



Financial Report

Year Ended December 31, 2024

Nanalysis Scientific Corp.

Notice Pursuant to National Instrument 51-102

Management's Report to Shareholders

To the Shareholders of Nanalysis Scientific Corp.:

The accompanying consolidated financial statements and all information in the annual report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies described in the notes to the consolidated financial statements. When necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards (IFRS). The financial information elsewhere in the annual report has been reviewed to ensure consistency with that in the consolidated financial statements.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded, and financial records are properly maintained to provide reliable information for the preparation of financial statements.

Ernst & Young LLP, an independent firm of Chartered Professional Accountants, was engaged, to audit the consolidated financial statements and provide an independent professional opinion.

The Audit Committee of the Board of Directors, which is comprised of three independent directors who are not employees of the Company, provides oversight to the financial reporting process. Integral to this process is the Audit Committee's review and discussion with management and the external auditors of the annual consolidated financial statements and the audit report prior to their release. The Audit Committee is also responsible for reviewing and discussing with management and the external auditors' major issues as to the adequacy of the Company's internal controls. The external auditors have unrestricted access to the Audit Committee to discuss their audit and related matters. The consolidated financial statements have been recommended for approval by the Audit Committee and approved by the Board of Directors of Nanalysis Scientific Corp.

Sean Krakiwsky

Sean Krakiwsky, Chief Executive Officer

Randall McRae

Randall McRae, Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Nanalysis Scientific Corp.

Opinion

We have audited the consolidated financial statements of Nanalysis Scientific Corp. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2024 and 2023, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cashflow for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2024 and 2023, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2[b] in the consolidated financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matter described below to be the key audit matter to be communicated in our report. The matter was addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on the matter. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key Audit Matter**How our audit addressed the key audit matter****Estimate of recoverable amount of Scientific Equipment and Security Services operating segments**

As at December 31, 2024, the carrying amount of goodwill was \$5.7M allocated between the Security Services and Scientific Equipment operating segments. When performing its annual goodwill impairment tests, the Company estimates the recoverable amount of an operating segment using the discounted cash flow method. The recoverable amount is the higher of its value in use and its fair value less costs to sell. Based on the Company's analysis, the fair value less costs to sell exceeded the carrying amount of the Security Services and Scientific Equipment operating segments and no impairment was recognized for the year ended December 31, 2024.

Auditing the Company's annual goodwill impairment tests was complex due to the degree of judgement and subjectivity in evaluating the Company's estimates and assumptions in determining the recoverable amounts of the Security Services and Scientific Equipment operating segments. Significant assumptions include earnings before income taxes, interest, depreciation and amortization ("EBITDA"), growth rates, and discount rate.

To test the Company's estimates of the recoverable amounts, we performed the following procedures, among others:

- With the assistance of our valuation specialists, we evaluated the Company's models, valuation methodology, and certain significant assumptions, including the discount rate. We assessed the selection and application of the discount rate by evaluating the inputs and mathematical accuracy of the calculations.
- We assessed the forecast growth rates and EBITDA through comparison to historical results, internal budget projections and review of executed contracts.
- We performed sensitivity analyses on significant assumptions to evaluate any resulting changes to the recoverable amounts.
- We assessed the adequacy of the Company's disclosure included in note 9 to the consolidated financial statements in relation this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units with the Company as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the work performed for the purposes of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Jeffrey Curtis Hodl.

Ernst + Young LLP

Chartered Professional Accountants

Calgary, Canada

April 24, 2025

Consolidated Statement of Financial Position

(\$000's)	Note	December 31, 2024	December 31, 2023
ASSETS			
Current			
Cash		1,376	759
Accounts receivable		9,920	8,326
Other receivables		957	1,406
Leases receivable		189	26
Inventory	6	4,386	5,794
Prepaid expenses and other assets	7	1,430	1,603
		18,258	17,914
Prepaid expenses and other assets	7	2,135	3,111
Loan to associate	5	-	693
Investment in associate	5	-	5,727
Leases receivable		343	-
Property and equipment	8	1,280	1,903
Right of use assets	8	1,613	2,834
Intangible assets	9	13,046	15,946
Goodwill	9	5,696	5,696
		24,113	35,910
Total Assets		42,371	53,824
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Current			
Accounts payable and accrued liabilities		5,826	5,081
Line of credit	10	2,797	2,902
Warranty provision		218	480
Unearned revenue and grants	11	1,193	1,321
Current portion of promissory note	10	-	31
Current portion of lease liability	12	826	796
Current portion of contingent consideration liability	19[c]	299	428
Current portion of long-term debt/repayable contributions	10	3,218	3,557
		14,377	14,596
Unearned revenue and grants	11	653	881
Lease liability	12	1,378	2,125
Contingent consideration liability	19[c]	158	-
Long-term debt/repayable contributions	10	10,142	12,557
Deferred income tax liability	21	117	184
Total Liabilities		26,825	30,343
SHAREHOLDERS' EQUITY			
Share capital	13	57,565	53,201
Share purchase warrants	13	154	358
Contributed surplus		5,999	4,673
Deficit		(48,602)	(34,989)
Accumulated other comprehensive income		430	238
Total Shareholders' Equity		15,546	23,481
Total Liabilities and Shareholders' Equity		42,371	53,824

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

On behalf of the Board of Directors

Sean Krakiwsky

Werner Gartner

Consolidated Statement of Loss and Comprehensive Loss

(\$000s)	Note	2024	2023
Product sales	17[a]	19,396	16,342
Service revenue	17[a]	26,099	12,124
Total sales and revenue		45,495	28,466
Cost of product sold	14[a]	9,188	9,609
Cost of services	14[b]	23,561	14,886
Total cost of sales and services		32,749	24,495
Gross profit		12,746	3,971
Sales and marketing	14[c]	4,747	4,245
General and administration	14[d]	5,519	7,121
Research and development	14[e]	544	679
		10,810	12,045
Income (loss) before other items		1,936	(8,074)
Other Items			
Depreciation and amortization expense	8,9	4,353	4,365
Finance expense		1,345	284
Stock-based compensation	13[f]	1,028	1,048
Other expenses	15	434	2,497
Loss from associate	5	1,085	527
Impairment of assets	16	7,326	-
Loss before tax		(13,635)	(16,795)
Current income tax expense	21	45	13
Deferred income tax recovery	21	(67)	(24)
Net loss		(13,613)	(16,784)
Other comprehensive income (loss)		192	(55)
Total comprehensive loss		(13,421)	(16,839)
Net loss attributable to:			
Equity holder of Nanalysis Scientific Corp.		(13,613)	(16,196)
Non-controlling interest		-	(588)
Total comprehensive (loss) income attributable to:			
Equity holder of Nanalysis Scientific Corp.		192	(80)
Non-controlling interest		-	25
Loss per share			
Basic loss per common share	13[c]	(0.12)	(0.16)
Diluted loss per common share	13[c]	(0.12)	(0.16)

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

Consolidated Statement of Changes in Equity

(\$000's except numbers of shares)		Shares Outstanding	Share Purchase Warrants	Share Capital	Contributed Surplus	Accum. Other Comp. Loss	Deficit	Non- Controlling Interest	Total
		(000's)	\$	\$	\$	\$	\$	\$	\$
Balance at January 1, 2023		94,448	847	49,016	3,091	969	(18,793)	12,442	47,572
Exercise of options & RSUs	13	216	-	40	(15)	-	-	-	25
Stock-based compensation	13	-	-	-	1,048	-	-	-	1,048
Issuance of common shares and warrants (net of issuance costs)	13	6,881	60	4,006	-	-	-	-	4,066
Shares issued as contingent consideration for the purchase K'Prime	19	288	-	108	-	-	-	-	108
Settlement of promissory notes	13	83	-	31	-	-	-	-	31
Expiration of warrants	13	-	(549)	-	549	-	-	-	-
Net loss for the period		-	-	-	-	-	(16,196)	(588)	(16,784)
Other comprehensive income		-	-	-	-	(80)	-	25	(55)
Loss of control of subsidiary		-	-	-	-	(651)	-	(11,879)	(12,530)
Balance at December 31, 2023		101,916	358	53,201	4,673	238	(34,989)	-	23,481
Balance at January 1, 2024		101,916	358	53,201	4,673	238	(34,989)	-	23,481
Exercise of options and RSUs	13	115	-	-	-	-	-	-	-
Stock-based compensation	13	-	-	-	1,028	-	-	-	1,028
Issuance of common shares and warrants (net of issuance costs)	13	11,111	94	4,337	-	-	-	-	4,431
Settlement of promissory notes	13	82	-	27	-	-	-	-	27
Expiration of warrants	13	-	(298)	-	298	-	-	-	-
Net loss for the period		-	-	-	-	-	(13,613)	-	(13,613)
Other comprehensive loss		-	-	-	-	192	-	-	192
Balance at December 31, 2024		113,224	154	57,565	5,999	430	(48,602)	-	15,546

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

Consolidated Statement of Cashflow

(\$000's)	Note	2024	2023
Cash flows from operating activities			
Net loss		(13,613)	(16,784)
Add (deduct) non-cash items:			
Non-cash expenses		283	179
Depreciation of property and equipment	8	1,521	1,663
Amortization of intangible assets	9	3,105	3,003
Deferred tax recovery	21	(67)	(24)
Loss from associate	5[b]	1,085	527
Loss on loss of control of subsidiary	5[a]	-	2,810
Impairment of assets	16	7,326	-
Interest and foreign exchange on loan to associate	5[c]	(32)	(7)
Revaluation and derecognition of contingent consideration	19[c]	29	(913)
Revaluation of promissory notes	19[b]	(4)	(54)
Stock-based compensation	13[f]	1,028	1,048
Finance expense	22	1,345	284
Changes in non-cash working capital	22	1,257	(2,924)
Cash flows generated from (used in) operating activities		3,263	(11,192)
Cash flows from investing activities			
Purchases of property and equipment	8	(56)	(728)
Additions to intangible assets	9	(1,802)	(3,864)
Proceeds on disposal of property and equipment and intangibles	8,9	168	48
Loan to associate	5[c]	-	(686)
Loss of control of subsidiary	5[a]	-	(326)
Changes in non-cash working capital	22	-	(500)
Cash flows used in investing activities		(1,690)	(6,056)
Cash flows from financing activities			
Proceeds from financing net of finance fees	13[a]	4,337	4,006
Cash interest paid	22	(1,126)	(1,122)
Payment of lease obligations	12	(801)	(766)
Proceeds from long-term debt net of deferred finance fees	10	-	12,203
Funds withdrawn from line of credit	10	2,797	6,057
Repayment of line of credit	10	(2,902)	(5,696)
Repayment of long-term debt	10,22	(3,261)	(225)
Exercise of stock options	13[d]	-	25
Cash flows (used in) generated from financing activities		(956)	14,482
Increase (decrease) in cash and equivalents		617	(2,766)
Cash, beginning of period		759	3,525
Cash, end of period		1,376	759

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

Notes to the Interim Condensed Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

1. REPORTING ENTITY

Nanalysis Scientific Corp. (“Nanalysis” or the “Company”) was incorporated on February 27, 2017, under the laws of the Province of British Columbia. Nanalysis has two primary operating segments. Its first operating segment, Scientific Equipment, conducts scientific equipment manufacturing and sales, primarily as a patent-protected technology company that develops, manufactures, and sells innovative magnetic resonance (“MR”) products for education, pharmaceutical, biotech, nutraceutical, chemical, food, materials, security, life science and medical applications. Building a name for itself as a pioneer of benchtop nuclear magnetic resonance spectrometers (“Benchtop NMR”), Nanalysis has established itself as a world leader in highly homogenous compact magnet technology with a vision to democratize and proliferate MR through method validation and productization. Its second operating segment, Security Services, focuses on providing security services, namely providing preventative and on-call maintenance services, as well as installation of detection and analysis equipment.

On March 3, 2020, the Company acquired all of the outstanding shares of RS2D S.A.S. (“RS2D”), a technology company based in Strasbourg, France, that specializes in the design of compact, cutting-edge electronics components for a wide range of precision analytical MR instruments, including both NMR and Magnetic Resonance Imaging (“MRI”). On July 21, 2021, the Company acquired One Moon Scientific (“OMS”), a software company based in New York, USA, specializing in a suite of software tools to streamline and automate magnetic resonance data analysis and management. On January 10, 2022, Nanalysis acquired a scientific sales and service organization, K’Prime Technologies Inc. (“K’Prime”), located in Calgary, Canada and Phoenix, USA, to further increase its reach and support in all major MR markets and within targeted market verticals.

The Company is publicly traded on the TSX Venture Exchange under the symbol “NSCI”, on the OTCQX exchange in the United States under ticker symbol “NSCIF”, and under the Frankfurt Stock Exchange under ticker symbol “1N1”.

The Company’s registered and records office is located at Suite 1000, Livingston Place West, 250 2nd Street SW, Calgary, Alberta, T2P 0C1. Its head office is located at Unit 105, 90 Freeport Boulevard NE, Calgary, Alberta, T3J 5J9.

2. BASIS OF PRESENTATION

[a] Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The consolidated financial statements have been prepared using the same accounting policies and methods as the financial statements for the year ended December 31, 2023, except as described in Note 4.

These consolidated financial statements were approved by the Company’s Board of Directors on April 24, 2025.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

2. BASIS OF PRESENTATION (continued)

[b] Going concern

These consolidated financial statements have been prepared in accordance with IFRS policies applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. At December 31, 2024, the Company's borrowings which are subject to financial covenants were \$7,500 on the term loan and \$2,797 borrowed on its line of credit (December 31, 2023 - \$10,000 on the term loan and \$2,902 on the line of credit). Beginning March 31, 2025, the Company must maintain two additional covenants (Note 10). The Company believes that it has not complied with one or possibly both of the additional covenants as at March 31, 2025. This will create a right for the lender to accelerate the maturity of their indebtedness in relation to the line of credit and term loan described in Note 10C and Note 10D. The Company's lender has not delivered notice of an event of default required to accelerate the maturity of their facilities as of the approval date of these financial statements of April 24, 2025. The Company is currently in discussions with its lender to modify its covenant tests or obtain a waiver of covenants prior to the covenant reporting date of May 30, 2025.

The Company's liquidity is dependent on its ability to continue generating positive cash flows from operations, to raise capital by selling additional equity, or by obtaining new or amended credit facilities. There can be no assurance that the Company will maintain sufficient cash flows to fund its ongoing operations. In addition, the Company may not be able to secure adequate debt or equity financing on desirable terms, or at all. Due to the above factors, there is material uncertainty that may cast doubt on the Company's ability to continue as a going concern.

These consolidated financial statements do not include adjustments to the recoverability and classification of recorded assets and liabilities and related expenses that might be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments, other than in the normal course of business, at amounts different from those in these consolidated financial statements. Such adjustments could be material.

[c] Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial assets and financial liabilities to fair value.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

2. BASIS OF PRESENTATION (continued)

[d] Basis of consolidation

Nanalysis is the ultimate parent company of a consolidated group of companies. These consolidated financial statements include the Company's subsidiaries: Nanalysis Corp., RS2D S.A.S., One Moon Scientific, K'(Prime) Technologies Inc., KPrime Group USA, and K'Prime Technologies. All intercompany transactions and balances have been eliminated.

	Ownership December 31, 2024	Ownership December 31, 2023	Incorporated	Nature
Subsidiaries				
Nanalysis Corp.	100%	100%	Canada	Technology, Manufacturing
Nanalysis GmbH	0%	100%	Germany	Direct Sales, Marketing, Technical Support
RS2D S.A.S.	100%	100%	France	Technology
One Moon Scientific	100%	100%	USA	Software
K'(Prime) Technologies Inc.	100%	100%	Canada	Sales, Distribution, Service
KPrime Group USA	100%	100%	USA	Sales, Distribution, Service
KPrime Technologies	100%	100%	USA	Sales, Distribution, Service
Associates				
Quad Systems AG	43%	43%	Switzerland	Technology
Quad Systems Ltd.	43%	43%	United Kingdom	Technology
Guodo Ruide Technology (Shanghai) Co. Ltd	33%	33%	China	Technology

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

For each business combination, the Company elects to measure any non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets on a historical cost basis. From the date of investment in Quad Systems AG, March 11, 2022, until June 30, 2023, Quad Systems AG and Quad Systems Ltd. (collectively, "Quad") were consolidated into the results of the Company. Subsequent to June 30, 2023, Quad has been accounted for using the equity method of accounting.

During the period ended December 31, 2024, Nanalysis GmbH was wound up and dissolved.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

2. BASIS OF PRESENTATION (continued)

[e] Functional and foreign currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The financial statements of each subsidiary are measured using the currency of the primary economic environment in which the subsidiary operates (the "functional currency"). The functional currency of each of the Company's subsidiaries is the Canadian dollar, except for RS2D whose functional currency is the Euro, and KPrime Group USA, KPrime Technologies, and One Moon Scientific whose functional currency is the USD. Non-monetary assets denominated in foreign currencies are translated at historical exchange rates. Foreign exchange gains and losses resulting from the settlement of transactions denominated in a currency other than an entity's functional currency are recognized in the consolidated statements of loss and comprehensive loss. Assets and liabilities of entities with functional currencies other than the Canadian dollar are translated into Canadian dollars at the period-end exchange rate, and the results of their operations are translated at the average rates for the period. The period end translation adjustments are included in other comprehensive income.

[f] Critical judgments

The following are critical judgments that management has made in the process of applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements:

- i. Research costs are recognized as an expense when incurred but development costs may be capitalized as intangible assets if certain conditions are met as described in IAS 38, Intangible Assets.

Development costs incurred in the internal generation of the intangible assets are capitalized at the point from which the requirements of IAS 38 have been met. This assessment requires management to exercise judgment with regards to determining when the intangible asset is technically feasible, the Company's intention to complete the intangible asset, as well as those estimates and judgments required in determining whether the intangible asset will result in future economic benefit to the Company. Capitalized development costs are subject to amortization when they are available for use.

After recognition, management must complete impairment assessments of the intangible assets when events or circumstances indicate a potential impairment. Evaluation of factors that could trigger an impairment is subject to judgment.

- ii. The Company has prepared the consolidated financial statements on the basis that it will continue to operate as a going concern. Management is required to determine whether or not the going concern assumption is appropriate for the Company at the end of each reporting year. Considerations taken into account include 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.
- iii. Revenue recognition requires management's judgement to assess and determine the following:
 - The nature of the contractual performance obligations and whether they are distinct or should be combined with other performance obligations.
 - The pattern of transfer is identified in the contract, sometimes using input or output methods which are based on key assumptions for the assessment of satisfaction of the performance obligation.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

2. BASIS OF PRESENTATION (continued)

Estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

- i. Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting year. However, it is possible that at some future date an additional liability could result from audits by taxation authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the year in which such determination is made.
- ii. When determining whether to recognize deferred income tax assets based on tax pools, the Company makes an assessment of the likelihood of the Company's ability to utilize these pools before they expire which requires significant judgement. The Company reviews these assessments and underlying assumptions regularly. It is possible that a change in assumptions could result in a change of the amount of deferred tax assets the Company recognizes in the future.
- iii. Intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Amortization is calculated using management's best estimate of the useful life of the intangible assets. Determination of impairment in the carrying value of an asset or cash generating unit ("CGU") is subject to management's assessment if there is any indication of a possible write-down; and if so, the determination of recoverable amount based on discounted future cash flows of the intangible assets. This assessment of indicators of impairment as well as any discounted cash flow analysis are based on significant assumptions and estimates by Management. The carrying amount of intangible assets are assessed for indicators of impairment by individual asset or group of assets when there is an indication that they may be impaired. The determination of the "CGU" is subject to management's assessment. Impairment exists when the carrying value of an asset or "CGU" exceeds its recoverable amount, which is the higher of its value in use ("VIU") and its fair value less costs to sell ("FVLCS"). The carrying amount of intangible assets does not necessarily reflect present or future value and the ultimate amount recoverable will be dependent upon the successful commercialization of products based on these underlying technologies.
- iv. The Company provides a limited warranty on its products for a standard period of one year from the date goods are sold, and customers may purchase an extended warranty for up to an additional four years. The warranty provision is determined based on management's best estimate of the amount required to settle the obligation based on historical cost information and current information available.
- v. The Company determines its allowance for inventory obsolescence based upon expected inventory turnover, inventory aging, and current and future expectations with respect to product offerings. Assumptions underlying the allowance for inventory obsolescence include future sales trends and offerings and the expected inventory requirements and inventory composition necessary to support these future sales offerings. The estimate of the Company's allowance for inventory obsolescence could materially change from year to year due to changes in product offerings and consumer acceptance of those products.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

2. BASIS OF PRESENTATION (continued)

- vi. The Company measures the cost of equity-settled transactions with employees by reference to the value of the equity instruments at the date at which they are granted. Estimating the value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating the value for share-based payment transactions are disclosed in Note 13.
- vii. The Company claims investment tax credits as a result of incurring research and development expenditures through the Innovation Employment Grant ("IEG") and Credit d'Impot Recherche ("CIR"). Management has made a number of estimates and assumptions in determining the expenditures eligible for the investment tax credit claim. It is possible that the allowed amount of the investment tax credit claim could be materially different from the recorded amount upon assessment by the Governments of Alberta, Canada, and France.
- viii. The Company has entered into business combinations which require management to make estimates regarding the fair value of assets acquired in the business combination. The fair value of assets acquired rely on valuation techniques, including the discounted cash flow model or Monte Carlo distribution. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of the cost of capital, discount rates, and future cash flows related to business combinations. Changes in assumptions relating to these factors could affect the reported fair value of assets acquired in business combinations. The deconsolidation of Quad (Note 5) required management to make similar estimates regarding the fair value of assets upon deconsolidation.
- ix. The Company has contingent consideration related to its acquisitions. The fair value of contingent consideration requires the use of estimates to determine the probability of the consideration being paid based on contingent factors being achieved. Where possible, inputs to these probability models are taken from observable markets, but where this is not feasible a degree of judgement is required in establishing the fair value of contingent consideration. Changes in assumptions relating to these factors could affect the reported fair value of contingent consideration.
- x. The Company assesses whether there is an indication that an asset may be impaired at the end of each reporting year or when facts and circumstances suggest their carrying values have been impaired. This required management to make estimates regarding the fair value of long-lived assets. The fair value of assets acquired rely on valuation techniques, including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of the cost of capital, discount rates, and future cash flows related to the assets. Changes in assumptions relating to these factors could affect the fair value determined by the Company.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

2. BASIS OF PRESENTATION (continued)

- xi. 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 consolidated financial statements.

The Company has received a claim related to a past acquisition. The potential range of exposure in the claim is \$0 to \$500, plus legal fees. The Company does not believe it is more likely than not that a loss will occur related to this claim.

[g] Comparative figures

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

3. MATERIAL ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

The timely preparation of these consolidated financial statements requires management estimates, judgments, and assumptions. These judgments and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the applicable reporting year. Estimates and underlying assumptions are reviewed based on Management experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Revisions to judgments, estimates and assumptions based on new information are recognized prospectively in the year in which the estimate is revised. Changes in the Company's accounting estimates and judgments could have a significant impact on the Company's earnings or losses.

The following are the accounting policies that management considers material to the users of the consolidated financial statements. Accounting policy information is considered to be material if its disclosure is needed for users to understand information provided about material transactions, other events or conditions in the consolidated financial statements. The material accounting policy information have been applied to all the years presented, unless otherwise stated.

[a] Financial instruments

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

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

Measurement

All of the Company's financial instruments, initially recognized at fair value, are subsequently measured at amortized cost using the effective interest rate method. Transaction costs are included in the initial fair value measurement of the financial instruments. Interest-free loans are recognized at fair value using the Company's incremental borrowing rate at the time of funding.

Impairment

The Company assesses, on a forward-looking basis, the expected credit loss associated with financial assets measured at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime credit losses to be recognized from initial recognition of the receivables.

Lifetime expected losses will be recognized on assets for which there is a significant increase in credit risk after initial recognition.

Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

[b] Inventory

Raw materials are valued at the lower of cost and net realizable value, with cost determined on a weighted average basis. Work in process and finished goods are valued at the lower of cost and net realizable value, and include the cost of raw materials, direct labor, and manufacturing overhead expenses. Net realizable value is the estimated selling price less applicable selling expenses.

[c] Cash

For the purpose of presentation in the consolidated statements of cash flows, cash includes cash on hand. Any accrued interest earned at the period end date is recorded within other receivables.

[d] Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Initial acquisition cost is based on the fair value of the consideration paid or payable and includes expenditures that are directly attributable to the acquisition of the asset. Where an item of property and equipment is comprised of major components with different useful lives, each component is accounted for and depreciated for as a separate item.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

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

Depreciation is provided using the straight-line method over the estimated useful lives of the property and equipment. Useful lives are estimated based on the type of asset and its regular use in ordinary operations of the segment. The useful lives estimated by the Company for its material asset classes are:

- Office furniture and equipment: 3-10 years
- Computer hardware: 3-5 years
- Equipment: 3-10 years
- Leasehold improvements: Expected term of the underlying lease

The useful lives, residual value (if any) and depreciation method for property and equipment are assessed at the end of each reporting period. Any changes in useful life, residual value, or depreciation method are treated as a change in accounting estimate and adjusted prospectively.

[e] Leases

Leases are recognized as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Company. Lease liabilities are initially measured at the present value of unpaid lease payments, less any lease incentives. Lease payments include fixed payments, variable lease payments that depend on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. Lease payments are discounted using the Company's incremental borrowing rate where the rate implicit in the lease is not readily determinable. Right-of-use assets are initially measured at the amount of the lease liability, plus any lease payments made at or before the commencement date, any initial direct costs, and estimated cost for dismantling or restoring the asset. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics. The Company determines its incremental borrowing rate by applying interest rates from external financing sources and adjusting the rate to reflect the term of the lease. Lease payments on short-term leases or leases on which the underlying asset is of low value are accounted for as expenses on a straight-line basis in the consolidated statement of loss.

Lease Accounting as a Lessor

Finance Leases as a Lessor

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

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

Operating lease commitments

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

[f] Intangible assets

Intangible assets consist of development & technology costs, customer relationships, patents, and software.

The Company is engaged in research and development activities and has internally generated intangible assets. Research costs are expensed as incurred. Development costs are capitalized if all of the following can be demonstrated:

- a. Technical feasibility of completing the intangible asset so that it will be available for use or sale;
- b. Intention to complete the intangible asset and use or sell it;
- c. Ability to use or sell the intangible asset;
- d. How the intangible asset will generate probable future economic benefits;
- e. Availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- f. Ability to measure reliably the expenditures attributable to the intangible asset during its development.

Following its initial recognition, intangible assets with finite useful lives are carried at cost less any accumulated amortization and accumulated impairment losses.

Intangible assets are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization expense of intangible assets with finite lives is recognized in the consolidated statement of loss.

Patents are amortized on a straight-line basis over the respective life of each patent. Internally developed intangibles have useful lives ranging from 5 to 10 years. Customer relationships are amortized on a straight-line basis over 10 years. Software is amortized on a straight-line basis over 3 to 10 years.

Intangible assets are assessed for indicators of impairment at the end of each reporting year and the appropriateness of the remaining amortization period is assessed. The amortization period and the amortization method for intangible assets are assessed at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

[g] Impairment of non-financial assets

The Company assesses whether there is an indication that an asset may be impaired at the end of each reporting year or when facts and circumstances suggest their carrying values have been impaired. The Company considers assets to be impaired if the carrying values exceed the recoverable amount, being the higher of the value in use and the fair value less costs to sell.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

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

Non-financial assets consist of property and equipment, intangible assets, and goodwill. For the purpose of assessing indicators of impairment or measuring recoverable amounts, assets are grouped at the lowest levels of which there are separately identifiable cash flows. If indicators of impairment exist, the recoverable amount of the asset or "CGU" is estimated using the discounted cash flow method. Estimated future cash flows associated with the non-financial asset are discounted to their present value using a risk adjusted pre-tax discount rate. If the recoverable amount is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount with the impairment immediately recognized in the statement of loss and comprehensive loss. Where an impairment related to property and equipment or intangible assets subsequently reverses, the carrying amount is increased to the revised estimate, subject to the amount not exceeding the carrying amount that would have been determined had impairment loss not been recognized for the asset in prior periods. Any reversal of impairment is recognized immediately in the statement of loss and comprehensive loss. In the case of goodwill, impairments once recognized are not reversed in the future due to a change in recoverable amount.

[h] Stock-based compensation

The Company grants share options and restricted share units ("RSU") to acquire common shares of the Company to directors, officers, employees and consultants.

The fair value of options and RSUs granted to employees is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period for employees using the graded method. Fair value of options for non-employees is recognized and measured at the date the goods or services are received based on the fair value of the goods or services received. If it is determined that the fair value of goods and services received cannot be reliably measured, the share-based payment is measured at the fair value of the equity instruments issued using the Black-Scholes option pricing model. This requires the estimation of certain variables including: the expected risk-free interest rate, the expected life of the stock option, the forfeiture rate, the expected dividend yield and expected share price volatility. The estimation of certain variables within the Black-Scholes model requires judgement. Risk-free interest rates used are the Canadian Treasury zero-coupon rates for bonds matching the expected term of the option on the date of grant. In determining the expected term of the option grants, the Company has used the actual terms of the grants and the actual vesting schedule of the grant. The expected forfeiture rate is determined based on the Company's prior historical forfeiture rates on the date of grant. The expected dividend yield of the Company's common shares over the expected term of the option is determined based on the dividend policy on the date of grant. To determine the expected stock price volatility at the time of a particular stock option grant, the Company relies on observations of historical volatility trends. Volatility is determined using daily closing prices over a historical period corresponding to the expected term of the options.

For both employees and non-employees, the fair value of options is recognized as either an expense or capitalized to intangible assets with a corresponding increase in contributed surplus. The amount recognized is adjusted to reflect the number of share options expected to vest. Consideration received on the exercise of stock options is recorded in share capital and the related share-based payment in share-based payments reserve is transferred to share capital.

Where the terms and conditions of options are modified before they vest, the change in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

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

Where a grant of options is cancelled and settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense. Amounts recorded in contributed surplus for unexercised share options remain in reserve upon their expiry or cancellation.

[i] Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to a business combination, or items recognized directly in equity or in other comprehensive income (loss).

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax expense is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not be reversed in the foreseeable future. In addition, deferred tax expense is not recognized for taxable temporary differences arising on the initial recognition of goodwill to the extent that such differences exist. Deferred tax is measured at the tax rates expected to be applied to temporary differences when they are reversed, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

[j] Government assistance

Government assistance consists of federal grants received under the Industrial Research Assistance Program ("IRAP") and scientific research and experimental development tax credits both in Canada and France. The Company accrues these credits as a reduction of development costs within intangible assets in the year that the related expenditures are incurred and when reasonable assurance exists that the Company has complied with the terms and conditions of the IRAP and other scientific research and experimental development programs and collectability is reasonably assured. Non-refundable income tax credits are accounted for under IAS 12 Income Taxes. To the extent deferred tax assets arise from ITCs for government assistance programs and recognition of such assets is assessed as probable, they are recorded on account of capital as a reduction to capitalized development expenditures.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

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

[k] Per common share amounts

Basic earnings per common share are computed by dividing earnings, or loss, for the year by the weighted average number of common shares outstanding for the year. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, the weighted average number of shares outstanding used in the calculation of diluted loss per share assumes that the deemed proceeds received from the exercise of stock options, share purchase warrants and their equivalents would be used to repurchase common shares of the Company at the average market price during the period.

[l] Revenue recognition

Revenue is recognized for the Company's business activities using the methods outlined below:

i) Product sales

The Company designs, manufactures and sells a range of NMR technologies that go into a range of NMR spectrometers and MRI equipment. Revenue is recognized when the product is transferred to a customer. This is determined on a per contract basis dependent on shipping terms as required by the customer. Performance obligations are fulfilled by transferring control of the promised goods to the customer. A provision for potential warranty claims is provided for at the time of sale, based on warranty terms and prior claims experience. Revenue from the sale of separately priced extended warranty is deferred and amortized over the respective contract life, up to a maximum of four years, on a straight-line basis.

The Company provides manufacturer representative sales services as an agent for a major scientific equipment manufacturer and is paid a sales commission on such sales. The Company also sells other scientific instrumentation and commercial security equipment. Revenue is recognized at the time sales commissions are earned, or when a product, reflecting shipping terms, is delivered to a customer.

The Company also provides service to its range of NMR equipment. Revenues for maintenance and upkeep of this equipment are recognized over the term of the contracted service period with amounts prepaid by customers accounted for as unearned revenue. Payment of the transaction price is due from the customer in accordance with the agreed credit terms. Revenues are also generated from development and installation contracts and are recognized using the input method on the basis of the Company's costs incurred relative to total estimated costs to determine the extent of progress towards completion. Payment of the transaction price is due from the customer in accordance with the agreed credit terms.

ii) Service revenue

The Company provides maintenance service for commercial and airport security equipment. When a contracted service period exists, the Company recognizes revenue as services are delivered based on the terms of the contract, with any amounts prepaid by customers initially recognized as unearned revenue until such a time the service is delivered. Where no contract exists, the Company recognizes revenue when the services are provided to the customer.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

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

[m] Business combinations and goodwill

Business combinations are accounted for using the acquisition method of accounting. Under this method, the net identifiable assets acquired are measured at fair value on the acquisition date, except for deferred income tax amounts. Consideration paid is measured at the fair value of the consideration at the acquisition date. Any excess of the consideration paid over the value of the net identifiable assets acquired is recognized as goodwill. Any deficiency in the consideration transferred compared to the value of the net identifiable assets acquired is recognized in earnings. After initial recognition, goodwill is allocated to the Company's cash generating unit that is expected to benefit from the business acquisition from which the goodwill arose to determine if any impairment must be recognized against the goodwill. Goodwill is measured at cost, less accumulated impairment losses.

Earn-outs are assessed to determine if they represent remuneration for services provided subsequent to the acquisition or represent contingent consideration. The initial fair value of any contingent consideration is assessed at the time of acquisition using an income approach. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is a financial instrument and accounted for within the scope of IFRS 9. Such consideration is measured at fair value with any changes in fair value recognized in the statement of comprehensive loss. Costs incurred to complete the business combination are expensed.

[n] Accounting for investment in associate

Upon the acquisition of Quad in 2022, the Company was granted a unilateral option to acquire the remaining shares of Quad at a predetermined price until July 1, 2023. Based on this unilateral purchase option as well as the 43% share of equity ownership and the Company's allotted seats on Quad's board of directors, the Company determined that it held control in Quad Systems AG and its subsidiary, Quad Systems Ltd. (collectively, "Quad") by virtue of its equity ownership interest, board participation and accounted for it as a consolidated subsidiary until June 30, 2023. On July 1, 2023, the Company did not exercise its unilateral option and was deemed to lose control of Quad. As such, Quad was deconsolidated as a subsidiary on July 1, 2023 (Note 5).

Subsequent to July 1, 2023, the Company continues to have significant influence over Quad and accounts for its investment using the equity method of accounting. The Company's share of loss from associate is shown on the face of the consolidated statement of loss and comprehensive loss outside operating profit and represents the loss after tax of the associate.

The financial statements of Quad are prepared for the same reporting period as the Company. The accounting policies of Quad are aligned with those of the Company. Therefore, no adjustments are made when measuring and recognizing the Company's share of the profit or loss of the investees after the date of deconsolidation.

As a result of the loss of control of Quad at July 1, 2023, the investment in an associate under the equity method has been initially recognized at fair value. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of the associate since the deconsolidation date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately. Thus, reversals of impairments may effectively include reversal of goodwill impairments. Impairments and reversals are presented within Loss from associate in the consolidated statement of loss and comprehensive loss.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

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

The consolidated statement of loss and comprehensive loss reflects the Company's share of the results of operations of the associate. Any change in other comprehensive income of those investees is presented as part of the Company's other comprehensive income. In addition, if there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the Company's interest in the associate.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and then recognizes the loss within Loss from associate in the consolidated statement of loss and comprehensive loss.

4. RECENT ACCOUNTING PRONOUNCEMENTS

[a] New and amended standards that are effective for the current year

In the current year, the Company applied a number of IFRS amendments that were mandatorily effective for annual periods that began on or after January 1, 2024.

IAS 1 Presentation of Financial Statements has been amended to clarify how to classify liabilities as either current or non-current. It specifies what is meant by a right to defer settlement; that a right to defer settlement must exist at the end of the reporting period; that classification is unaffected by the likelihood that an entity will exercise its deferral right; that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification; as well as certain disclosure matters.

IFRS 16 Leases has been amended to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller lessee does not recognize any amount of the gain or loss that relates to the right of use it retains.

IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures have been amended to specify disclosure requirements to enhance the current requirements, which are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The adoption of these amendments had no impact on the Company's consolidated financial statements.

[b] Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the consolidated financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

4. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

IAS 21 *The Effects of Changes in Foreign Exchange Rates* has been amended to impact a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. The amendments are effective for annual reporting periods beginning on or after January 1, 2025. The Company has assessed the impact of this standard and they are not expected to have a material effect on the Company's consolidated financial statements.

IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* have been amended to clarify that financial liabilities are derecognized on the settlement date, which is the date the obligation is discharged, canceled, or expired. The amendments also introduce an optional accounting policy that allows entities to derecognize financial liabilities settled through electronic payment systems before the settlement date, provided specific conditions are met. Further, the amendments to IFRS 9 and IFRS 7 introduce new disclosure requirements for financial assets and liabilities with contractual terms that can change cash flows due to contingent events not directly related to basic lending risks. Once in effect, entities must disclose a qualitative description of the contingent event, quantitative information on possible changes to the entity's contractual cash flows, and the gross carrying amount or amortized cost of affected financial instruments. These amendments are effective for annual reporting periods beginning on or after January 1, 2026, with earlier application permitted. The amendments are to be applied retrospectively, but entities are not required to restate comparative periods. The Company has assessed the impact of this standard and they are not expected to have a material effect on the Company's consolidated financial statements.

IFRS 18 *Presentation and Disclosures in Financial Statements* replacing IAS 1 *Presentation of Financial Statements* introduces new requirements for presentation within the Consolidated Statements of Loss and Comprehensive Loss, including specified totals and subtotals. Furthermore, entities are required to classify all income and expenses within the statement of profit or loss into one of five categories: operating, investing, financing, income taxes and discontinued operations. It also requires disclosure of newly defined management-defined performance measures, subtotals of income and expenses, and includes new requirements for aggregation and disaggregation of financial information based on the identified 'roles' of the primary financial statements ("PFS") and the notes. In addition, narrow-scope amendments have been made to IAS 7 *Statement of Cash Flows*, which include changing the starting point for determining cash flows from operations under the indirect method, from 'profit or loss' to 'operating profit or loss' and removing the optionality around classification of cash flows from dividends and interest. In addition, there are consequential amendments to several other standards. IFRS 18, and the amendments to the other standards, is effective for reporting periods beginning on or after January 1, 2027, but earlier application is permitted and must be disclosed. IFRS 18 will apply retrospectively. The Company is evaluating the impact of this standard on its financial statements.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

5. LOSS OF CONTROL OF SUBSIDIARY AND INVESTMENT IN ASSOCIATE

[a] Loss of control of subsidiary

On March 11, 2022, Nanalysis acquired 40% of Quad, a company based in Zurich, Switzerland, that offers traditional MR technology with innovative solutions to address long standing limitations of MR technology, including accelerated data acquisition and improved sensitivity in biological samples. The Company also provided Quad with a CHF 1,000,000 loan, which was converted into 40,000 shares in the capital of Quad on June 22, 2022, increasing the Company's ownership in Quad from 40% to 43%.

Until July 1, 2023, (the "Option Period"), the Company had an option to acquire 100% of the issued and outstanding shares of Quad at a pre-set valuation formula in a combination of cash and common shares of the Company (the "Option"). During the Option Period, the Company had a right of first refusal on all debt and equity offerings of Quad.

The Company 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 considered that until the end of the Option Period, it had control over Quad and fully consolidated the results of Quad into its consolidated financial statements.

On July 1, 2023, the Company allowed its unilateral option to acquire the remaining shares of Quad to expire. From the date of expiry, the Company no longer had the power to govern the financial and operating policies of Quad under IFRS 10 and ceased to consolidate the results of Quad into its consolidated financial statements. The expiry of the Option resulted in a loss of control of Quad and the Company derecognized the related assets, liabilities and non-controlling interest on July 1, 2023.

From July 1, 2023, onward, the Company accounts for its investment in Quad as an investment in an associate.

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

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

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

The loss on loss of control of Quad included in other expenses in the consolidated statement of loss and comprehensive loss during the twelve months ended December 31, 2023, was \$2,810, which represents the fair value of the investment on July 1, 2023, less the net assets of Quad, non-controlling interest, and accumulated foreign currency translation adjustments. This was calculated as follows:

(\$000's)	July 1, 2023
Fair value of equity interest retained in Quad on loss of control on July 1, 2023 (300,000 common shares)	6,254
Less:	
Net assets of Quad, as above	21,594
Non-controlling interest	(11,879)
Accumulated foreign currency translation adjustment (OCI)	(651)
	9,064
Loss on loss of control of Quad	(2,810)

The fair value of the Company's investment in associate relies on the discounted cash flow model. The inputs to these models were taken from observable markets where possible, but where this was not feasible, a degree of judgement is required in establishing fair values. Judgements include earnings before income taxes, interest, depreciation and amortization ("EBITDA") from the investment, growth rates, and discount rates. In this case, the fair value was substantially arrived at through the use of Level 3 estimates, which are estimates based on unobservable inputs for which there is little to no available market data, requiring the Company to develop its own assumptions. The discount rate used in this discounted cash flow model was 21.6%.

[b] Investment in associate

As at December 31, 2024, the Company owns a total of 300,000 common shares of Quad AG representing a 43.48% equity interest in Quad AG (December 31, 2023 – 43.48%). Quad AG has two subsidiaries of which the Company holds the following interests through its investment in Quad AG:

- Quad Ltd. (United Kingdom) – 43.48%
- Guodo Ruide Technology (Shanghai) Co. Ltd. – 32.61%

Loss from associate for the twelve-month period ending December 31, 2024, is:

(\$000's)	December 31, 2024	December 31, 2023
Quad	1,085	527
Total loss from associate	1,085	527

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

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

The following table illustrates the summarized financial information of the Company's investment in Quad as at December 31, 2023:

(\$000's)	December 31, 2023
	Total
Current Assets	1,898
Non-current Assets	11,122
Current Liabilities	(1,794)
Non-current Liabilities	(2,456)
Equity	8,770
The Company's share in equity - 43.48%	3,813
Goodwill	1,914
The Company's carrying amount of the investment	5,727

All balances above are translated from Swiss Francs to Canadian Dollars each reporting period using the spot rate, except for the Company's carrying amount of investment, which is denominated in Canadian Dollars.

At December 31, 2024, the Company identified indicators of impairment related to the performance of Quad against its financial forecasts. As a result, the Company completed an impairment analysis by calculating the fair value of Quad at December 31, 2024. The fair value of the Company's investment in associate relies on the discounted cash flow model. The inputs to these models were taken from observable markets where possible, but where this was not feasible, a degree of judgement is required in establishing fair values. Judgements include earnings before income taxes, interest, depreciation and amortization ("EBITDA") from the investment, growth rates, and discount rates. In this case, the fair value was substantially arrived at through the use of Level 3 estimates, which are estimates based on unobservable inputs for which there is little to no available market data, requiring the Company to develop its own assumptions. The discount rate used in this discounted cash flow model was 23.9%.

Based on the outcome of this fair value analysis, the Company determined that its investment in associate should be fully impaired at December 31, 2024 (Note 16).

[c] Loan to associate

On July 18, 2023, the Company agreed to terms on a loan to Quad denominated in CHF. The Company paid out the first tranche of CHF 218 to Quad as per a Shareholders Loan Agreement dated July 4, 2023. Subsequently, the second and final tranche of CHF 218 was paid out on November 17, 2023. The loan is interest bearing at standard interest rates for this type of loan as established under Swiss law, and interest is accrued on the loan for each reporting period. For the period from the advancement of the loan until December 31, 2024, the annual interest rate applicable was 3.75%. The loan and accumulated interest are due five calendar years from advancement date.

For the twelve months ended December 31, 2024, the Company accrued \$26 of interest on the loan (twelve months ended December 31, 2023 - \$7).

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

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

As required under IFRS 9, the Company performed an analysis of lifetime expected credit losses on the loan to associate and accrued interest expense. This analysis was performed in conjunction with the fair value analysis of the investment in Quad referenced in Note 5(b). As a result of this analysis, the Company determined that the loan to associate was fully impaired at December 31, 2024 (Note 16).

6. INVENTORY

(\$000's)	December 31, 2024	December 31, 2023
Raw materials	2,129	3,120
Work in process	757	891
Finished goods	1,580	1,861
Inventory provision	(80)	(78)
Total inventory	4,386	5,794

7. PREPAID EXPENSES AND OTHER ASSETS

(\$000's)	December 31, 2024	December 31, 2023
Deferred wages	2,930	3,825
Other prepayments and other assets	635	889
Total prepaid expenses and other assets	3,565	4,714
Less: Current portion	1,430	1,603
Non-current portion of prepaid expenses and other assets	2,135	3,111

For the twelve months ended December 31, 2024, the Company deferred \$Nil wages related to its airport security services expansion within prepaid expenses (twelve months ended December 31, 2023 - \$3,058). Upon the Company fully servicing all basic requirements of the contract at each airport within the project, deferred wages are recognized on a straight-line basis until May 31, 2028.

During the twelve months ended December 31, 2024, the Company amortized \$895 of previously deferred wages into cost of services (twelve months ended December 31, 2023 - \$161) (Note 14[b]).

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

8. PROPERTY, EQUIPMENT AND RIGHT OF USE ASSETS

(\$000's)	Office Furniture and Equipment	Computer Hardware	Equipment	Leasehold Improvements	Right of Use Assets	Total
Cost:						
Balance, December 31, 2022	295	495	3,819	585	4,097	9,291
Additions	6	28	693	1	1,023	1,751
Disposals and transfers	-	(51)	(44)	-	-	(95)
Foreign exchange	3	2	13	-	6	24
Loss of control of subsidiary	(82)	(34)	(1,181)	-	(853)	(2,150)
Balance, December 31, 2023	222	440	3,300	586	4,273	8,821
Additions	21	8	26	1	88	144
Disposals and transfers	(20)	(8)	(20)	(5)	(1,124)	(1,177)
Foreign exchange	3	2	11	-	38	54
Balance, December 31, 2024	226	442	3,317	582	3,275	7,842
Accumulated amortization:						
Balance, December 31, 2022	124	159	1,432	341	811	2,867
Depreciation	44	127	576	61	855	1,663
Disposals and transfers	-	(51)	(7)	-	-	(58)
Foreign exchange	1	1	2	-	2	6
Loss of control of subsidiary	(15)	(8)	(142)	-	(229)	(394)
Balance, December 31, 2023	154	228	1,861	402	1,439	4,084
Depreciation	29	119	462	61	850	1,521
Disposals and transfers	(20)	(8)	(10)	(3)	(644)	(685)
Foreign exchange	3	2	7	-	17	29
Balance, December 31, 2024	166	341	2,320	460	1,662	4,949
Net book value:						
Balance, December 31, 2023	68	212	1,439	184	2,834	4,737
Balance, December 31, 2024	60	101	997	122	1,613	2,893

During the twelve months ended December 31, 2024, depreciation of \$273 was recognized as an expense in cost of product sold (twelve months ended December 31, 2023 - \$301). The Company did not identify any indicators of impairment as at December 31, 2024.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

9. INTANGIBLE ASSETS

(\$000's)	Development & technology costs	Customer relationships	Patents	Software	Goodwill	Total
Cost:						
Balance, December 31, 2022	28,720	2,081	1,017	1,634	13,083	46,535
Additions	3,384	-	108	372	-	3,864
Disposals	(14)	-	-	-	-	(14)
Foreign exchange	42	-	-	2	-	44
Loss of control of subsidiary	(11,416)	-	-	(312)	(7,387)	(19,115)
Balance, December 31, 2023	20,716	2,081	1,125	1,696	5,696	31,314
Additions	1,303	-	56	443	-	1,802
Disposals and transfers to inventory	(60)	-	-	(176)	-	(236)
Foreign exchange	27	-	-	1	-	28
Balance, December 31, 2024	21,986	2,081	1,181	1,964	5,696	32,908
Accumulated amortization and impairment:						
Balance, December 31, 2022	5,807	202	482	334	-	6,825
Amortization	2,499	208	139	157	-	3,003
Disposals	(3)	-	-	-	-	(3)
Foreign exchange	3	-	-	6	-	9
Loss of control of subsidiary	(62)	-	-	(100)	-	(162)
Balance, December 31, 2023	8,244	410	621	397	-	9,672
Amortization	2,614	208	154	129	-	3,105
Disposals	-	-	-	(80)	-	(80)
Impairment of intangible asset	-	1,463	-	-	-	1,463
Foreign exchange	5	-	-	1	-	6
Balance, December 31, 2024	10,863	2,081	775	447	-	14,166
Net book value:						
Balance, December 31, 2023	12,472	1,671	504	1,299	5,696	21,642
Balance, December 31, 2024	11,123	-	406	1,517	5,696	18,742

Development and technology costs consist of proprietary technology acquired from RS2D that is used in the 100MHz unit and the Company's MRI technology, as well as its 100MHz and 60Mhz development costs. Customer relationships consist of existing relationships acquired with K'Prime. The Company did not identify any indicators of impairment related to intangible assets as at December 31, 2024, other than for customer relationships which have been fully impaired as at the end of December 31, 2024.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

9. INTANGIBLE ASSETS (continued)

Recoverable Amount of Goodwill

Scientific Equipment Segment and Security Services Segment

The recoverable amount of goodwill related to the Scientific Equipment Segment and Security Services segment is based on fair value less cost to sell. Fair value less cost to sell is determined by using a discounted cash flow forecast based on a five-year cash flow based on average growth rate of 1.8%, and discount rate of 21.0%. Significant judgements related to developing value in use include earnings before income taxes, interest, depreciation, and amortization ("EBITDA") from the investment, growth rates, and discount rates. A reasonable change in these estimates is not likely to change the conclusion. Based on this analysis, the fair value less costs to sell exceeded the carrying amount and no impairment was recognized for the year ended December 31, 2024, for each of the segments. As significant unobservable inputs are used in establishing the recoverable amount of goodwill it falls in Level 3 of the fair value hierarchy.

10. LOANS AND BORROWINGS

(\$000's)	Note	December 31, 2024	December 31, 2023
Western Economic Diversification Canada interest-free loans	A	1,462	1,557
Prêt garanti par l'état Euro denominated loan	B	45	74
Procédure de sauvegarde interest-free Euro denominated loan	B	-	296
Regional Recovery Relief Fund interest-free loan	A	528	627
Business Scale-up interest-free loan	A	3,979	3,707
Line of credit	C	2,797	2,902
Term Bank loan	D	7,500	10,000
Promissory note	E	-	31
Other		30	80
Total loans and borrowings		16,341	19,274
Less: Deferred finance fees		(184)	(227)
Total loans and borrowings net of finance fees		16,157	19,047
Less: current portion		6,015	6,490
Non-current portion of loans and borrowings		10,142	12,557

Credit Facilities

Note A – Nanalysis

The Company has the following unsecured interest-free loans:

- 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.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

10. LOANS AND BORROWINGS (continued)

- 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 December 31, 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.
- Procedure 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 twelve months ended December 31, 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.

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 December 31, 2024, was \$4,838.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

10. LOANS AND BORROWINGS (continued)

On March 28, 2024, the Company negotiated an extension to its covenant holiday related to the funded debt to net income before other items, as well as other adjustments defined by the Company's lender ("Bank EBITDA") 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 Bank 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%. As the Company posted two consecutive quarters of positive Bank EBITDA during the second and third quarters of 2024, the borrowing limit was increased back to its original amount. The Company believes that it has not complied with one or possibly both of the additional covenants as at March 31, 2025 (see Note 2).

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 December 31, 2024, the Company's applicable current ratio for its bank covenant was 1.81:1.00.

Furthermore, beginning in the period ending March 31, 2024, the Company must maintain two additional covenants; funded debt to Bank 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 to its covenant holiday related to its funded debt to Bank 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. The Company believes that it has not complied with one or possibly both of the additional covenants as at March 31, 2025 (see Note 2).

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

10. LOANS AND BORROWINGS (continued)

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 19[b]).

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 matured and settled on December 31, 2024.

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

11. UNEARNED REVENUE AND GRANTS

The table below discloses the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied as at December 31, 2024, and the time frame in which the Company expects to recognize this in the statement of comprehensive loss.

(\$000's)

As at December 31, 2024	Less than 12 months	12 to 24 months	Thereafter	Total
Extended warranty	520	337	316	1,173
Prepayment on contracts	646	-	-	646
Other unearned amounts	27	-	-	27
Total	1,193	337	316	1,846

(\$000's)

As at December 31, 2023	Less than 12 months	12 to 24 months	Thereafter	Total
Extended warranty	557	475	406	1,438
Prepayment on RS2D contracts	574	-	-	574
Prepayment on K'Prime sales leases	14	-	-	14
Other unearned amounts	176	-	-	176
Total	1,321	475	406	2,202

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

11. UNEARNED REVENUE AND GRANTS (continued)

For the twelve months ended December 31, 2024, \$1,992 was recognized in revenue and grants relating to performance obligations satisfied during the period (twelve months ended December 31, 2023 - \$1,962). At December 31, 2024, included in other unearned amounts are unearned grants of \$Nil related to RS2D (December 31, 2023 – \$176).

12. LEASE LIABILITIES

(\$000's)	Twelve months ended December 31	
	2024	2023
Balance beginning of the period	2,921	3,312
Additions	78	962
Lease payments	(801)	(766)
Disposals	(45)	-
Loss of control of subsidiary	-	(588)
Foreign exchange	51	1
Balance, end of the period	2,204	2,921
Current portion	826	796
Long-term portion	1,378	2,125

(\$000's)	Twelve months ended December 31	
	2024	2023
Interest expense related to leases	192	198

The Company and its subsidiaries have commitments under leases for buildings, office space, and vehicles, with varying terms that expire between 2025 and 2028. The Company has sub-leased one of its building facilities starting December 2024 resulting in an immaterial gain on the sub-lease.

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)	December 31, 2024
Within one year	169
1-3 years	111
4-5 years	10
Total operating lease commitments	290

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

13. SHARE CAPITAL

[a] Authorized

Unlimited number of common shares, without nominal or par value

Unlimited number of Class A voting preferred shares without par value

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

[b] Issued Common shares

Common Shares Issued	Number
Balance, December 31, 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	11,193,582
Exercise of stock options and RSUs	115,000
Balance, December 31, 2024	113,224,492

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	Twelve months ended December 31	
	2024	2023
Numerator		
Loss attributable to common shares (\$)	(13,613)	(16,196)
Denominator		
Weighted average number of shares for basic earning per share calculation (000's)	110,639	99,176
Weighted average number of shares for diluted earning per share calculation (000's)	110,639	99,176
Basic loss per common share (\$/share)	(0.12)	(0.16)
Diluted loss per common share (\$/share)	(0.12)	(0.16)

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

13. SHARE CAPITAL (continued)

[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.

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	0.99
Granted	2,297,000	0.50
Exercised	-	-
Expired	(1,147,500)	0.90
Forfeitures	(1,130,977)	0.63
Balance, December 31, 2024	7,697,390	0.91

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

13. SHARE CAPITAL (continued)

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

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

As at December 31, 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	2,252,000	4.40	975,000
\$0.60	1,459,167	0.58	1,459,167
\$1.10	1,552,223	3.10	708,408
\$1.20	25,000	2.47	16,667
\$1.24	50,000	1.79	50,000
\$1.30	100,000	1.51	100,000
\$1.32	1,809,000	2.16	1,206,000
\$1.50	350,000	1.97	300,000
\$1.70	100,000	1.87	100,000
	7,697,390		4,915,242

[e] Restricted Share Units ("RSUs")

The Company maintains an RSU plan as compensation for certain directors and employees 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 December 31, 2024, 445,000 RSUs were granted, out of which 100,000 vested immediately and the remaining 345,000 vest over three years. As at December 31, 2024, all 1,000,000 RSUs available under the plan had been granted.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

13. SHARE CAPITAL (continued)

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	(115,000)
Balance, December 31, 2024	625,000

[f] Stock-based compensation expense

(\$000's)	Twelve months ended December 2024	
	2024	2023
Stock-based compensation expenses related to stock options	854	959
Stock-based compensation expenses related to RSUs	174	89
Total	1,028	1,048

[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, December 31, 2024	6,907,724	0.66

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 13[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 December 31, 2024, 7,666,042 warrants expired, resulting in an increase in the contributed surplus of \$298.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

14. OPERATING EXPENSES

[a] Cost of product sold

(\$000's)	Twelve months ended December 31	
	2024	2023
Direct material costs and direct overhead	6,891	6,295
Salaries and wages	2,009	2,130
Warranty expense	15	883
Depreciation	273	301
	9,188	9,609

[b] Cost of services

(\$000's)	Twelve months ended December 31	
	2024	2023
Direct material costs	5,351	2,838
Salaries and wages	13,922	6,865
Training and related costs	1,368	3,514
Direct overhead	2,920	1,669
	23,561	14,886

[c] Sales and marketing

(\$000's)	Twelve months ended December 31	
	2024	2023
Salaries and wages	3,126	2,893
Selling commissions	1,107	670
Travel and accommodation	181	163
Advertising, conferences and trade shows	196	228
Other expenses	137	291
	4,747	4,245

[d] General and administrative expenses

(\$000's)	Twelve months ended December 31	
	2024	2023
Salary related expenses	2,390	3,239
Consulting and professional fees	961	1,118
Investor relations expenses	398	303
IT expenses	543	568
Travel and accommodation	55	166
Bad debts expense	-	21
Office and facility expenses, and other	1,172	1,706
	5,519	7,121

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

14. OPERATING EXPENSES (continued)

[e] Research and development expenses

(\$000's)	Twelve months ended December 31	
	2024	2023
Salary related expenses	345	366
Consulting and professional fees	170	218
Materials and supplies	29	95
	544	679

Research and development expenses are costs that do not meet the criteria to be capitalized to intangible assets and are expensed in the period in which they are incurred.

15. OTHER EXPENSES (INCOME)

(\$000's)	Twelve months ended December 31	
	2024	2023
Contingent consideration loss (gain)	25	(967)
Foreign exchange loss	30	165
Loss on loss of control of subsidiary	-	2,810
Restructuring costs	285	441
Loss on disposal of assets	94	48
	434	2,497

16. IMPAIRMENT OF ASSETS

(\$000's)	Twelve months ended December 31	
	2024	2023
Impairment of associate receivable	496	-
Impairment of intangible asset	1,463	-
Impairment of loan to associate	725	-
Impairment of investment in associate	4,642	-
	7,326	-

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

17. 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 purpose 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.

(\$000's)

Twelve months ended December 31, 2024	Scientific Equipment	Security Services	Corporate	Total
Revenue	19,396	26,099	-	45,495
Income (loss) before other items	2,722	1,697	(2,483)	1,936
Impairment of assets	7,326	-	-	7,326
Net (loss) income	(8,651)	748	(5,710)	(13,613)
Depreciation and amortization expense	3,627	726	-	4,353
Capital expenditures	1,455	403	-	1,858
Total assets as at December 31, 2024	23,864	17,467	1,040	42,371

(\$000's)

Twelve months ended December 31, 2023	Scientific Equipment	Security Services	Corporate	Total
Revenue	16,342	12,124	-	28,466
Loss before other items	(1,214)	(4,498)	(2,362)	(8,074)
Net loss	(7,774)	(5,545)	(3,465)	(16,784)
Depreciation and amortization expense	3,511	854	-	4,365
Capital expenditures	4,406	186	-	4,592
Total assets as at December 31, 2023	37,039	15,862	923	53,824

[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 5).

The proportion of equity in Quad held by non-controlling interests is 57% at December 31, 2024 (December 31, 2023 - 57%). The non-controlling interest revenue portion for Quad is as follows:

	For the twelve months ended December 31	
	2024	2023
Revenue	-	517
Attributable to:		
Equity holders of Nanalysis Scientific Corp.	-	222
Non-controlling interest	-	295

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

17. REVENUE AND SEGMENT INFORMATION (continued)

[c] Geographic segments

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

(\$000's)	Twelve months ended December 31	
	2024	2023
Canada	28,909	14,233
United States of America	8,001	7,171
Europe	6,470	4,603
Asia	1,237	1,753
Other	878	706
	45,495	28,466

18. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and manage capital so that it can continue to provide returns for shareholders and benefits for other stakeholders through the development, maintenance and expansion of its operating segments. The Company attempts to maximize return to shareholders.

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

The Company has financed its capital requirements primarily through loans and share issuances since inception. The Company may issue new securities. The Company is not subject to any externally imposed capital requirements.

19. 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, procedure de sauvegarde, and business scale-up loans are measured at amortized cost. The carrying value of these loans at December 31, 2024, was \$13,514 and the fair value was \$13,434. The carrying value of these loans at December 31, 2023, was \$16,261 and the fair value was \$15,181.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

[b] Fair value of promissory notes

The Company accounts for its promissory note as a derivative financial liability and revalues the note using the Company's quoted market share price at the reporting period for unmatured portions of the liability, based on a specified formula within the note. During the twelve months ended December 31, 2024, the fourth promissory note was settled resulting in a realized gain to the Company of \$4. During the twelve months ended December 31, 2023, the Company recognized an unrealized gain of \$27 and a realized gain of \$27.

[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 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 twelve months ended December 31, 2024, the Company recognized a loss of \$4. For the twelve months ended December 31, 2023, the Company recognized a gain of \$861. \$470 of this amount was a realized gain and relates to the Company derecognizing an acquisition related earnout as the criteria for earnout were not met in 2023. The remaining amount is an unrealized revaluation of the share-based portion of contingent consideration.

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 twelve months ended December 31, 2024, the Company recognized an unrealized loss of \$25 related to revaluation of contingent consideration related to the OMS acquisition within business acquisition costs (twelve months ended December 31, 2023 – unrealized gain of \$52).

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

[d] Fair value hierarchy

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

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

December 31, 2024

(\$000's)	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss				
Contingent consideration	-	-	457	457
Derivative liabilities not designated as hedging instruments				
Promissory note	-	-	-	-
Total	-	-	457	457
Current portion	-	-	299	299
Long-term portion	-	-	158	158

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 December 31, 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.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

[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 December 31, 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.

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 twelve months ended December 31, 2024, bad debts of \$Nil were recognized as an expense (2023 - \$21). In addition, the Company recognized a separate impairment provision against a receivable from its associate (Note 16 and Note 20).

[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 December 31, 2024, the Company had working capital of \$3,881 (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 consolidated statement of financial position and Notes 10, 11, and 12.

[iv] Market risk

Market risk is the risk of loss that results from changes in market prices. Market risk is comprised of foreign currency risk and interest rate risk. The level of market risk to which the Company is exposed to depends on market conditions, expectations of future price or market rate movements, and the composition of the Company's financial assets and liabilities. The Company regularly monitors market risk exposure, tolerance, and control processes in order to manage the exposure related to changes in market risk and to stay within acceptable market risk limits.

[v] Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The majority of the Company's sales are in Canadian dollars and U.S. dollars. The Company has not entered into foreign exchange derivative contracts.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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

(000's)	December 31, 2024	December 31, 2023
	US\$	US\$
Cash	430	298
Accounts receivable	1,616	1,788
Prepayments and other receivables	80	163
Lease receivables	369	-
Inventory	78	148
Accounts payable & accrued liabilities	(528)	(333)
Unearned revenue	(779)	(684)
Debt and lease liabilities	(350)	(468)
Total	916	912

The above assets and liabilities were translated using an exchange rate of 1.44 at December 31, 2024 (December 31, 2023 – 1.32). Based on the above net exposure, as at December 31, 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 \$132 in the Company's other comprehensive income (December 31, 2023 - \$121). Total sales in U.S. dollars for the twelve months ended December 31, 2024, were \$8,099 (twelve months ended December 31, 2023 - \$8,265). A 10% appreciation or deterioration of the Canadian dollar against the U.S. dollar would result in a change of approximately \$1,112 (twelve months ended December 31, 2023 - \$1,115).

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

(000's)	December 31, 2024	December 31, 2023
	Euro (€)	Euro (€)
Cash	503	166
Accounts receivable	562	662
Prepayments and other receivables	416	793
Inventory	47	103
Accounts payable and accrued liabilities	(1,104)	(1,225)
Unearned revenue	(393)	(742)
Debt and lease liabilities	(51)	(331)
Total	(20)	(574)

The above assets and liabilities were translated at 1.49 at December 31, 2024 (December 31, 2023 – 1.46). Based on the above net exposure as at December 31, 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 \$3 in the Company's other comprehensive income (December 31, 2023 - \$84). Total sales in Euros for the twelve months ended December 31, 2024, were €4,031 (twelve months ended December 31, 2023 - €2,934). A 10% appreciation or deterioration of the Canadian dollar against the Euro would result in a change of approximately \$597 (twelve months ended December 31, 2023 - \$428).

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

In addition, the Company's loss from associate is denominated in Swiss Francs. If 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 \$108. Assuming the loss from associate was in place for the full year ended December 31, 2023, the increase or decrease in loss from association would be \$53. The Company's loan to associate is also denominated in Swiss Francs. This loan was translated at 1.59 at December 31, 2024 (December 31, 2023 – 1.58). A 10% appreciation or deterioration of the Canadian dollar against the Swiss Franc would result in a change of approximately \$Nil in foreign exchange gain or loss in the statement of loss and comprehensive loss since this loan balance was fully impaired as at December 31, 2024 (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 twelve ended December 31, 2024, fluctuations in the bank prime interest rate had a significant impact on the Company's interest expense. At December 31, 2024, the Company had \$7,500 of outstanding debt on its interest-bearing term loan. If the prime borrowing rate changed by 4%, it would have an impact of \$300 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 twelve months ended December 31, 2024, the Company was dependent on this service contract for 56% of its revenue (twelve months ended December 31, 2023 – 37%). 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 December 31, 2024, the exposure to risk related to investment in associate was \$Nil as the value of the investment in associate had been fully impaired (December 31, 2023 - \$5,727).

20. RELATED PARTY DISCLOSURE

Key management personnel compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the business activities of the Company, including all of its directors, along with certain executives. Directors are remunerated through a cash directors fee and participation in the stock option and RSU plans. Executive compensation is comprised of base salary, benefits and participation in the stock option and RSU plans. The Company does not have a defined benefit or actuarial pension plan. Key management personnel participate in the stock option plan.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

20. RELATED PARTY DISCLOSURE (continued)

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.

(\$000's)	Twelve months ended December 31	
	2024	2023
Officers and directors salaries, wages, fees & benefits	1,283	1,162
Lease expenses paid to a related party	37	122
Employee compensation paid to related parties	87	389
Consulting fees and other expenses	-	124
	1,407	1,797

- 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 (twelve months ended December 31, 2023 - \$122). 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 (twelve months ended December 31, 2023 - \$389).
- During the twelve months ended December 31, 2024, the Company paid consulting fees to a director of the Company in the amount of \$Nil (twelve months ended December 31, 2023 - \$124).

As at December 31, 2024, there were no balances in accounts payable due to related parties (December 31, 2023 - \$174).

Related party transactions with associate

For the twelve months ended December 31, 2024, the Company had \$321 of product sales and \$104 of cost of product sold in transactions with Quad (for the period July 1, 2023, to December 31, 2023 - \$254 of product sales and \$151 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 December 31, 2024, the Company had gross outstanding balances of \$762 (December 31, 2023 - \$578) in accounts receivable and \$218 (December 31, 2023 - \$89) in accounts payable and accrued liabilities, due from and to its associate, respectively. During the twelve months ended December 31, 2024, the Company has recognized an impairment provision of \$496 against the outstanding balances due from its associate (twelve months ended December 31, 2023 - \$Nil) (Note 16).

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

21. INCOME TAXES

At December 31, 2024, the Company accrued operating loss pools in various tax jurisdictions of \$29,811 (2023 - \$25,671). In certain jurisdictions these operating loss pools have a finite life. These finite-lived pools amount to \$20,841 and expire between 2037 and 2044.

Additionally, the Company had tax pools of approximately \$4,540 (2023 - \$2,147) related to Scientific Research and Experimental Development ("SR&ED") in Canada available to carry forward indefinitely to reduce taxable income of future years, capital loss pools of \$928 (2023 - \$852) available to carry forward indefinitely, and tax credit pools of \$2,098 (2023 - \$2,017) expiring between 2041 and 2044. The Company also has financing fee pools of \$1,497 available to reduce taxable income between 2025 and 2028 (2023 - \$1,598).

Significant components of the Company's deferred income tax assets and liabilities are shown below:

(\$000's)	Twelve months ended December 31	
	2024	2023
Net loss before income tax expense	(13,635)	(16,795)
Statutory tax rate	23.0%	23.0%
Expected income tax recovery at statutory rates	(3,136)	(3,863)
Items not deductible for tax purposes	311	652
Application of net operating losses	21	(135)
Foreign tax rate difference	(423)	(518)
Stock based compensation	236	210
Prior period true up	847	195
Other	(588)	(172)
Tax benefits unrecognized (utilized)	2,710	3,620
Current income tax expense	45	13
Deferred income tax recovery	(67)	(24)

The reconciliation of income tax attributable to operations is as follows:

(\$000's)	Twelve months ended December 31	
	2024	2023
Deferred income tax assets (liabilities):		
Property and equipment and patents	(298)	(624)
Intangible asset	(2,657)	(3,319)
Leases receivable	(131)	-
SR&ED and income tax credits	2,666	2,208
Warranty provision	44	104
Long-term debt and lease obligation	1,868	2,020
Net operating losses	8,022	7,509
Deferred tax asset not recognized	(8,905)	(7,436)
Other	(726)	(646)
Net deferred income tax liability	(117)	(184)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

22. SUPPLEMENTAL CASH FLOW INFORMATION

(\$000's)	Twelve months ended December 31	
	2024	2023
Changes in items of non-cash working capital in operating activities		
Accounts receivable and other receivables	(1,516)	(1,841)
Inventory	1,424	818
Other assets	1,072	(1,567)
Accounts payable and accrued liabilities	183	(334)
Share purchase warrants	94	-
	1,257	(2,924)
Changes in items of non-cash working capital in investing activities		
K'Prime acquisition earnout paid	-	(500)
	-	(500)
Components of finance expense		
Cash interest paid	1,155	1,127
Cash interest (received)	(29)	(5)
Non-cash interest expense (income)	219	(838)
Net finance expense	1,345	284

Notes to the Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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

DIRECTORS AND OFFICERS

Sean Krakiwsky, M.Sc (3)

President & Chief Executive Officer

Randall McRae, CPA, CA

Chief Financial Officer

Julien Muller

Chief Technology Officer

Martin Burian, CPA, CA, ICD.D (1) (2) (3)

Chairman of the Board

Werner Gartner CPA, CMA (1)

Director

Dr. Michal Okoniewski (2) (3)

Director

Jennifer Stubbs, CPA (1) (2)

Director

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Corporate Governance and Nomination Committee

CORPORATE OFFICE

Nanalysis Scientific Corp

Unit 105, 90 Freeport Boulevard NE

Calgary, Alberta T3J 5J9

Phone:403.769.9499

Email: IR@nanalysis.com

BANKER

ATB Financial

Calgary, Alberta

LAWYERS

DLA Piper (Canada) LLP

Calgary, Alberta

AUDITORS

Ernst & Young LLP

Calgary, Alberta

STOCK EXCHANGE

TSX Venture

Trading Symbol: NSCI

TRANSFER AGENT AND REGISTRAR

Odyssey Trust Company

Calgary, Vancouver, Toronto