increasing from \$8,939 in Q1 2024 to \$10,667 in Q2 2024, an increase of \$1,728. The Company generated \$1,055 of operating cash flow due to continued strong sales and improving margins in the Security Services segment, offset in part by increased use of cash in working capital compared to the first quarter of 2024. Net loss decreased from (\$2,522) to (\$1,995) on the back of increased revenues in the second quarter of 2024.
- In Q1 2024, the Company completed the full transition of 100% of airports in the Airport Security Maintenance Business. This resulted in an increase in security service revenue, offset partially by lower product sales because of seasonality versus Q4 2023. As a result, cash generated from operations was \$1,464, a significant improvement over the prior quarters. Despite positive results in revenue, net losses for Q1 were slightly higher than in Q4 2023 due to a one-off non-cash gain in the revaluation of contingent consideration in relation to business acquisitions in Q4 2023, partially offset by deferred tax expense in Q4 2023, and higher interest expense and foreign exchange loss in Q1 2024.
- In Q4 2023, the Company has increased its revenue in the security services segment as it completed transition in 99% of airports in the Airport Security Maintenance Business by the end of Q4 2023, which was an increase over Q3 2023. In addition, scientific equipment sales were up by 38% in Q4 over Q3 as a result of Q4 seasonality as well as continuing recovery in the scientific equipment sales market. Cash used in operations was \$2,472, up \$1,106 from the previous quarter. This is due primarily to an increase in working capital offset in part by higher revenues in Q4. Net losses for the period are lower versus Q3 2023 due higher gross profit from product sales and lower G&A expenses from a full quarter of reduced expenses from headcount reductions and the absence of the loss on loss of control of Quad, which significantly increased net loss in Q3 2023.
- In Q3 2023, the Company increased its revenue slightly over Q2 2023. Benchtop NMR revenue was up 61% in Q3 over Q2, but this was offset by lower revenue recognition in the RS2D segment related to its large pre-clinical MRI project, and the fact that Quad revenues are no longer included in the Company's revenues as of Q3 2023. Service revenue was also flat, as the Company slowed down its roll-out of the Airport Security Maintenance Business for most of Q3 due to the busy summer travel season. Cash used in operating activities decreased in Q3 2023 because of cost reduction initiatives, Quad cash used in operating activities no longer being consolidated in the Company's results, and increased margins in the services business over Q2 2023. Net losses were larger in Q3 versus Q2 despite better margins, primarily as a result of the loss on loss of control of Quad and higher interest expenses due to the new bank loan.
- In Q2 2023, the Company increased its revenue over Q2 2022 as the Company has rolled out its Airport Security Maintenance Business, which was not generating revenue in Q2 2022. In addition, RS2D has made progress on a large MRI project, resulting in 40% of the project's revenue being recognized into income for IFRS purposes during the quarter. This was offset by lower Benchtop NMR sales in Q2 2023 versus Q2 2022. Net loss increased in Q2 2023 versus Q2 2022 because of significant investment in training for Airport Security Maintenance Business staff, as well as lower Benchtop NMR sales and gross margins.
- In Q1 2023, the Company had lower revenue generated than in Q1 2022 due to reverberations from the disruption of the Company's direct sales force in Q2 2022 that resulted in poor lead generation through the middle of 2022. In addition, while Airport Security Maintenance Business revenue increased, it was offset by lower revenue in RS2D due to the inability to recognize long-term project revenue under IFRS until later in 2023. Additionally, third-party equipment sales were slower

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in Q1 2023 than Q1 2022. Net loss increased because of lower sales in Q1 2023, lower margins than prior year, and significant costs related to the roll out of the Airport Security Maintenance Business in Q1 2023.

- In Q4 2022, revenue grew significantly over Q4 2021 due to strong sales in the Nanalysis segment as well as the additions of sales from acquisitions. Cash used in operations was significantly higher than the prior year despite increased sales. This is primarily as a result of costs related to the ramp up of the Airport Security Maintenance Business as well as the acquisition of Quad which is still investing in expanding its operations to bring a full high field NMR system to market. Net losses outpaced net losses in Q4 2021 due to increased cash and non-cash expenses related to new acquisitions, business expansion initiatives such as the Airport Security Maintenance Business, increases in amortization of intangible assets, and increases in stock-based compensation expenses related to increased head count.

Selected Annual Financial Information

The following table illustrates selected annual information for the years ending December 31.

(\$000's) (except per share information)	31-Dec-23	31-Dec-22	31-Dec-21
Revenue	28,466	24,821	16,043
Net Loss	(16,784)	(9,915)	(1,772)
Loss per share, basic and diluted	(0.16)	(0.10)	(0.03)
Total assets	53,824	69,902	37,793
Total long-term liabilities	15,747	8,824	5,186

LIQUIDITY & CAPITAL RESOURCES

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and manage capital so that it can continue to provide returns for shareholders and benefits for other stakeholders through the development, maintenance, and expansion of its operating segments. When managing the Company's capital and ability to continue as a going concern, the Company considers available information about the future, including the availability of financing, future cash flow projections including growth rates and forecasted margins, as well as the current working capital balance and future commitments of the Company.

The Company defines its capital as share capital, debt and contributed surplus. The Company manages the capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's liquidity needs in the short and long term can be addressed in multiple ways, including funds from operations, available cash and working capital balances, available undrawn amounts on its operating line of credit, 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.

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Working Capital

(\$000's)	September 30, 2024	December 31, 2023	\$ Change
Cash	223	759	(536)
Loans and leases	17,612	21,937	(4,325)
Working capital	3,957	3,318	639

As at September 30, 2024, the Company had \$3,957 of working capital (December 31, 2023 – \$3,318). This includes \$223 of cash (December 31, 2023 - \$759). The increase in working capital is due to both a successful equity raise, which closed in Q1 2024, as well as positive operating cash flow generation in the first nine months of 2024. The equity raise consisted of a total of 11,111,110 units issued at a price of \$0.45 per unit for gross proceeds of \$5,000. This was offset by cash used to repay the Company's term loan and other long-term debt during the nine months ended September 30, 2024.

The Company believes that it has sufficient working capital and access to capital to support its business initiatives, including ensuring sufficient resources to maintain the Company's intellectual property portfolio, as required, and expected capital expenditure requirements.

For further details, please see the Share Capital section of this MD&A.

Loans and Borrowings

(\$000's)	Note	September 30, 2024	December 31, 2023
Western Economic Diversification Canada interest-free loans	A	1,443	1,557
Prêt garanti par l'état Euro denominated loan	B	53	74
Procédure de sauvegarde interest-free Euro denominated loan	B	161	296
Regional Recovery Relief Fund interest-free loan	A	520	627
Business Scale-up interest-free loan	A	3,909	3,707
Line of credit	C	1,188	2,902
Term Bank loan	D	8,125	10,000
Promissory note	E	32	31
Other		33	80
Total loans and borrowings		15,464	19,274
Less: Deferred finance fees		(199)	(227)
Total loans and borrowings net of finance fees		15,265	19,047
Less: current portion		4,256	6,490
Non-current portion of loans and borrowings		11,009	12,557

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Credit Facilities

Note A – Nanalysis

The Company has the following unsecured interest-free loans:

- Western Economic Diversification Canada (“WINN”) #1: \$496 repayable in monthly installments of \$8 commencing June 30, 2017, which matured and was fully repaid on February 28, 2023.
- WINN #2: \$2,773 repayable in monthly installments of \$46 commencing February 1, 2022, and maturing on January 31, 2027. The obligation was recorded at its fair value at inception, estimated using a 6.0% discount rate. Any amounts in default will incur interest at the Bank of Canada minimum lending interest rate plus 3% compounded monthly. This loan is unsecured.
- Regional Recovery Relief Fund (“RRRF”): \$1,000 repayable in 35 monthly installments of \$28 commencing January 1, 2023. The obligation was recorded at its fair value at inception, estimated using a 6.0% discount rate. Any amounts in default will incur interest at the Bank of Canada minimum lending 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, 2024, the Company had withdrawn 99.7% of the available funding (December 31, 2023 – 99.7%). The obligation was recorded at its fair value at inception estimated using a 6.0%-8.2% discount rate depending on the timing of each drawdown on the facility. Any amounts in default will incur interest at the Bank of Canada minimum lending interest rate plus 3% compounded monthly. This loan is unsecured and repayable over 60 months beginning September 1, 2025.

On March 13, 2024, the Company renegotiated its payments related to WINN #2 and RRRF as follows:

- WINN #2 is now repayable in monthly installments of one thousand dollars per month, effective April 1, 2024, and increasing to \$71 effective April 1, 2025, until maturity on January 31, 2027. All other terms and conditions of the loan remain unchanged.
- RRRF is now repayable in monthly installments of one hundred dollars per month, effective April 1, 2024, and increasing to \$18, effective April 1, 2025, with a revised maturity date of December 31, 2027. This reflects an extension to maturity of two years.

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 \$3, commencing on July 20, 2021, and maturing on June 20, 2026. The obligation was recorded as its fair value at inception estimated using a 2.5% discount rate.
- Procédure de sauvegarde is an unsecured interest free Euro denominated loan repayable in annual payments due each June. The obligation is recorded as its fair value using a 2.5% discount rate. During the nine months ended September 30, 2024, the Company was granted an extension on the final payment – a partial payment was made on September 30, 2024, and the remaining balance was settled in October 2024.

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Note C – Line of Credit

On June 29, 2023, the Company replaced its existing operating facility with a revolving line of credit from ATB Financial as well as a \$10,000 term loan (Note D). Under this revolving line of credit, the Company may borrow up to \$5,000 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 receivable and inventory, less any amounts outstanding on its \$300 credit card facility, also advanced by ATB Financial. The available borrowing base for the Company at September 30, 2024, was \$4,794.

On March 28, 2024, the Company negotiated an extension to its covenant holiday related to the funded debt to EBITDA as defined by the Company's lender and fixed charged ratio covenants (see Note D). In conjunction with this, the Company's line of credit was reduced to \$3,500, less any amounts outstanding on its \$300 credit card facility, until the earlier of such a time that the Company posts two consecutive quarters of positive EBITDA, or, March 31, 2025, when the aforementioned covenant holiday ends. In addition, the interest rate on the line of credit increased to prime plus 2.50%.

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 \$10,000 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 having begun 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 greater than or equal to 1.10:1.00. At September 30, 2024, the Company's applicable current ratio for its bank covenant was 1.91:1.00.

Furthermore, beginning in the period 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.

On March 28, 2024, the Company signed an amending agreement related to its operating and term-loan facilities that re-negotiated the credit facility terms, resulting in an extension in its covenant holiday related to its funded debt to EBITDA and fixed charge coverage ratio from March 31, 2024, to March 31, 2025. This also resulted in its loan interest rate remaining at prime plus 2.5% until March 31, 2025, and satisfactory compliance with all its lending covenants.

Note E - Promissory note

As part of its consideration for the acquisition of One Moon Scientific during the year ended December 31, 2021, the Company issued four promissory notes for 82,472 common shares. At the date of acquisition, the shares were valued at a price of C\$1.34 per share, resulting in a value of \$88 USD assigned to each promissory note. 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 16[b]).

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

For the purposes of this note, shares amounts are stated in total shares to be issued and not rounded to the nearest thousand.

Lease Liabilities

(\$000's)	Nine months ended September 30, 2024	Twelve months ended December 31, 2023
Balance beginning of the period	2,921	3,312
Additions	78	962
Lease payments	(593)	(766)
Disposals	(45)	-
Loss of control of subsidiary	-	(588)
Foreign exchange	18	1
Balance, end of the period	2,379	2,921
Current portion	817	796
Long-term portion	1,562	2,125

(\$000's)	Nine months ended September 30, 2024	Nine months ended September 30, 2023
Interest expense related to leases	119	148

The Company and its subsidiaries have commitments under leases for buildings, office space, and vehicles, with varying terms that expire between 2024 and 2027.

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)	September 30, 2024
Within one year	182
1-3 years	144
4-5 years	19
Total operating lease commitments	345

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet financing arrangements except for short-term or low-value leases as disclosed above.

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Financial Management

(\$000's)	Nine months ended September		
	2024	2023	\$ Change
Cash generated from (used in):			
Operating activities	2,196	(8,641)	10,837
Investing activities	(1,449)	(4,848)	3,399
Financing activities	(1,283)	11,235	(12,518)
Decrease in cash	(536)	(2,254)	1,718

Cash generated from operations was \$2,196 for the nine months ended September 30, 2024, an increase of \$10,837 from the same period in 2023. Positive cash generated from operating activities is mainly due to higher sales and gross profit, and decreased inventory balances as part of an initiative to reduce inventory carried.

Cash flows used in investing activities was lower for the nine months ended September 30, 2024, by \$3,399 versus the nine months ended September 30, 2023. Higher investing cash outflows in the prior year were due to additions to tangible and intangible assets for Quad, which were consolidated into the results of the Company in the prior year. In addition, the Company reduced its R&D headcount, obtained new grant financing in 2024, and reduced expenditures in 2023, fully reflected in 2024 investing cash flows.

Cash flows provided by financing activities for the nine months ended September 30, 2024, decreased by \$12,518 compared to the same period in 2023. In the prior year, financing cash flows were provided by a financing in Q2 of \$4,007K in net proceeds, a term loan of \$10,000K, and additional government repayable funding of \$2,075K, offset by repayment of a line of credit, interest expenses, and regular lease payments in the nine months ended September 30, 2023. In the current period, cash flows were provided by a financing generating net proceeds of \$4,337, offset primarily by net repayment of the Company's line of credit, debt servicing, and regular lease payments.

Below is a reconciliation of the manner in which the net proceeds from the Company's best efforts public prospectus exempt offering (the "Offering") of units and concurrent brokered private offering of units were used by the Company compared to the disclosure in the Company's final prospectus exempt offering dated March 7, 2024. The expected proceeds from the Offering ranged from a minimum offering amount of \$2,300 to a maximum amount of \$5,462. The Company closed the financing for net proceeds of \$4,337. The table reflects the actual use of net proceeds as of September 30, 2024.

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Principal Purpose	Actual Use of Net Proceeds	Estimated Allocation of Net Proceeds (Assuming Minimum Offering Proceeds)	Estimated Allocation of Net Proceeds (Assuming Maximum Offering Proceeds)	Explanation of variances and the impact, if any, on the Company's ability to achieve its business objectives and milestones
Scheduled payments on operating and finance leases	493	829	829	At the reporting date, the Company had incurred some, but not all, of the regular expected lease payments expected to be financed with the offering and has utilized the remaining funds from the raise for general working capital purposes.
G&A expenses related to public listing, including exchange fees and annual audit fees	237	350	350	At the reporting date, the Company had incurred some, but not all, of the G&A expenses related to public listing and has utilized the remaining funds from the raise for general working capital purposes.
Expansion of Security Services business	-	-	1,217	At the reporting date, the Company had not incurred any additional expenses related to expansion of the Security Services business.
General working capital purposes including repayment of operating facility	3,607	1,121	3,066	The operating facility balance was repaid, with the remaining proceeds of \$477 used for general working capital purposes.
Total	4,337	2,300	5,462	

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

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[b] Issued Common shares

Common Shares Issued	Number
Balance, December 31, 2022	94,448,274
Issuance of common shares	7,251,636
Exercise of stock options and RSUs	216,000
Balance, December 31, 2023	101,915,910
Issuance of common shares	11,111,110
Exercise of stock options and RSUs	75,000
Balance, September 30, 2024	113,102,020

On March 20, 2024, the Company announced and closed a public prospectus exempt offering of units and concurrent brokered private offering of units with each unit comprised of one common share and one half warrant exercisable at \$0.65 and expiring on March 20, 2026. A total of 11,111,110 units were issued at a price of \$0.45 per unit for gross proceeds of \$5,000 and net proceeds of \$4,337.

[c] Loss per share

(\$000's) except for number of shares	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
Numerator				
Loss attributable to common shares (\$)	(1,644)	(6,287)	(6,161)	(14,073)
Denominator				
Weighted average number of shares for basic earning per share calculation (000's)	113,101	101,424	109,808	98,403
Weighted average number of shares for diluted earning per share calculation (000's)	113,101	101,424	109,808	98,403
Basic loss per common share (\$/share)	(0.02)	(0.06)	(0.06)	(0.14)
Diluted loss per common share (\$/share)	(0.02)	(0.06)	(0.06)	(0.14)

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 of the Company 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 and RSUs are settled in shares of the Company.

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Stock Options Outstanding	Number	Weighted Average Exercise Price (\$)
Balance, December 31, 2022	7,690,639	1.04
Granted	1,173,249	1.10
Exercised	(56,000)	0.45
Forfeitures	(1,129,021)	0.94
Balance, December 31, 2023	7,678,867	1.15
Granted	2,281,000	0.50
Exercised	-	-
Expired	(842,500)	0.64
Forfeitures	(938,145)	0.94
Balance, September 30, 2024	8,179,222	1.18

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

	2024	2023
Risk-free interest rate	2.71% - 3.42%	2.9% - 4.09%
Estimated annualized volatility based on historical performance	75% - 76%	74% - 76%
Expected life	5.0 years	5.0 years
Expected dividend yield	0%	0%
Exercise price	\$0.50	\$1.10

As at September 30, 2024, the Company had the following stock options outstanding and exercisable:

Exercise Price	Number of Options Outstanding	Weighted Average Life	Number of Options Exercisable
\$0.50	2,273,000	4.68	975,000
\$0.60	1,884,167	0.71	1,884,167
\$1.10	1,573,055	3.36	590,018
\$1.20	25,000	2.72	16,667
\$1.24	50,000	2.04	50,000
\$1.30	100,000	1.76	100,000
\$1.32	1,824,000	2.42	1,216,000
\$1.50	350,000	2.23	300,000
\$1.70	100,000	2.13	66,667
	8,179,222		5,198,519

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[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.

During the period ended September 30, 2024, 445,000 RSUs were granted, out of which 100,000 vested immediately and the remaining 345,000 vest over three years.

RSUs Outstanding	Number
Balance, December 31, 2022	320,000
Granted	135,000
Exercised	(160,000)
Balance, December 31, 2023	295,000
Granted	445,000
Exercised	(75,000)
Balance, September 30, 2024	665,000

[f] Stock-based compensation expense

(\$000's)	Three months ended September 30		Nine months ended September 30	
	2024	2023	2024	2023
Stock-based compensation expenses related to stock options	150	259	686	794
Stock-based compensation expenses related to RSUs	31	22	143	67
Total	181	281	829	861

[g] Warrants

Warrants Outstanding	Number	Weighted Average Exercise Price (\$)
Balance, December 31, 2022	5,903,913	1.70
Issued	7,381,167	0.80
Expired	(5,119,038)	1.70
Balance, December 31, 2023	8,166,042	0.89
Issued	6,407,724	0.65
Expired	(7,666,042)	0.89
Balance, September 30, 2024	6,907,724	0.66

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Type of Warrant	Expiry Date	Exercise Price (\$)	Number of Warrants	
			Outstanding	Vested and Exercisable
Warrant	June 29, 2025	\$ 0.80	500,000	500,000
Warrant	March 20, 2026	\$ 0.65	5,555,555	5,555,555
Broker warrant	March 20, 2026	\$ 0.65	852,169	852,169
			6,907,724	6,907,724

On March 20, 2024, the Company completed a public prospectus exempt offering of units and concurrent brokered private offering of units discussed in Note 12[b]. The combined offering resulted in the Company issuing 5,555,555 warrants that expire on March 20, 2026. In addition, 852,169 broker warrants were issued in relation to the same combined offering, with an expiry date of March 20, 2026. The fair values of broker and lender warrants were estimated using the Black-Scholes option pricing model.

During the period ending September 30, 2024, 7,666,042 warrants expired resulting in an increase in the contributed surplus of \$298.

REVENUE AND SEGMENT INFORMATION

[a] Segment information

The Company's activities are carried out through three operating segments, within which are two reportable segments: Scientific Equipment and Security Services. 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.

The Company's Scientific Equipment segment is comprised of its proprietary product sales as well as sales of third-party products and loss from associate. The Security Services segment is comprised of the Company's commercial and airport security equipment maintenance and installation services. Its Corporate operating segment includes the Company's costs related to general corporate overhead.

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

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(\$000's)

Three months ended September 30, 2024	Scientific Equipment	Security Services	Corporate	Total
Revenue	4,242	6,328	-	10,570
Income (loss) before other items	368	571	(675)	264
Net (loss) income	(812)	439	(1,271)	(1,644)
Depreciation and amortization expense	890	208	-	1,098
Capital expenditures	204	226	-	430
Total assets as at September 30, 2024	37,613	11,009	944	49,566

(\$000's)

Three months ended September 30, 2023	Scientific Equipment	Security Services	Corporate	Total
Revenue	3,941	3,095	-	7,036
Loss before other items	(69)	(695)	(590)	(1,354)
Net loss	(3,921)	(621)	(1,745)	(6,287)
Depreciation and amortization expense	904	169	-	1,073
Capital expenditures	596	8	-	604
Total assets as at September 30, 2023	36,760	14,905	914	52,579

(\$000's)

Nine months ended September 30, 2024	Scientific Equipment	Security Services	Corporate	Total
Revenue	13,860	19,346	-	33,206
Income (loss) before other items	1,298	905	(1,887)	316
Net (loss) income	(2,089)	259	(4,331)	(6,161)
Depreciation and amortization expense	2,667	600	-	3,267
Capital expenditures	1,236	273	-	1,509
Total assets as at September 30, 2024	37,613	11,009	944	49,566

(\$000's)

Nine months ended September 30, 2023	Scientific Equipment	Security Services	Corporate	Total
Revenue	10,892	7,774	-	18,666
Loss before other items	(2,219)	(3,251)	(1,830)	(7,300)
Net loss	(7,884)	(3,097)	(3,680)	(14,661)
Depreciation and amortization expense	2,878	483	-	3,361
Capital expenditures	3,670	65	-	3,735
Total assets as at September 30, 2023	36,760	14,905	914	52,579

[b] Non-controlling interest

Quad results from January 1, 2023, through June 30, 2023, were included within the Scientific Equipment segment. From July 1, 2023, onward, the results of Quad are accounted for using the equity method of accounting and the loss from associate was also included in the Scientific Equipment segment (Note 4).

The proportion of equity in Quad held by non-controlling interests is 57% at September 30, 2024 (September 30, 2023 - 57%). The non-controlling interest revenue portion for Quad is as follows:

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For the nine months ended September 30	
2024	2023
Revenue	517
Attributable to:	
Equity holders of Nanalysis Scientific Corp.	222
Non-controlling interest	295

[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	
	2024	2023	2024	2023
Canada	6,776	3,635	21,598	9,690
United States of America	1,518	2,003	5,455	4,675
Europe	2,202	1,164	4,756	2,728
Asia	13	226	561	1,400
Other	61	8	836	173
	10,570	7,036	33,206	18,666

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 loan to associate is measured at amortized cost and its fair value approximates its carrying value. The Company's bank loan, WINN loan, RRRF loan, Prêt garanti par l'état, procédure de sauvegarde, and business scale-up loans are measured at amortized cost. The carrying value of these loans at September 30, 2024, was \$14,211 and the fair value was \$13,987. The carrying value of these loans at December 31, 2023, was \$16,261 and the fair value was \$15,181.

[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 unmaturing portions of the liability, based on a specified formula within the note. During the three- and nine-months ended September 30, 2024, the value of the promissory notes increased resulting in an unrealized gain (loss) to the Company of \$3 and (\$1). During the three- and nine-months ended September 30, 2023, the Company recognized an unrealized (loss) gain of (\$2) and \$35.

[c] Fair value of contingent consideration

Contingent consideration related to the K'Prime acquisition is based on the K'Prime subsidiary reaching certain performance goals related to entity performance, to be settled in cash, as well as contingent consideration related to the performance on a specific

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contract to be settled in shares of the Company. The cash settled portion is based on revenue targets for the subsidiary for the year ended December 31, 2023, which were not met.

Contingent consideration has been valued using an income approach and discounted using a risk-adjusted discount rate estimated to best reflect the subsidiary'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 the subsidiary.

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, 2024, the Company recognized a gain (loss) of \$10 and (\$86) (three- and nine-months ended September 30, 2023 – unrealized loss of \$176 and \$174).

Contingent consideration payable related to the acquisition of One Moon Scientific ("OMS") is based on performance goals related to specific targets that OMS must meet through the end of 2026. 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 Company 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.

The Company has entered into an amendment to the purchase agreement, extending the period in which contingent consideration may be paid out on the acquisition to the end of 2026. For the three- and nine-months ended September 30, 2024, the Company recognized an unrealized gain (loss) of \$2 and (\$34) related to revaluation of contingent consideration related to the OMS acquisition within business acquisition costs (three- and nine-months ended September 30, 2023 – unrealized loss of \$6 and \$Nil).

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

[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.

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September 30, 2024

(\$000's)	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss				
Contingent consideration	-	-	547	547
Derivative liabilities not designated as hedging instruments				
Promissory note	32	-	-	32
Total	32	-	547	579
Current portion	32		380	412
Long-term portion	-		167	167

December 31, 2023

(\$000's)	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss				
Contingent consideration	-	-	428	428
Derivative liabilities not designated as hedging instruments				
Promissory note	31	-	-	31
Total	31	-	428	459
Current portion	31		428	459
Long-term portion	-		-	-

The Company did not transfer any financial instruments between valuation hierarchy levels between December 31, 2023, and September 30, 2024.

[e] Risk management

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.

[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, other receivables and loan to associate. The Company's maximum exposure to credit risk at September 30, 2024, is the carrying amount of cash, accounts receivable, other receivables, and loan to associate on the consolidated statement of financial position. The Company mitigates this risk by holding its cash in major Canadian financial institutions and performing credit inquiries on its customers.

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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.

Management assesses the expected risk of credit loss at each reporting period based on consideration of factors such as the history, creditworthiness and financial condition of each individual customer, economic factors, the age of the financial instrument, in particular instruments over 180 days past due, the willingness of the counterparty to engage in a payment plan, and any other criteria deemed material to the analysis. Trade accounts receivable are written off when there is no reasonable expectation of recovery. During the three- and nine-months ended September 30, 2024, bad debts of \$Nil were recognized as an expense. During the three- and nine-months ended September 30, 2023, the Company recognized a recovery of bad debts of \$Nil and \$55. In addition, the Company recognized a separate impairment provision against a receivable from its associate (Note 17).

[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, 2024, the Company had working capital of \$3,957 (December 31, 2023 - \$3,318). 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 through the management of working capital, cash flows, availability of borrowing facilities and share issuances. The Company has liabilities with varying maturities as disclosed in the interim condensed consolidated statement of financial position and Notes 9, 10, and 11.

[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 exchanges rates. The majority of the Company's sales are in Canadian dollars and 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:

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(000's)	September 30, 2024 December 31, 2023	
	US\$	US\$
Cash	59	298
Accounts receivable	902	1,788
Prepayments and other receivables	109	163
Inventory	134	148
Accounts payable & accrued liabilities	(385)	(333)
Unearned revenue	(625)	(684)
Debt and lease liabilities	(381)	(468)
Total	(187)	912

The above assets and liabilities were translated using an exchange rate of 1.35 at September 30, 2024 (December 31, 2023 – 1.32). Based on the above net exposure, as at September 30, 2024, 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 \$25 in the Company's other comprehensive income (December 31, 2023 - \$121). Total sales in U.S. dollars for the nine months ended September 30, 2024, were \$5,410 (nine months ended September 30, 2023 - \$5,886). A 10% appreciation or deterioration of the Canadian dollar against the U.S. dollar would result in a change of approximately \$736 (nine months ended September 30, 2023 - \$792).

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

(000's)	September 30, 2024 December 31, 2023	
	Euro (€)	Euro (€)
Cash	96	166
Accounts receivable	1,380	662
Prepayments and other receivables	923	793
Inventory	94	103
Accounts payable and accrued liabilities	(1,168)	(1,225)
Unearned revenue	(803)	(742)
Debt and lease liabilities	(177)	(331)
Total	345	(574)

The above assets and liabilities were translated at 1.51 at September 30, 2024 (December 31, 2023 – 1.46). Based on the above net exposure as at September 30, 2024, 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 \$52 in the Company's other comprehensive income (December 31, 2023 - \$84). Total sales in Euros for the nine months ended September 30, 2024, were €3,065 (nine months ended September 30, 2023 - €1,895). A 10% appreciation or deterioration of the Canadian dollar against the Euro would result in a change of approximately \$453 (nine months ended September 30, 2023 - \$276).

In addition, the Company's loss from associate is denominated in Swiss Francs. If the loss from associate was in place for a full year and the Company was exposed to a 10% appreciation or deterioration of the Canadian dollar against the Swiss Franc, this would result in a respective increase or decrease in loss from associate of \$74 (nine months ended September 30, 2023 - \$26). The Company's loan to associate is also denominated in Swiss Francs. This loan was translated at 1.60 at September 30, 2024 (December

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31, 2023 – 1.58). A 10% appreciation or deterioration of the Canadian dollar against the Swiss Franc would result in a change of approximately \$73 in foreign exchange gain or loss in the statement of loss and comprehensive loss (December 31, 2023 - \$69).

[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, 2024, fluctuations in the market interest rates had an insignificant impact on the Company's interest expense. At September 30, 2024, the Company had \$8,125 of outstanding debt on its interest-bearing term loan. If the prime borrowing rate changed by 4%, it would have an impact of \$325 on interest expense on an annualized basis (December 31, 2023 - \$400).

[vii] Economic dependence

A portion of the Company's operations consist of providing airport security equipment maintenance services to a Crown Corporation of the Government of Canada. During the nine months ended September 30, 2024, the Company was dependent on this service contract for 57% of its revenue (nine months ended September 30, 2023 – 34%). The contract is due for renewal in May 2028. There were no other customers who accounted for more than 10% of the Company's revenue during the period.

[viii] Equity price risk

The Company's investment in associate is susceptible to market price risk arising from uncertainties about the future value of the investment securities. The Company manages equity price risk by limiting equity investment to strategic investments that have value to the Company as part of an integrated strategy of market penetration and growth. At September 30, 2024, the exposure to risk related to investment in associate was \$4,987 (December 31, 2023 - \$5,727).

RELATED PARTY DISCLOSURE

Related party transactions

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 its head office. This facility is leased from a company related to a former director of the Company. In April 2024 the individual ceased to be a related party to the Company. During the period from January 1, 2024, to April 2024, when the director ceased to be a related party, the Company incurred \$37 for lease expenses (nine months ended September 30, 2023 - \$88). These amounts have been recorded at the amounts that have been agreed upon by the two parties.
- In addition, amounts were paid to relatives of the same former director of the Company as employment compensation. During the period from January 1, 2024, to April 2024, expenses paid on wages were \$87 (nine months ended September 30, 2023 - \$284).
- During the nine months ended September 30, 2024, the Company paid consulting fees to a director of the Company in the amount of \$Nil (nine months ended September 30, 2023 - \$101).

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As at September 30, 2024, \$3 in accounts payable was due to related parties (December 31, 2023 - \$174).

Related party transactions with associate

For the nine months ended September 30, 2024, the Company had \$276 of product sales and \$104 of cost of product sold in transactions with Quad (nine months ended September 30, 2023, \$135 of product sales and \$135 of cost of product sold). These amounts are gross and subject to elimination of 43.48% related to the Company's share in associate.

At September 30, 2024, the Company had gross outstanding balances of \$695 (December 31, 2023 - \$578) in accounts receivable and \$199 (December 31, 2023 - \$89) in accounts payable and accrued liabilities, due from and to its associate, respectively. During the nine months ended September 30, 2024, the Company has recognized an impairment provision of \$274 against the outstanding balances due from its associate (nine months ended September 30, 2023 - \$Nil).