

**SONA NANOTECH INC.**  
**BUSINESS ACQUISITION REPORT**

**Item 1: Identity of Company**

**1.1: Name and Address of Company**

Sona Nanotech Inc.  
2001 – 1969 Upper Water Street  
Halifax, Nova Scotia  
B3J 3R7

**1.2: Executive Officer**

David Regan  
Chief Executive Officer  
1-902-536-1932

**Item 2: Details of Acquisition**

**2.1: Nature of Business Acquired**

On March 27, 2023, Sona Nanotech Inc. (“Sona”) acquired Siva Therapeutics, Inc. (“Siva”), the developer of Targeted Hyperthermia Therapy™ (“THT”) photo thermal therapy for cancer tumors using Sona’s uniquely biocompatible gold nanorods (the “Transaction”). Siva holds two patents supporting the in vivo delivery of a thermal therapy, which is being designed to have multiple beneficial effects on tumors, including being more selective than chemotherapy, less destructive than radiation, and without the risks of surgical treatment.

Siva Therapeutics is an Austin, Texas based company established in 2010 that is in the pre-clinical phase of developing THT and the SivaLum™ infrared light device that forms part of THT. In the proposed therapy, the therapeutic heat is delivered to cancer tumors by infrared light that is absorbed by SivaRods™ gold nanorods in the tumor and re-emitted as heat. Therapeutic heat (44°C) stimulates the immune system, shrinks tumors, inactivates cancer stem cells, and increases tumor perfusion – thus enabling drugs to reach all tumor compartments more effectively. The size, shape, and surface chemistry of the nanorods target the leaky vasculature of solid tumors, and the selective thermal sensitivity of tumor tissue enables the therapy to deliver clean margins. Targeted Hyperthermia promises to be safe, effective, minimally invasive, competitive in cost, and a valuable adjunct to drug therapy and other cancer treatments. Siva’s initial clinical targets include colorectal, esophageal, head and neck cancers.

**2.2 Acquisition Date**

March 23, 2023

### **2.3 Consideration**

By a share purchase agreement dated January 23, 2023, as amended (the “Share Purchase Agreement”) Sona acquired all of the issued and outstanding common shares of Siva with total consideration to the Siva shareholders of US \$2.0 million in Sona shares (the “Transaction Shares”) at the date of closing (the “Closing Date”), plus up to an additional US \$6.65 million in Sona shares over multiple instalments conditional on Siva’s future achievement of specific performance milestones by January 31, 2025 (the “Performance Shares”). This agreement superseded the commercial agreement with Siva, announced October 2022.

On March 23, 2023, the Company closed the Transaction issuing 15,107,457 common shares in the Company to the shareholders of Siva, which were issued at the ten-day volume weighted average price for C\$0.1824 per share, or US\$2.0 million in total.

As additional consideration, Sona may issue additional Performance Shares to the shareholders of Siva in up to four instalments for up to an additional US \$6.65 million in Sona common shares, upon Siva achieving the following four milestones (each a “Milestone”):

- a) Upon Siva securing a contract for a large animal colorectal cancer tumor model, suitable for the evaluation of Siva’s THT therapy by no later than June 30, 2023, a further US \$650,000;
- b) Upon Siva obtaining delivery and acceptance of infrared light devices meeting certain technical and costing requirements, by no later than nine months from the Closing Date, a further US \$750,000;
- c) Upon Siva achieving results from a large animal study of THT therapy for colorectal cancer tumors that support an US Food and Drug Administration Investigational Device Exemption for human study, by no later than thirteen months from the closing date, a further US \$2,700,000; and
- d) Upon Siva obtaining positive results from the first cohort of a “first in human” clinical study for THT therapy, and a notice of allowance for a patent for the infrared light device to protect THT for colorectal cancer, by no later than January 31, 2025, a final US \$2,550,000.

Each of these Milestone payments of Performance Shares will be converted into Canadian dollars on the fifth business day preceding the issue date and will be payable in Sona’s common shares at a deemed value equal to the greater of: (i) the VWAP on the fifth business day preceding their issue date, and (ii) the maximum allowed discounted price under the policies of the Exchange based on the closing price of the Sona Shares on the last trading day preceding the announcement of the completion of the Milestone; and provided further that the deemed value must not be less than C\$0.25, C\$0.35, C\$0.50 and C\$0.75 per share for the first, second, third and fourth Milestones, respectively.

### **2.4 Effect on Financial Position**

The closing of the Transaction did not have any immediate material impact on Sona’s financial position.

Combining with the Siva team, given their traction in developing a practical and powerful therapy that leverages the key attributes of Sona’s gold nanorods to potentially improve the lives of people living with cancer. This Proposed Transaction provides for tremendous alignment of interests for the success of the

further Targeted Hyperthermia Therapy trials planned for 2023 which will first address colorectal cancer, the second most mortal cancer worldwide, providing Sona with a more diversified portfolio as part of our push to build shareholder value.

As a result of the Siva acquisition, Leonard Pagliaro, Ph.D., CEO of Siva will now serve as Chief Scientific Officer of Sona and president of Sona's wholly owned US subsidiary, Siva Therapeutics, Inc. Sona's Darren Rowles will assume the new role of Head of Diagnostics for Sona and continue to drive the development of Sona's rapid concussion and bovine tuberculosis tests, both of which also rely upon Sona's biocompatible gold nanorod platform technology.

## **2.5 Prior Valuations**

Not applicable.

## **2.6 Parties to Transaction**

All of the shareholders of Siva were at arms-length to Sona.

## **2.7 Date of Report**

June 21, 2023

### **Item 3 Financial Statements and Other Information**

See attached the audited financial statements for Siva for the years ended December 31, 2022 and 2021.

#### **Forward-Looking Statements**

Certain information in this business acquisition report is forward-looking within the meaning of Canadian securities laws as it relates to anticipated financial performance, events or strategies. When used in this context, words such as will, anticipate, believe, plan, target, expect or similar words would suggest future outcomes.

Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Sona to be materially different from those expressed or implied by such forward-looking information, including the fair value of assets acquired and liabilities assumed, the final settlement of the number of Performance Shares issuable under the Share Purchase Agreement for Siva, completing the analysis of the tax treatment of the acquisition, recording any related future income taxes adjustments and the effective corporate tax rate and incurring additional expenses in connection with the transaction, FDA and Health Canada approvals and clearances for Sona's and Siva's products, product safety, the success of animal and human clinical studies, obtaining sufficient clinical and other scientific data to make regulatory submissions, raising sufficient capital, the development of the envisioned therapies, as well as those factors discussed in the section "Risk and Uncertainties" of Sona's Management Discussion and Analysis for the three-months ended January 31, 2023 (which can be found on [www.sedar.com](http://www.sedar.com) under Sona's profile).

Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and its perception of trends, current conditions and expected

developments, as well as other factors that management believes to be relevant and reasonable in the circumstances at the date that such statements are made but may prove to be inaccurate. Although Sona believes the assumptions and expectations reflected in such forward-looking information are reasonable, undue reliance should not be placed on forward-looking information because Sona can give no assurance that such expectations will prove to be correct. Readers are cautioned that the foregoing is not exhaustive of all factors and assumptions that may have been used.

Although Sona has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward looking information. Sona does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

*Financial Statements of*

**SIVA THERAPEUTICS, Inc.**

For the years ended December 31, 2022 and 2021

(Expressed in United States Dollars)

June 9, 2023

## **Management's Report**

The accompanying audited financial statements of **Siva Therapeutics, Inc.** (the "Company") have been prepared by the Company's management. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and contain estimates based on management's judgment. Internal control systems are maintained by management to provide reasonable assurances that assets are safeguarded and financial information is reliable.

The Board of Directors of the Company is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements and the accompanying management discussion and analysis.

Manning Elliott LLP, appointed as the Company's auditors by the Board of Directors, has examined these financial statements and Audit report follows.

(signed) "*Len Pagliaro*"  
Chief Executive Officer  
Texas, USA

(signed) "*Rob Randall*"  
Chief Financial Officer  
Halifax, Canada



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## INDEPENDENT AUDITORS' REPORT

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To the Board of Directors of Siva Therapeutics, Inc.

### Opinion

We have audited the financial statements of Siva Therapeutics, Inc. (the "Company") which comprise the statements of financial position as at December 31, 2022 and 2021, and the statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### 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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Partnership 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.

### Emphasis of Matter - Material Uncertainty Related to Going Concern

We draw attention to Note 2 of the accompanying financial statements, which describes matters and 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. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

## **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 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 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

*Manning Elliott LLP*

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, British Columbia

June 9, 2023



**Siva Therapeutics, Inc.**  
**Statements of Financial Position**  
**As at December 31, 2022 and December 31, 2021**  
*Expressed in United States dollars*

	December 31, 2022 \$	December 31, 2021 \$
<b>Assets</b>		
Current assets		
Cash	15,123	272,800
Accounts receivable and other assets (note 4)	4,579	4,445
<b>Total assets</b>	<b>19,702</b>	<b>277,245</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	14,704	13,488
<b>Total liabilities</b>	<b>14,704</b>	<b>13,488</b>
<b>Equity</b>		
Share capital	851,074	810,000
Warrant reserve	28,223	49,059
Contributed Surplus	504,213	65,415
Deficiency	(1,378,512)	(660,717)
<b>Total Equity</b>	<b>4,998</b>	<b>263,757</b>
<b>Total liabilities and equity</b>	<b>19,702</b>	<b>277,245</b>

Basis of presentation and going concern (note 2)  
 Commitments and contingencies (note 11)  
 Subsequent events (note 12)

Approved on behalf of the Board of Directors on June 9, 2023:

*"David Regan"*  
 Director

*"Rob Randall"*  
 Director

*The accompanying notes are an integral part of these financial statements.*

**Siva Therapeutics, Inc.**  
**Statements of Loss and Comprehensive Loss**  
**For the years ended December 31, 2022 and 2021**  
*Expressed in United States dollars*

	2022	2021
	\$	\$
<b>Expenses</b>		
Consulting and wages (note 9)	158,433	71,341
Professional fees	50,015	1,313
Sales and marketing	23,452	26,681
Travel	21,897	7,481
Administrative	5,041	1,375
Share-based compensation (note 6 & note 7)	458,957	52,918
<b>Net loss and comprehensive loss for the year</b>	<u>(717,795)</u>	<u>(161,109)</u>
Loss per share – basic and diluted	<u>(0.96)</u>	<u>(0.22)</u>
Weighted-average number of common shares outstanding - basic and diluted	<u>750,717</u>	<u>730,934</u>

*The accompanying notes are an integral part of these financial statements.*

**Siva Therapeutics, Inc.**  
**Statements of Changes in Equity**  
**For the years ended December 31, 2022 and 2021**  
**Expressed in United States dollars**

	Number of Common Shares	Common Shares	Number of Warrants	Warrants Reserve	Contributed Surplus	Deficit	Total
		\$		\$	\$	\$	\$
<b>Balance, December 31, 2020</b>	714,502	400,000	7,856	40,995	20,561	(499,608)	(38,052)
Net loss and comprehensive loss for the year	-	-	-	-	-	(161,109)	(161,109)
Units issued pursuant to private placement, net of costs (note 5)	34,063	410,000	-	-	-	-	410,000
Compensation warrants (note 7)	-	-	670	8,064	-	-	8,064
Share-based compensation expense	-	-	-	-	44,854	-	44,854
<b>Balance, December 31, 2021</b>	748,565	810,000	8,526	49,059	65,415	(660,717)	263,757
Net loss and comprehensive loss for the year	-	-	-	-	-	(717,795)	(717,795)
Shares issued pursuant to warrant exercises (note 5 & note 7)	7,856	41,074	(7,856)	(40,995)	-	-	79
Compensation warrants (note 7)	-	-	1,675	20,159	-	-	20,159
Share-based compensation expense	-	-	-	-	438,798	-	438,798
<b>Balance, December 31, 2022</b>	756,421	851,074	2,345	28,223	504,213	(1,378,512)	4,998

*The accompanying notes are an integral part of these financial statements.*

**Siva Therapeutics, Inc.**  
**Statements of Changes in Cash Flows**  
**For the years ended December 31, 2022 and 2021**  
*Expressed in United States dollars*

	2022	2021
	\$	\$
<b>Operating activities</b>		
Net loss for the year	(717,795)	(161,109)
Changes to loss not involving cash:		
Share-based compensation	458,957	52,918
	<u>(258,838)</u>	<u>(108,191)</u>
Increase in amounts receivable and other	(55)	(4,445)
Decrease (increase) in accounts payable and accrued liabilities	1,216	(20,574)
	<u>(257,677)</u>	<u>(133,210)</u>
<b>Financing activities</b>		
Proceeds received upon private placement financing, net of costs (note 5)	-	410,000
Repayment of shareholder loan (note 9)	-	(5,000)
	<u>-</u>	<u>405,000</u>
Change in cash during the year	(257,677)	271,790
Cash, beginning of the year	272,800	1,010
Cash, end of the year	<u>15,123</u>	<u>272,800</u>

*The accompanying notes are an integral part of these financial statements.*

**Siva Therapeutics, Inc.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2022 and 2021**  
*Expressed in United States dollars*

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**1. NATURE OF OPERATIONS**

Siva Therapeutics, Inc. (“Siva” or the “Company”) is a company involved in the development of targeted hyperthermia therapy for cancer treatment. The Company’s corporate and registered office is located at # 21 5401 E Dakota Avenue, Denver, Colorado, USA 80246.

**2. BASIS OF PRESENTATION AND GOING CONCERN**

*Basis of presentation*

These financial statements have been prepared under a historical cost basis except for certain financial instruments recorded at fair value. All amounts are expressed in United States dollars, unless otherwise noted.

*Going concern*

The Company’s operations have been financed through the sale of common shares and research grants. The Company has incurred significant operating losses since inception and has an accumulated deficit of \$1,378,512 as at December 31, 2022 (December 31, 2021 – \$660,717).

These financial statements have been prepared on a going-concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. For the year ended December 31, 2022, the Company incurred a net loss of \$717,795 (December 31, 2021 - \$161,109). The Company has negative cash flow from operations. In addition to its working capital requirements, the Company must secure sufficient funding to further develop its targeted hyperthermia therapy and to fund its general operating costs. Such circumstances create material uncertainties that may cast significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. Management is evaluating alternatives to secure additional financing so that the Company can continue to operate as a going concern. However, there can be no assurance that these initiatives will be successful or sufficient.

The Company’s ability to continue as a going concern is dependent upon its ability to fund its working capital and operating requirements and eventually to generate positive cash flows from operations. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues and expenses and statement of financial position classifications that would be necessary were the going concern assumption determined to be inappropriate and these adjustments could be material.

*Basis of measurement*

These financial statements have been prepared on an accrual basis and are based on historical costs. The financial statements are presented in United States dollars which is also the Company’s functional currency.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

**a) Statement of compliance**

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The Board of Directors approved these financial statements for issue on June 9, 2023.

**Siva Therapeutics, Inc.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2022 and 2021**  
*Expressed in United States dollars*

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**b) Critical accounting judgments and estimates**

The preparation of the financial statements in conformity with IFRS requires management to make judgments and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about critical accounting judgments and estimates in applying accounting policies that have the most significant impact on the amounts recognized in the financial statements are outlined below.

*Share-based payments*

The Company makes certain estimates and assumptions when calculating the estimated fair values of stock options granted and warrants issued. The significant assumptions used include estimates of expected volatility, expected life, expected dividend rate and expected risk-free rate of return. Changes in these assumptions may result in a material change to the expense recorded for grants of stock options and the issuance of warrants.

*Deferred income taxes*

The Company is periodically required to estimate the tax base of assets and liabilities. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded in the financial statements. Changes in deferred tax assets and liabilities generally have a direct impact on earnings in the period of changes.

Each period, the Company evaluates the likelihood of whether some portion or all of each deferred tax asset will not be realized. This evaluation is based on historic and future expected levels of taxable income, the pattern and timing of reversals of taxable temporary timing differences that give rise to deferred tax liabilities, and tax planning initiatives. Levels of future taxable income are affected by, among other things, the market price for commodities, production costs, quantities of proven and probable reserves, interest rates, and foreign currency exchange rates.

**c) Financial Instruments**

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of a financial instrument. Financial assets and financial liabilities are initially measured at fair value. Financial assets are classified into one of the following specified categories: amortized cost, fair value through profit or loss (“FVTPL”) or fair value through other comprehensive income (“FVOCI”). Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities classified as FVTPL) are added to, or deducted from, the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in the statement of loss and comprehensive loss.

**Siva Therapeutics, Inc.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2022 and 2021**  
*Expressed in United States dollars*

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The Company’s financial instruments are classified and subsequently measured as follows:

<b>Financial instrument</b>	<b>IFRS 9</b>
Cash	Amortized cost
Amounts receivable	Amortized cost
Accounts payable	Amortized cost

Financial Assets

Subsequent to initial recognition, financial assets are classified and measured at amortized cost using the effective interest method.

Financial assets classified as FVOCI are recognized initially at fair values plus transaction costs and are subsequently carried at fair value, with changes in the fair value recorded in other comprehensive income. The fair value measurements are based on level 1 inputs, being quoted prices in active markets for identical instruments.

*Impairment of financial assets at amortized cost*

The Company recognizes an allowance using the Expected Credit Losses (“ECL”) model on financial assets classified as amortized cost. The Company has elected to use the simplified approach for measuring ECL by using a lifetime expected loss allowance for all accounts receivable. Under this model, impairment provisions are based on credit risk characteristics and days past due. When there is no reasonable expectation of collection, financial assets classified as amortized cost are written off. Indications of credit risk arise based on failure to pay and other factors. Should objective events occur after an impairment loss is recognized, a reversal of impairment is recognized in the statement of loss and comprehensive loss.

Financial Liabilities

Financial liabilities are classified as and are measured at amortized cost subsequent to initial measurement at fair value.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported on the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

**d) Cash**

Cash is comprised of cash held in current operating bank accounts.

**e) Share capital**

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects. Common shares issued for consideration other than cash, are valued based on the fair value of goods or services rendered.

Depending on the terms and conditions of each financing agreement, the warrants are exercisable into additional common shares prior to expiry at a price stipulated by the agreement. Warrants that are part of units are accounted for using the residual method, following an allocation of the unit price to the fair value of the common shares that were concurrently issued. Warrants that are issued as payment for an agency fee or other transactions costs are accounted for as share-based payments.

**Siva Therapeutics, Inc.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2022 and 2021**  
*Expressed in United States dollars*

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**f) Share-based payments**

The Company has a share-based compensation plan. Awards of options under this plan are expensed based on the estimated fair value of the options at the grant date, with a corresponding credit to contributed surplus in shareholders' equity. Fair value is estimated using the Black-Scholes pricing model. If the options are subject to a vesting period, the estimated fair value is recognized over this period on a graded vesting basis, based on the Company's estimate of the shares that will eventually vest.

Equity-settled share-based payment transactions with parties other than employees and those providing similar services are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the estimated fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Cash consideration received on exercise of options is credited to share capital together with the amounts originally recorded as share-based compensation related to the exercised options.

**g) Income taxes**

*Current income taxes*

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities based on taxable income for the year. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income.

Income tax is recognized in the statements of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity. Current income tax relating to items recognized directly in equity is recognized in the statements of changes in equity and not in the statements of loss and comprehensive loss.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate. The Company recognizes interest and penalties, if any, related to uncertain tax positions in income tax expense.

*Deferred income taxes*

Deferred income taxes are calculated using the liability method on temporary differences between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses, can be utilized.



**Siva Therapeutics, Inc.**  
**Notes to the Financial Statements**  
**For the years ended December 31, 2022 and 2021**  
*Expressed in United States dollars*

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Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted, or substantively enacted, at the reporting date. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax relating to items recognized outside of profit or loss is recognized outside of profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive loss or directly in equity.

**h) Loss per share**

Loss per share is calculated based on the weighted average number of shares outstanding during the year. The Company follows the treasury method of calculating diluted earnings per share. This method assumes that any proceeds from the exercise of stock options and other dilutive instruments would be used to purchase common shares at the average market price during the year. Diluted loss per share is equal to loss per share since the exercise of all options and warrants is anti-dilutive.

**i) Provisions**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material. There were no material provisions recorded within the financial statements as at December 31, 2022.

**j) Related party transactions**

Unless otherwise disclosed herein, all transactions with related parties are in the normal course of business and are measured at the exchange amount (note 9).

**k) Government assistance and other non-repayable research grants**

Government assistance and other non-repayable research grants are recorded in the period earned as other income or netted against expenses. During the period ended December 31, 2022, the Company received \$nil in research grants (2021 - \$nil).

**l) Accounting standards issued but not yet effective**

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2022, and have not been early adopted in preparing these financial statements. These new standards, and amendments to standards and interpretations are either not applicable or are not expected to have a significant impact on the Company's financial statements

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**4. AMOUNTS RECEIVABLE AND OTHER ASSETS**

	<b>December 31, 2022</b>	December 31, 2021
	\$	\$
Share subscription receivable	79	-
Prepaid expenses and other	<b>4,500</b>	4,445
	<b>4,579</b>	4,445

**5. SHARE CAPITAL**

**a) Common shares**

The Company is authorized to issue two classes of stock to be designated, respectively, “Common Stock” and “Preferred Stock.” The total number of shares which the Company is authorized to issue is 20,000,000 shares, 10,000,000 shares of which shall be Common Stock and 10,000,000 shares of which shall be Preferred Stock. The Preferred Stock shall have a par value of \$0.001 per share and the Common Stock shall have a par value of \$0.001 per share. There are no preferred shares issued or outstanding as of December 31, 2022.

Private Placement Financing

During the year ended December 31, 2021, the Company issued 34,063 common shares pursuant to various non-brokered private placement financings for aggregate gross proceeds of \$410,000.

Warrant Exercise

During the year ended December 31, 2022, 7,856 warrants were exercised with an exercise price of \$0.01 per share for proceeds of \$79. On the exercise date, the common share price was \$12.04 per common share based on the share price of the private placement financing closed during the year ended 2021.

	<b>Common Shares</b>	
	#	\$
<b>Balance, December 31, 2020</b>	<b>714,502</b>	<b>400,000</b>
Issued pursuant to private placement	34,063	410,000
<b>Balance, December 31, 2021</b>	<b>748,565</b>	<b>810,000</b>
Issued pursuant to warrant exercise	7,856	41,074
<b>Balance, December 31, 2022</b>	<b>756,421</b>	<b>851,074</b>

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**6. STOCK OPTIONS**

The Company has adopted a stock option plan, providing management with the discretion to issue an equivalent number of stock options of up to 252,255 of the issued and outstanding share capital of the Company. As at December 31, 2022, 185,585 remain available for grant under the terms of the stock option plan.

The estimated fair value of options recognized has been estimated at the grant date using the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions, including the expected volatility. Changes in the assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable estimate of the fair value of the Company's stock options.

The following are the weighted-average assumptions used in calculating the value of the stock options granted during the years ended December 31, 2022 and 2021.

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Risk-free interest rate	2.35%	1.53%
Expected life	10.0 years	10.0 years
Expected volatility	150%	150%
Expected dividend per share	0.0%	0.0%
Exercise price	\$12.04	\$6.05

The following table reconciles the stock option activity during the years ended December 31, 2022 and 2021:

	<u>Number of options</u>	<u>Weighted-average exercise price</u>
	#	\$
Balance, December 1, 2020	<b>4,000</b>	<b>5.22</b>
Issued	12,670	6.05
Balance, December 31, 2021	<b>16,670</b>	<b>5.85</b>
Issued	50,000	12.04
Balance, December 31, 2022	<b>66,670</b>	<b>10.49</b>

The following table summarizes information relating to outstanding and exercisable stock options as at December 31, 2022:

<u>Expiry date</u>	<u>Weighted-average remaining contractual life (in years)</u>	<u>Number of options outstanding</u>	<u>Number of options exercisable</u>	<u>Weighted-average exercise price</u>	<u>Black-Scholes option value</u>
September 4, 2023	0.7	4,000	4,000	\$5.22	\$20,561
May 10, 2031	8.4	4,114	2,171	\$2.00	\$49,226
September 1, 2031	8.7	4,278	1,337	\$8.00	\$50,814
November 18, 2031	8.9	4,278	1,545	\$8.00	\$50,825
March 30, 2032	9.3	50,000	12,500	\$12.04	\$592,532
		<b>66,670</b>	<b>21,553</b>		

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Subsequent to December 31, 2022 the Company entered into an agreement to cancel the outstanding share options agreements. In consideration for the cancellation of the option agreements, option holders received 34,750 fully paid common shares of the Company. As at date of the cancellation, there are no further share options outstanding.

**7. WARRANTS**

The following table reconciles the warrant activity during the years ended December 31, 2022 and 2021:

	<b>Number of warrants</b>	<b>Weighted- average exercise price</b>
	#	\$
Balance, December 31, 2020	7,856	0.01
Issued pursuant to compensation	670	0.01
Balance, December 31, 2021	8,526	0.01
Issued pursuant to compensation	1,675	0.01
Exercised	(7,856)	0.01
Balance, December 31, 2022	<u>2,345</u>	<u>0.01</u>

During the year ended December 31, 2022, the Company issued 1,675 compensation warrants pursuant to a consulting agreement. The warrants are exercisable at \$0.01 and have a weighted average expiry on December 14, 2028.

During the year ended December 31, 2021, the Company issued 670 compensation warrants pursuant to a consulting agreement. The warrants are exercisable at \$0.01 and have a weighted average expiry on March 30, 2029.

The fair value of the warrants issued has been estimated at the grant date using the Black-Scholes option pricing model. The weighted-average assumptions used in the pricing model for the year ended December 31, 2022 and 2021 are as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Risk-free interest rate	2.33%	1.36%
Expected life	7.0 years	7.0 years
Expected volatility	150%	150%
Expected dividend per share	0.0%	0.0%
Weighted-average exercise price	\$0.01	\$0.01

Subsequent to December 31, 2022, 2,345 warrants were exercised with an exercise price of \$0.01 per share for proceeds of \$23.45. The warrant holder received 2,345 fully paid common shares of the Company. Cash proceeds receivable were netted with amounts payable to the warrant holder. As at the date of exercise, there are no further warrants outstanding.

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**8. INCOME TAXES**

The provision for income taxes reported differs from the amounts computed by applying the applicable income tax rates to the net loss before tax provision due to the following:

	2022	2021
	\$	\$
Loss before income taxes	717,795	161,109
Statutory rate	24.0%	24.0%
Tax recovery at statutory rate	172,270	38,666
Decrease (increase) of losses and deductible temporary differences not recognized in current and prior years	(172,270)	(38,666)
Income tax recovery	-	-

The nature and effect of the Company's deferred tax assets is as follows:

	2022	2021
	\$	\$
Non capital losses carried forward	332,000	160,000
Less: tax benefit not recognized	(332,000)	(160,000)
Net deferred income tax assets	-	-

*Non-capital losses*

As at December 31, 2022, the Company had approximately \$332,000 in losses available to reduce future taxable income for US income tax purposes. The benefit of these losses has not been recorded in the accounts as realization is not considered probable.

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**9. RELATED PARTY TRANSACTIONS**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Related parties include the Company's Chief Executive Officer ("CEO") and Chief Legal Officer ("CLO"). Compensation awarded to related parties for the years ended December 31, 2022 and 2021 is summarized as follows:

	<u>2022</u>	<u>2021</u>
	\$	\$
CEO remuneration - Len Pagliaro	55,000	30,000
CLO remuneration - Steve Kregstein	27,500	15,000
	<u><b>82,500</b></u>	<u><b>45,000</b></u>

As at December 31, 2021 and 2022, the amount owing to a shareholder loan was \$nil (December 31, 2020 - \$5,000).

**10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**a) Capital Management**

The Company's capital structure consists of share capital, warrants and contributed surplus, which at December 31, 2022 was \$1,383,510 (December 31, 2021 - \$924,474). The Company's objective when managing capital is to maintain adequate levels of funding to support the research and development of its targeted hyperthermia therapy and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing and government funding. Future financings are dependent on market conditions, and there can be no assurance the Company will be able to raise funds in the future. There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

**b) Fair Values of Financial Instruments**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The carrying amounts reported in the statement of financial position for cash, amounts receivable and accounts payable approximate their fair values based on the immediate or short-term maturities of these financial instruments.

**c) Financial Risk Management Objectives**

The Company examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, and interest rate risk. Where material, these risks are reviewed and monitored.

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**d) Credit Risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date.

Cash is held with banks and credit unions in the United States of America.

**e) Liquidity Risk**

Liquidity risk is the risk that the Company will not meet its financial obligations as they become due. The Company has a planning and budgeting process to monitor operating cash requirements, including amounts projected for capital expenditures, which are adjusted as input variables change. These variables include, but are not limited to, the ability of the Company to generate revenue from prospective customers, general and administrative requirements of the Company and the availability of capital markets. As these variables change, liquidity risks may necessitate the need for the Company to issue equity or obtain debt financing. Refer to note 2 for further details related to the ability of the Company to continue as a going concern.

The Company is currently pursuing financing alternatives and there can be no assurance that additional future financings will be available on acceptable terms or at all. If the Company is unable to obtain additional financing when required, the Company may have to substantially reduce or eliminate planned expenditures.

Accounts payables are paid in the normal course of business generally according to their terms.

In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the remaining contractual maturities of the Company's financial liabilities as at December 31, 2022:

	<b>Within 1 year</b>	<b>2-3 years</b>	<b>4-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
	\$	\$	\$	\$	\$
Accounts payable	14,704	-	-	-	14,704
	<b>14,704</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,704</b>

The following table summarizes the remaining contractual maturities of the Company's financial liabilities as at December 31, 2021:

	<b>Within 1 year</b>	<b>2-3 years</b>	<b>4-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
	\$	\$	\$	\$	\$
Accounts payable	13,488	-	-	-	13,488
	<b>13,488</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,488</b>

**f) Fair Value Measurements Recognized in the Statement of Financial Position**

The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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**11. COMMITMENTS AND CONTINGENCIES**

As of December 31, 2022, the Company has employment agreements with the CEO and the CLO which provides that, should a change in control event occur, as defined in the employment agreements, the CEO and CLO will receive a lump sum payment of their then current base salary. Subsequent to December 31, 2022 terms of the employment agreements with the CEO and CLO were modified as a result of the Sona acquisition as described in note 12. These contracts have been amended and there was no resulting payments from the employment contracts outstanding as of December 31, 2022

**12. SUBSEQUENT EVENT – TRANSACTION WITH SONA NANOTECH INC.**

On January 26, 2023, Sona Nanotech Inc. (“Sona”) entered a binding agreement (the “Definitive Agreement”) to acquire Siva Therapeutics, Inc. (“Siva”), (the “Transaction”). Under the Definitive Agreement, Sona agreed to acquire all of the issued and outstanding common shares of Siva with total consideration to the Siva shareholders of \$2.0 million in Sona common shares (the “Transaction Shares”) at the date of closing (the “Closing Date”), plus up to an additional \$6.65 million in Sona common shares over multiple instalments conditional on Siva’s future achievement of specific performance milestones by January 31, 2025 (the “Performance Shares”).

On March 23, 2023 (“Closing Date”), Sona closed the Transaction issuing 15,107,457 common shares of Sona to the shareholders of Siva, which were issued at the ten-day volume weighted average price for C\$0.1824 per share, or \$2.0 million in total.

As additional consideration, Sona may issue additional Performance Shares to the shareholders of Siva in up to four instalments for up to an additional \$6.65 million in Sona common shares, upon Siva achieving the following four milestones (each a “Milestone”):

- Upon Siva securing a contract for a large animal colorectal cancer tumor model, suitable for the evaluation of Siva’s THT therapy by no later than June 30, 2023, a further \$650,000;
- Upon Siva obtaining delivery and acceptance of infrared light devices meeting certain technical and costing requirements, by no later than nine months from the Closing Date, a further \$750,000;
- Upon Siva achieving results from a large animal study of THT therapy for colorectal cancer tumors that support an US Food and Drug Administration Investigational Device Exemption for human study, by no later than thirteen months from the Closing Date, a further \$2,700,000; and
- Upon Siva obtaining positive results from the first cohort of a “first in human” clinical study for THT therapy, and a notice of allowance for a patent for the infrared light device to protect THT for colorectal cancer, by no later than January 31, 2025, a final \$2,550,000.

Each of these Milestone payments of Performance Shares will be converted into Canadian dollars on the fifth business day preceding the issue date and will be payable in Sona’s common shares at a deemed value equal to the greater of: (i) the VWAP on the fifth business day preceding their issue date, and (ii) the maximum allowed discounted price under the policies of the Canadian Securities Exchange based on the closing price of the Sona Shares on the last trading day preceding the announcement of the completion of the Milestone; and provided further that the value must not be less than C\$0.25, C\$0.35, C\$0.50 and C\$0.75 per share for the first, second, third and fourth Milestones, respectively.