Sona Nanotech Inc.
Management Discussion and Analysis
Nine-months ended July 31, 2023

This Management Discussion and Analysis ("MD&A") provides a review of the performance of Sona Nanotech Inc. ("Sona" or the "Company") and should be read in conjunction with the unaudited condensed interim financial statements (the "Financial Statements") of Sona for the nine month period July 31, 2023 and the audited financial statements for the year ended October 31, 2022, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB")

The information presented in this MD&A is as of September 28, 2023. The reporting currency and functional currency for Sona is the Canadian dollar. All of the financial information presented herein is expressed in Canadian dollars, unless otherwise stated. This MD&A contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein. The reader is cautioned not to place undue reliance on forward-looking statements.

FORWARD-LOOKING STATEMENTS AND INFORMATION

This MD&A contains "forward-looking information", as such term is defined in applicable Canadian securities legislation. Forward-looking information is necessarily based on a number of estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies. All statements other than statements which are reporting results as well as statements of historical fact set forth or incorporated herein by reference, are forward looking information that may involve a number of known and unknown risks, uncertainties and other factors, many of which are beyond Sona's ability to control or predict. Forward-looking information can be identified by the use of words such as "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "intends", "continue", or the negative of such terms, or other comparable terminology.

This information includes, but is not limited to, comments regarding:

- the Company's business strategy;
- the development plans for the Company's gold nanoparticle products, lateral flow assay rapid tests and associated services;
- the successful integration of Siva Therapeutics and the securing of animal and human clinical studies, or developing the envisioned therapy;
- the benefits to accrue to the Company from the acquisition of Siva Therapeutics and the future development of Siva's Targeted Hyperthermia Therapy;
- the Company's strategy for protecting its intellectual property;
- the Company's ability to obtain necessary funding on favorable terms or at all;
- the Company's plan and ability to secure revenues;
- the risk of competitors entering the market;
- the Company's ability to hire and retain skilled staff;
- the ability to obtain financing to fund future expenditure and capital requirements; and
- the impact of adoption of new accounting standards.

Although Sona believes that the plans, intentions and expectations reflected in this forward-looking information are reasonable, Sona cannot be certain that these plans, intentions or expectations will be achieved. Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking information contained in this report. Disclosure of important factors that could cause actual results to differ materially from Sona's plans, intentions or expectations is included in this report under the heading *Risks and Uncertainties*.

Forward-looking information inherently involves risks and uncertainties that could cause actual results to differ materially from the forward-looking information. Factors that could cause or contribute to such differences include, but are not limited to, unexpected changes in business and economic conditions, including the global financial and capital markets; changes in interest and currency exchange rates; changes in operating revenues and costs; political or economic instability, either globally or in the countries in which Sona operates; local and community impacts

and issues; labour disputes; environmental costs and risks; competitive factors; availability of external financing at reasonable rates or at all; and the other risk factors discussed in this MD&A under the heading *Risks and Uncertainties*. Many of these factors are beyond Sona's ability to control or predict. These factors are not intended to represent a complete list of the general or specific factors that may affect Sona. Sona may note additional factors elsewhere in this MD&A. All forward-looking statements and information speak only as of the date made. All subsequent written and oral forward-looking statements attributable to Sona, or persons acting on Sona's behalf, are expressly qualified in their entirety by these cautionary statements. Readers are cautioned not to put undue reliance on forward-looking information due to the inherent uncertainty therein. Sona disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise.

COMPANY OVERVIEW

Sona Nanotech Inc., (the "Company" or "Sona") and Sona Nanotech Ltd. ("Sona Nanotech"), a private company involved in the nanotechnology Life Sciences industry, entered into a definitive agreement dated March 22, 2018 to amalgamate the two companies to form Sona Nanotech Inc. The boards of directors of the Company and Sona Nanotech each unanimously approved the terms of the Amalgamation. The Company's corporate office is located at 2001–1969 Upper Water Street, Halifax, Nova Scotia, B3J 3R7 and its registered office is located at Nova Centre – South Tower 1500 – 1625 Grafton Street, Halifax, N.S., Canada, B3J 0E8. The research and development office is located at 1 Research Drive, Bay 2, Dartmouth, N.S., Canada, B2Y 4M9.

The amalgamation of its predecessor companies, Stockport Exploration Inc. and Sona Nanotech Ltd., to form "Sona Nanotech Inc." as a federally amalgamated corporation was completed, with shareholder approval, effective August 8, 2018. The Company submitted its final listing application to the CSE on September 28, 2018 and commenced trading on October 4, 2018 under the trading symbol "SONA". Effective April 8, 2020, the Company's common shares were approved for trading on the OTCQB Marketplace under the trading symbol "SNANF".

Operational overview and Director appointments

Sona is a nano technology life sciences firm that has developed two proprietary methods for the manufacture of rod-shaped gold nanoparticles. The principal business carried out and intended to be continued by Sona is the research and development of its proprietary technology for use in multiplex diagnostic testing platforms and advanced biomedical applications. Sona's gold nanorod particles are uniquely manufactured without the use of CTAB (cetyltrimethylammonium bromide), eliminating the toxicity risks associated with the use of other gold nanorod technologies in medical applications. It is expected that Sona's gold nano technologies may be adapted for use in applications as a safe and effective delivery system for multiple medical treatments, subject to, among other factors, the approval of various regulatory boards.

Sona filed an International (PCT) Patent Application on November 2, 2018, with a priority date of November 4, 2017, to protect its core gold nanorod technology. Patent protection is now being pursued in Canada, China, Europe, and US based on the International (PCT) Patent Application. Upon issuance, the patents are expected to expire no earlier than November 2038 and will provide patent protection for Sona's gold nanorod technology. In May 2023, the Company received its territorial patent grant for its proprietary, toxin-free gold nanorod manufacturing process with a registration in South Korea. Patent applications for other markets are pending.

In January 2022, Mr. Neil Fraser and Dr. Walter Strapps, Ph.D. were appointed to the Company's Board of Directors. Mr. Fraser was president of Medtronic Canada, a subsidiary of the global healthcare technology leader. He is a member of the University of British Columbia's School of Biomedical Engineering's Industry Advisory Committee and a member of the health policy council of the C.D. Howe Institute, as well as a past chair of Medtech Canada and was a member of Health Canada's Advisory Panel on Health Innovation chaired by Dr. David Naylor. He holds an MBA from the University of Western Ontario and a B.A.Sc. in Chemical Engineering from UBC.

Dr. Strapps was most recently Chief Scientific Officer of Gemini Therapeutics, a NASDAQ-listed biotech company. Prior to that role, Dr. Strapps led Discovery at Intellia Therapeutics, the first CRISPR-Cas9 company to demonstrate in vivo gene editing. Dr. Strapps has worked in RNA therapeutics using chemically modified nucleotides at Merck & Co., Inc. He holds a Ph.D., M.Phil. and M.A. degrees from Columbia University and a BSc in Biology from McGill University.

In May 2023, Mr. Mark Lievonen, CM, who joined the board of Sona in December 2020, assumed the role as Chair of the Board. Mr. Lievonen served as president of Sanofi Pasteur Limited from 1999 to 2016, during which time it became a billion-dollar enterprise in Canada, manufacturing over 50 million doses of vaccines for both domestic and international markets. A corporate director and principal of JML Advisory Services, Mr. Lievonen co-chairs Canada's COVID-19 Vaccine Task Force. Mr. Lievonen also serves on a number of public companies and not-for-profit boards, and as an advisor to other businesses and institutions. Mr. Lievonen succeeds Mr. Jim Megann, principal of Numus Financial Inc. ("Numus"), who will continue to serve as a director of Sona.

As a result of the Siva acquisition, Len Pagliaro, Ph.D., CEO of Siva now serves as Chief Scientific Officer of Sona and president of Sona's wholly owned US subsidiary, Siva Therapeutics, Inc. Sona's Darren Rowles assumed the new role of Head of Diagnostics for Sona and continues 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.

BUSINESS OBJECTIVE

Sona's Gold Nanorod Technology

Sona is currently focused on pursuing the development of a pre-clinical nanomedical therapy for the treatment of colorectal cancer using its proprietary and biocompatible gold nanorods ("GNR"). Sona leverages on its core manufacturing technology for these GNRs, scientific experience, and laboratory asset to focus on two strategic priorities for its business: the development of rapid diagnostic tests and biologic reagents, and the advancement of its GNR intellectual property towards important medical in vivo applications.

Sona has applied for and been granted patent protection in one territory with North America and European approvals pending on its technology for the manufacture of GNRs that offers several functional performance advantages over other particles currently in the market, such as:

- Sona GNRs are manufactured without the use of CTAB, a known toxin, that is typically used in GNR production. The absence of CTAB in Sona's proprietary manufacturing process may confer on Sona GNR's an advantage over other GNR in terms of their biocompatibility which may be important for various developing in vivo medical applications of GNRs.
- Sona GNRs are designed to maximize the ability to detect bio markers in low concentration levels, essentially meaning Sona tests may be able to detect a condition earlier than many other particles.
- Sona GNRs can move though lateral flow test membranes at a faster pace than some other particle types, meaning the Sona test may be able to produce results faster than many other lateral flow tests.
- Sona GNRs can be manufactured in various sizes which allow multiple colour test lines to be generated, providing a simple differentiation between test and control results, whereas competitive spherical gold nanoparticles can only present as a red line.

Advanced Biomedical Applications

For its GNR IP advancement strategic priority, Sona is undertaking an R&D program to enhance its understanding of its proprietary biocompatible, GNR manufacturing technology with the goal of identifying the most promising advanced biomedical applications for it to pursue. To accomplish this, Sona plans to partner with leaders in the bioengineering and nanotechnology fields to conduct a series of experiments and studies to better understand the effects of using its GNRs in medical therapies to gain insights into which would be best to pursue.

This is an important priority given that Sona's biocompatible GNRs address the primary concern in the development and adoption of medical therapies involving the use of GNRs within the body, or 'in vivo'. That concern is for the toxicity associated with the preparation of other GNRs, and potential negative health impacts. The manufacture of Sona's GNRs, meanwhile, uniquely does not involve the use of CTAB, a substance well-known to be toxic. Continuing to strengthen Sona's IP is a key element in its ambition for the leadership position for its GNRs for *in vivo* medical applications.

Management continues to guide the development of rapid diagnostic tests and discussions with potential partners for the development and commercialization of rapid tests, as well as for R&D associated with the Company's GNR manufacturing technology, scientific experience, and laboratory asset.

Nanotechnology Characterization Laboratory Assessment of Gold Nanorods

In February 2023 the Company received the results of an independent assessment of its proprietary gold nanorod nanoparticles from the National Cancer Institute's Nanotechnology Characterization Laboratory ("NCL").

The assessment included analyses of three batches of Sona's materials for microbial contamination, endotoxin levels, Beta-glucan, physiochemical characterization, and polyethylene glycol ("PEG") concentrations.

The analyses determined that endotoxins and microbial contamination were "undetectable" based on both turbidity and chromogenic limulus amebocyte lysate ("LAL") assays and the NCL's endotoxin limit. While beta-glucan levels varied across the samples, they were all within limits of what is normally present in the blood from dietary sources. Also, no free PEG was detected in any of the three batches of materials provided.

The results of the NCL's characterization of Sona's biocompatible gold nanorod nanoparticles indicate that they are expected to be compatible for use in vivo with Siva's Targeted Hyperthermia Therapy, as ruling out the material presence of endotoxins was key to enabling our further work together towards preparations for clinical trials.

In April 2023, the Company received the second set of results of an independent assessment of its proprietary gold nanorod nanoparticles from the NCL. The assessment included analyses of two additional batches of Sona's gold nanorods for consistency of physiochemical characterization and microbial contamination and endotoxin levels. The assessment also found "no significant differences between the two lots by DLS (dynamic light scattering) hydrodynamic size, zeta potential, or gold concentration".

In early June 2023, the Company received the third set of results of an independent assessment of its proprietary gold nanorod nanoparticles from the NCL. In addition to running similar assessments to those that have been previously announced for contamination and endotoxin levels, this assessment included an analysis of the surfactant residue present following the chemical reaction necessary for the manufacture of Sona's proprietary gold nanorods. The assessment shows that the continued improvements in Sona's manufacturing process for gold nanorods have resulted in a significant reduction in free surfactant levels in nanorod dispersions, with the average dropping from 230.7 ug/mL in prior assessed batches to 34.6 ug/mL in the batches following the process changes.

As with the NCL's prior assessments of earlier batches of Sona's gold nanorods, this new assessment did not detect any endotoxins or microbial contamination.

The NCL will continue to work with Sona to conduct further studies that may support any submission for the use of Sona's gold nanorods in Sona's THT to the US Food and Drug Administration ("FDA"), including a quantitation of the surfactant detected in the samples. The NCL was established by the National Cancer Institute ("NCI") to accelerate the progress of nanomedicine by providing preclinical characterization and safety testing of nanoparticles. The NCL is a collaborative effort between NCI, the FDA, and the National Institute of Standards and Technology ("NIST").

Acquisition of Siva Therapeutics, Inc.

On January 26, 2023, Sona entered a binding agreement (the "Definitive Agreement") to acquire 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. 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 US $2.0 million in Sona shares (the "Transaction Shares") at the date of closing (the "Closing Date"), plus up to an additional US $6.0 million (initially $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.

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. Siva has benefited from over US $2.8 million in investment and grant value, in addition to founder contributions.

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, and pancreatic cancers.

Siva has completed five safety and efficacy studies, including for melanoma in mice and the Nanotechnology Characterization Laboratory (NCL, https://ncl.cancer.gov/) program. Siva's THT path to market will involve the completion of large animal studies and the filing for an Investigational Device Exemption (IDE) with the FDA in preparation for human clinical studies. Siva's management team has over 50 years of combined life sciences and medical device experience with a track record of prior successful market introductions.

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 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.

Pursuant to the Definitive Agreement, the Company has agreed to acquire all of the issued and outstanding common shares of Siva in exchange for the Transaction Shares, to be issued at a deemed value equal to the greater of: (i) the volume weighted average price (the "VWAP") for the Company's common shares for the ten (10) trading days immediately preceding the fifth business day preceding the Closing Date, and (ii) the maximum allowed discounted price allowed under the policies of the Canadian Securities Exchange (the "Exchange").

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 million (initially $6.65 million) in Sona common shares, upon Siva achieving the following three (initially four) milestones (each a "Milestone"):

- 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;
- 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
- 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$0.35, C$0.50 and C$0.75 per share for the first, second and third Milestones, respectively.

All Transaction Shares and any Performance Shares issued in connection with the acquisition of Siva will be subject to a four-month and a day hold period from their date of issue under Canadian securities law, and may be subject to a longer hold period for trading in the U.S. Two of Siva's founder's Transaction Shares are subject to further voluntary pooling restrictions with the Company, in respect of 90% of the Transaction Shares of the President of Siva, and 70% of the Transaction Shares of the Vice-President, Legal Affairs of Siva, pursuant to which 20% of the original number of their respective Transaction Shares will become available for sale every six (6) months until fully released.

Research Initiative with the Giacomantonio Immuno-Oncology Research Group

Sona has engaged the Giacomantonio Immuno-Oncology Research Group (the "Research Group") to undertake an innovative research initiative to evaluate the efficacy of Sona's THT technology in not only attenuating the development of colorectal, breast, and melanoma tumor models in mice but also in facilitating systemic immune responses. The study posits that the combined utilization of Sona's gold nanorods via its THT, alongside precise immune modulation, will result in elevated immune activation and anti-tumor responses within the mouse models of colorectal cancer, breast cancer, and melanoma.

This innovative study will go significantly beyond our current plans for THT applications to explore the potentially synergistic effect of its use with certain immunotherapy treatments for cancer. In it, Sona aims to harness the tremendous potential of immunotherapy, leveraging its biocompatible gold nanorods as a pivotal, catalytic element. This effort marks the beginning of Sona delivering on the 'mountain of data' we committed to developing in support of our planned regulatory submissions for human clinical trial approvals.

The Research Group will explore two distinct yet interrelated biological processes with the potential to unlock the elusive Holy Grail of intra-tumoral cancer immunotherapies, known as the Abscopal Effect. The first avenue capitalizes on the kinetic excitation of gold nanorods, capable of inducing localized tumor destruction. This process exposes potent tumor neo-antigens, which can then be strategically mobilized to immune-responsive sites. This strategy holds the potential of profoundly reshaping and amplifying the efficacy of the immune response against cancer. Concurrently, the second dimension of the research delves into the profound impact of intralesional immunomodulation in the context of both local and systemic THT.

The planned studies will bring the extensive knowledge and experience of the Research Group to bear in an elegant and sophisticated study that will increase our understanding of both the mechanisms and capabilities of THT. The findings of this study will help inform and improve our planned first-in-human studies as we approach that important milestone.

To facilitate the study, the Company and the Research Group have entered into a Research Agreement under which the experiments will be conducted. The experiments will explore immune reprogramming by tumor antigen transfer as well as tumor response and immune modulation in subcutaneous tumor models following treatment with various immunotherapeutic interventions. The Company will cover up to a maximum of $80,000, which is approximately 40% of the study's anticipated cost, which will include in-kind contributions from the Company and its laboratory.

The Research Group will provide various interim results to be provided to the Company and will have the right to publish findings from the study. The study is to be conducted at the Giacomantonio Laboratory at Dalhousie University in Halifax, Nova Scotia. The results of the study are anticipated to provide data that will form part of any future regulatory submissions in support of the development of its THT.

EXCITE International Partnership

Sona has partnered with EXCITE International ("EXCITE"), a global network of senior specialist physicians, payors, health systems, and end-users, to help guide the development of Sona's THT. Through this partnership with EXCITE, Sona will gain access to EXCITE's global network to help it align pre-clinical and clinical trial design and regulatory strategy with the interests of specialist practitioner and potential payor groups.

The work to be completed by EXCITE, which is a not-for-profit entity made up of a global network of senior medical practitioners and payors, will include an Early Technology Review and multiple panel discussions to be facilitated among content area experts to gain feedback on Sona's proposed therapy and commercialization strategy. The EXCITE panel is expected to be made up of senior medical practitioners from top-tier hospitals and universities in the US and Canada.

EXCITE will put Sona's THT in front of leading oncologists and medical coverage insurance providers to give the Company early feedback to help ensure that the therapy being developed is done in a way such that what is delivered is what patients, practitioners and payors will value, prescribe and pay for, respectively. EXCITE is known for attracting leading physicians and representatives from payor organizations, and Sona looks forward to working with these individuals to gain their guidance over the next few months with the aim to de-risk our approach and speed our time to market.

EXCITE offers early direct engagement with experts and payers through early technology review, protocol development, and clinical trial execution. This allows companies to anticipate and meet the downstream expectations of these important stakeholders. EXCITE is selective in only taking on potentially impactful technologies that offer improved patient outcomes and/or health system efficiencies.

Minnetronix Medical Engineering the Next Generation of Infrared Light Device

In May 2023, Sona selected Minnetronix Medical to engineer the next generation of its infrared light device. The device will be used in Sona's development of THT to transfer energy by way of infrared light to Sona's proprietary, biocompatible gold nanorods in tumors which will then convert the light energy into heat. The light device is being designed to fit in the auxiliary channel of the sigmoidoscopes and colonoscopes.

Minnetronix provides medical device design, development, and manufacturing services across several technology specialties including optical devices, with expertise in complex opto-mechanics, illumination system design, optical system integration, power and heat management, and LED and laser system designs. Minnetronix has worked with hundreds of clients to engineer and manufacture cutting-edge medical devices.

Sona Powered Rapid Test Development Program

Sona's GNR technology can be used in a variety of lateral flow assay applications. In a lateral flow test, particles such as Sona's GNRs are used to bind to biological materials and carried along a test strip, producing a positive or negative result.

For its test and reagent development business, Sona will continue to develop proprietary rapid diagnostic tests and associated biologic reagents for the medical and other industries. The Company has also begun to offer the same services to third parties. Providing this service is an important addition as it is highly complementary to the laboratory-based work for Sona's proprietary development business and is expected to be undertaken on a 'fee for service' basis, which has the potential to generate revenue in the near-term. The Company aims to use its network and reputation for quickly developing rapid diagnostic test prototypes and reagents to secure profitable business opportunities.

Sona's Bovine TB Test

In May 2021, the Company announced that it is receiving advisory services and up to $457,830 in funding support from the National Research Council of Canada ("NRC") Industrial Research Assistance Program ("IRAP") to support a research project in association with a consortium of UK companies to develop a bovine tuberculosis ("bTB") rapid test. NRC's IRAP contribution was approved under a program to promote collaborative projects with UK partners through the Canada-UK industrial research and development call for proposals delivered by the National Research Council of Canada and UK Research and Innovation.

As part of the multi-year project, Sona will work closely with other consortium members to leverage bTB biomarker research from Aberystwyth University to develop a rapid, lateral flow assay to identify bTB that differentiates between vaccinated and unvaccinated cows. The consortium also intends to develop a data collection infrastructure system to enable authorities to detect, manage and control movement of infected animals. UK Research and Development are supporting other members of the consortium with funding to assist in the goal of eradicating bTB in the UK.

Accurate and timely detection, herd management and movement control are critical to eradicating this communicable disease which is still prevalent in many areas of the World. Currently, a diagnosis is made through post-mortem examination and tissue culture, which can take up to 12 weeks. Once bTB is confirmed, all infected and exposed animals in a herd are typically destroyed. bTB control measures cost over £500 million in the last 10 years and without intervention, the UK government expects costs to top £1 billion over the next decade if no new action is taken. bTB is also an issue in the European Union where, in 2018, 7.5 million statutory bTB lab-based, screening tests were carried out across seven countries, including France, Belgium, Italy and the UK.

In September 2021 Sona announced that its bovine tuberculosis ("bTB") test has been advanced with the identification of multiple biomarkers that can not only be used to detect the presence of bTB bacteria, but, as set, are able to differentiate whether the bacteria is present due to an ongoing infection or as a result of vaccination. The biomarkers that have been identified to be used in the assay have been synthesized into different antigens which

will be used to develop the polyclonal antibodies for use in a multiplex lateral flow assay. The primary biomarker of interest has now been converted into a polyclonal antibody and is being incorporated into a test strip format that will test for the presence of infection in blood. Polyclonal antibodies of a second and third biomarker are also being generated for purification and incorporation into the test. A prototype, testing for the first of three biomarkers, has been completed and assessed in lab using whole bovine blood, serum and plasma spiked with antigen providing viable results. Work will continue to optimize the test performance prior to assessing the device with clinical samples of known bTB status in lab and then in the field. Following successful clinical testing, integration of biomarker 2 and 3 antibodies would be assessed if and when required materials are available.

In November 2022, the Company entered a memorandum of understanding ("MOU") with Biotangents Limited ("Biotangents") to evaluate, and if determined effective, to commercialize its bTB rapid test. Under the terms of the MOU, the parties plan to explore the characteristics of Sona's bTB test and its suitability for commercialization. Biotangents will provide Sona with consultation on the design and execution of appropriate clinical evaluation studies to determine performance of the test prototype. Biotangents has been granted a 'first right of refusal' to license Sona's bTB test technology for the purposes of commercialization on mutually agreeable terms.

Sona's Concussion Test

An estimated 10 million concussions occur each year globally, with 2.9 million per year in the US alone, including 837,000 incidents involving children. As its next rapid-response test R&D project, leveraging the Company's proprietary GNRs technology, Sona's concussion test is ready to enter the prototype development stage. Industry standard timelines for such a test to reach commercialization is estimated at one to two years, subject to regulatory approvals.

The Sona concussion test seeks to detect the presence of Glial fibrillary acidic protein ("GFAP"), a biological marker associated with concussions, typically released into the blood stream within minutes of an impact to the head. GFAP appears at trace amounts within minutes following a head impact, and the ability of Sona's proprietary GNRs technology to detect biomarkers at very low levels is ideally suited for such a test. GFAP has been approved by the FDA as an effective indicator that may indicate a patient has suffered a concussion. Sona expects this test will be in the form of a lateral-flow assay, similar to its rapid detection COVID-19 antigen test and will be designed to be administered in-field within a few minutes of a causality event, without the need for laboratory equipment or medical expertise.

In September 2021, Sona announced that it's concussion test for mild traumatic brain injury ("mTBI") will aim to detect a series of biomarkers enabling the test to be used to screen for mild concussions. After a study of multiple alternatives, three such biomarkers that corelate with concussions have been selected to be used in the test. Sona's test is intended to work by first identifying the presence or absence of one key biomarker, that, if present, indicates the patient may be suffering from something more severe than a mild concussion. If this marker is absent, yet a second or third biomarker is present, this would indicate that the patient may be suffering from a mild concussion and further medical help should be sought. These biomarkers have been carefully selected and the corresponding antibody pairings and antigens have been acquired. A working prototype, with all three antibody conjugates completed and incorporated into a test strip design has now been completed and tested in lab with contrived whole blood and serum samples spiked with antigen. Optimization continues to ensure reproducibility of the test in batch production, prior to testing with known positive clinical samples. Once finalized, verification using known positive clinical samples can be conducted and, if successful, a clinical trial will be sought with select partners.

Financing

As contemplated under the Siva Definitive Agreement, on February 24, 2023, Sona closed a private placement financing to raise $1,100,000 (the "Working Capital Financing") by the issuance of 11,100,000 common shares at an offering price of $0.10 per share. Sona entered into an agreement with a registered dealer to act as placement agent for the Working Capital Financing, pursuant to which Sona has agreed to pay a cash fee equal to 8% of proceeds raised from investors introduced by the placement agent and to issue compensation warrants entitling the placement agent to purchase that number of common shares as is equal to eight percent (8.0%) of the common shares sold to investors introduced by the placement agent. Each compensation warrant will be exercisable into a common share of Sona Nanotech at $0.10 per share at any time for a period of 24 months from closing.

At-The-Market Share Offering ("ATM")
In April 2021, the Company announced that, pursuant to an Equity Distribution Agreement with Canaccord Genuity Corp., the Company may, from time to time, sell up to $10 million of common shares in the capital of Sona. Under the ATM Offering, common shares were distributed at trading prices prevailing at the time of the sale and therefore prices may vary between purchases and during the period of distribution. The volume and timing of sales are determined at the sole discretion of the Company's management and in accordance with the terms of the Equity Distribution Agreement.

During the year ended October 31, 2022, the Company sold 1,147,000 common shares pursuant to the ATM at a weighted average price of $0.49 for gross proceeds of $567,164. Costs of the shares sold under the ATM were $17,015 during the year, for net proceeds to the Company of $550,149. During the year ended October 31, 2021, the Company sold 1,312,400 common shares pursuant to the ATM for gross proceeds of $2,271,427. Costs of the shares sold under the ATM were $286,935 during the period, for net proceeds to the Company of $1,984,492. The ATM expired as of April 30, 2023

Sona's Interest in Legacy Crescent Lake Lithium Property Sold to Midex Resources
In May 2023, Sona entered an agreement for the sale of its non-core interest in the Crescent Lake lithium property located in Ontario, Canada ("Property") to an arm's length party, Midex Resources Ltd. ("Midex"), has been finalized ("Midex Agreement" or "Transaction").

The Property was acquired by Antler Gold Inc. ("Antler") from Sona in May 2019 pursuant to a property acquisition agreement ("2019 Agreement"). Under the 2019 Agreement, Sona is entitled to receive 50% of the consideration received by Antler for the Property, net of Antler's aggregate expenses related to the marketing, selling, upkeep and maintenance of the Property ("Antler's Expenses") incurred by Antler since May 2019.

Under the Midex Agreement, Antler has agreed to sell the Property to Midex in consideration of C$125,000 in cash (the "Cash Consideration") and the issuance of common shares of Midex ("Midex Shares") representing 12% of the issued and outstanding capital of Midex, subject to certain adjustments (the "Share Consideration").

The Company has received $42,639 for its share of the cash consideration less Antler's Expenses which has been recorded as a gain on the sale of a legacy asset.

Midex will register 50% of the Share Consideration in the name of Sona. Each of Antler and Sona entered into an investor rights agreement with Midex in relation to the Midex Shares. Midex has not completed its go-public transaction and the Company has not yet received its final Share Consideration. An additional gain on sale of this Property will be recorded upon receipt of the Midex shares which will be subject to certain resale restrictions and escrow conditions.

SELECTED ANNUAL FINANCIAL INFORMATION

	Year ended October 31, 2022	**Year ended October 31, 2021**	**Year ended October 31, 2020**
	$	$	**$**
Expenses	**(3,138,967)**	**(10,731,787)**	(6,009,154)
Other income (expenses)	**780,022**	**364,568**	(262,869)
Comprehensive loss for the year	**(2,361,404)**	**(10,367,219)**	(6,272,023)
Loss per common share	**(0.03)**	**(0.16)**	(0.10)
Cash dividends per common share	**-**	**-**	-
Total assets	**520,772**	**1,523,308**	724,629
Current liabilities	**420,161**	**2,045,915**	4,160,094
Long-term liabilities	**608,467**	**700,761**	-
Shareholders' deficiency	**(507,856)**	**(1,223,368)**	(3,435,465)

SELECTED QUARTERLY FINANCIAL INFORMATION

The following table sets out selected financial information and highlights for the last eight quarters:

	Jul 31, 2023	Apr 30, 2023	Jan 31, 2023	Oct 31, 2022	**Jul 31, 2022**	Apr 30, 2022	Jan 31, 2022	Oct 31, 2021
	$	$	$	$	**$**	$	$	$
Income (expenses)	**(862,609)**	(502,655)	(374,300)	658,146	**(958,324)**	(1,328,335)	(1,512,913)	(1,748,507)
Other income (expenses)	**19,105**	(25,774)	(22,039)	263,232	**165,315**	(29,327)	380,802	374,292
Net income (loss) for the quarter	**(843,504)**	(528,429)	(396,339)	921,378	**(793,009)**	(1,357,662)	(1,132,111)	(1,374,215)
Income (loss) per share – basic & diluted	**(0.01)**	(0.01)	(0.01)	0.01	**(0.01)**	(0.02)	(0.02)	(0.02)

Results of Operations for the nine months ended July 31, 2023 and 2022

The Company reported a net loss for the nine-month period ended July 31, 2023 of $1,768,272, or $0.02 per share, as compared to a net loss of $3,282,782, or $0.05 per share, for the comparable period. The decrease in net loss was primarily due to lower share-based compensation expense, which decreased approximately $2.2 million.

Expenses

During the current period, the Company incurred expenses of $1,739,564, a decrease of $2.1 million from the $3,799,572 incurred in the comparable period due to the decrease in share-based compensation noted above. In the current year, the Company realized a decrease in salary and benefits of $111,343 with the restructuring of employees related the COVID-19 project which ended in early 2022. Other administrative expenses saw a corresponding drop of $18,390. Securities and regulatory costs decreased by $18,796 in the current period due to a decline in the number of press releases, as well as lower regulatory costs. Management service fees of $36,000 (2022 – $66,000) relate to consulting services provided by Numus. The decrease in management service fees is the result of revisions to the Services Agreement that occurred in association with the Numus debt settlement which occurred in January 2022 (see below).

The Company recorded an increase of $165,711 in research and development expenses associated with the ramp up of work performed on the THT project. The Company also recorded amortization expense of $232,000 (2022 - $nil) for the amortization of the THT project intangible assets acquired with the Siva Transaction. Travel costs of $19,380 (2022 – $45,770) decreased as the result less travel associated with work related to the COVID-19 which was incurred in early 2022. The Company decreased its efforts on sales and marketing, incurring $28,364 ($33,713) in the current period. The 2023 sales and marketing costs related to the THT project while the 2022 sales and marketing costs relate to the COVID 19 project. In the current period funding of $150,342 (2022 - $134,301) was recorded from the NRC's IRAP contribution.

In the period ended July 31, 2023, The Company recorded stock-based compensation of $183,062, (2022 - $2,402,747). The Company granted stock options during the period ended July 30, 2023 and the two years ended October 31, 2022 and 2021 to officers, directors, employees, and consultants. Stock options are valued using the Black-Scholes option valuation model at the date of grant and the Company amortizes the value of its stock options over the corresponding vesting period of 25% every six months and based on certain performance criteria. In November 2021, the Company granted 1,000,000 stock options with an exercise price of $0.44 to directors and officers. The fair value of the remaining 800,000 of these stock options is $320,182. In January 2022, the Company granted 250,000 options with an exercise price of $0.45 to two new Directors. The fair value of these stock options was $90,400. In March 2023, the Company granted 1,225,000 options with an exercise price of $0.17 to directors, officers, and a consultant. The fair value of these options was $190,192. In July 2023, the Company granted 900,000 options with an exercise price of $0.25 to directors, officers, employees, and consultants. The fair value of these options was $205,957. The Company has recorded the cancelation or expiry of 588,250 fully vested options which resulted in a reduction of $1,759,365 to contributed surplus with a corresponding reduction of the deficit.

Other income and expenses

During the period ended July 31, 2023, the Company recorded accreted interest of $68,347 (2022 - $59,498) on the ACOA loans. The Company also recorded a gain on the sale of a legacy asset in the amount of $42,639 (see Midex

commentary above). In the prior period ended July 31, 2022, the Company recorded a recovery of $173,080 relating to the fair value adjustment on the repayable government loans (the "ACOA loans). The face value of the ACOA loans was $978,332 in 2023 and 2022. In the period ended July 31, 2023, the Company recorded a loss of $3,000 on the value of its investments (2022 – loss of $4,000).

In 2020, the Company entered into a loan agreement with Numus for $600,000 with an annual interest rate of prime plus 1% and a 2% lender fee. The Company had drawn the full amount of the loan including a lender fee of $12,000 and had accrued interest of $23,310 as at October 31, 2021. The Company recorded an additional $3,519 of interest on the loan in the first quarter of 2022. In January 2022, the balance of the loan, including accrued interest of $26,829 was settled through the issuance of common shares at a deemed price of $0.45 per share. As a result, the Company recorded other income of $410,727 relating to the forgiveness of debts associated with the Numus debt settlement.

Results of Operations for the quarter ended July 31, 2023 and 2022

The Company reported a net loss for the quarter ended July 31 2023 of $843,504, or $0.01 per share and a net loss of $793,009, or $0.01 per share, in the comparable period. The increase in net loss was due to decrease in the fair value of the Company's options and the resulting lower share-based compensation expense, which decreased $495,429, from the comparable quarter. This decrease was offset by an increase of $191,056 in research and development expenses and amortization expense of $174,000 for the THT project intangible asset.

The Company incurred an increase in salary and benefits of approximately $15,000 due to additional employees with the closing of the Siva acquisition in the second quarter of fiscal 2023. Other administrative expenses increased by $14,619 due to an increase in software costs. The Company also recorded an increase of $191,056 in research and development expenses with the ramp up of work performed on the THT project. Management service fees of $12,000 (2022 – $12,000) relate to consulting services provided by Numus. Travel costs of $9,025 (2022 - $7,941) and securities and regulatory costs of $23,424 (2022 - $21,974) remained flat. The Company increased its efforts on sales and marketing, incurring $8,884 in the current period (2022 - $2,500). The increased sales and marketing costs related to the THT project.

The Company recorded a foreign exchange loss of $4,253 during the current period (2022 – foreign exchange loss of $84). In the current quarter funding of $62,277 (2022 - $28,177) was recorded from the NRC's IRAP contribution.

Other income and expenses

During the quarter ended July 31, 2022, the Company recorded a recovery of $173,080 relating to the fair value adjustment on the repayable government ACOA loans. Additionally, the Company recorded accreted interest of $23,534 (2022 - $7,765) on the repayable government loans. The Company also recorded a gain on the sale of a legacy asset in the amount of $42,639.

LIQUIDITY AND CAPITAL RESOURCES

Sona's liquidity depends on existing cash reserves, supplemented as necessary by government loans and grants, and equity and/or debt financings. As of July 31, 2023, Sona had a cash balance of $245,124, compared to cash of $155,420 at October 31, 2022.

The Company had a working capital deficiency of $219,962 at July 31, 2023 as compared to working capital of $49,874 at October 31, 2023. The decrease in working capital is primarily due to the settlement of outstanding accounts payables, partially offset by the $1,012,536 in net proceeds from the private placement completed during the current period. The Company received net proceeds of $550,149 pursuant to the ATM during the year ended October 31, 2022.

During the period ended July 31, 2023, Sona used cash of $1,404,315 to fund operating activities and other activities associated with the acquisition of Siva Therapeutics. The Company received net proceeds $1,012,536 from the private placement completed during the current period and also received government assistance of $150,342 (2022 - $134,301) for its research and development projects.

Sona's business to date has been the research and development of its gold nanoparticle products. Sona has not derived any revenue from operations and therefore has and continues to rely primarily on funding through the form

of repayable government loans and debt, non-repayable government grants and proceeds from the issuance of common shares. There can be no assurance that such sources of funding will continue to be available to the Company on acceptable terms or at all.

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 current and prospective customers, general and administrative requirements of the Company and the availability of capital markets and government funding. As these variables change, it may necessitate the need for the Company to issue equity or obtain debt financing.

The Company is currently pursuing additional financing alternatives. However, there can be no assurance that the required 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. Sona expects to record losses until such time as it further develops its gold nanorod products and secures necessary regulatory approvals and customers. See the *Risks and Uncertainties* section of this MD&A and note 2, *Basis of presentation and going concern,* of the audited financial statements for the year ended October 31, 2022 for additional details.

COMMITMENTS AND CONTINGENCIES

The Company has employment agreements with the CEO, CSO and Head of Diagnostics which provide that, should a change in control event occur, as defined in the employment agreements, the CEO will receive a lump sum payment of up to 24 months of his then current base salary based on the value of the Company as of the date of the change of control, and the Head of Diagnostics will receive a lump sum payment of 24 months of his then current base salary as of the date of the change of control. The CSO will receive a lump sum payment of 12 months of his then current base salary as of the date of the change of control.

As at July 31, 2023, the Company has a Services Agreement with Numus Financial Inc. See the *Related Party Transactions* section of this MD&A for further details on the agreement.

On December 17, 2020, a putative shareholder class action lawsuit was filed in the United States District Court for the Central District of California ("US Court"). The complaint asserts claims under Sections 10(b) and 20 of the Securities Exchange Act of 1934 on behalf of a putative class of investors who purchased or otherwise acquired stock of the Company in US transactions between March 18, 2020 and February 28, 2021 (the "US action"). The suit alleges that the Company made material misstatements regarding its rapid detection COVID-19 antigen test. On October 28, 2021 the US Court issued an order granting the Company's motion to dismiss and granted leave to the plaintiff to file an amended complaint within 14 days. During November, the plaintiffs filed an amended complaint which the Company has refuted with a motion to dismiss the amended action.

On March 18, 2022, US Court granted the Company's motion to dismiss without leave to amend and has entered a final judgement of the dismissal with prejudice. The deadline for the plaintiffs filing an appeal has passed with no appeal filed.

On December 18, 2020, a Notice of Action and Statement of Claim was filed in the Supreme Court of Nova Scotia. The Statement of Claim purports to assert claims on behalf of a class of persons or entities who purchased stock of the Company based on similar allegations of material misrepresentations and omissions as alleged in the US action. The case is in its early stages.

The Company believes these claims are without merit and intends to contest the claims and mount a vigorous defence.

OFF-BALANCE SHEET ARRANGEMENTS

Sona has no off-balance sheet arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to Sona.

OUTSTANDING SHARE INFORMATION

The Company has authorized an unlimited number of common shares without par value. As of July 31, 2023 and September 28, 2023, the Company had 95,095,361 common shares outstanding.

As of July 31, 2023 and September 28, 2023, the Company has 5,494,500 stock options outstanding at an average exercise price of $0.58 per common share and with varying expiry dates.

As of July 31, 2023 and September 28, 2023, there were 820,000 common share purchase warrants outstanding pursuant to the February 2023 financing. The warrants are exercisable at a price of $0.10 per share and expire on February 24, 2025.

RELATED PARTY TRANSACTIONS

During the period ended July 31, 2023, the Company incurred costs for service fees from a related party, Numus a company controlled by significant shareholders, including one director of Sona, in the amount of $36,000 (2022 - $66,000), controller services of $22,500 (2022 - $22,500), digital media services of $16,000 (2022 - $nil) and incurred rent and administrative costs from Numus in the amount of $22,950 (2022 - $22,950). In January 2022, the monthly service fee was reduced from $19,000 to $4,000 per month.

As outlined in the Services Agreement between Numus and the Company, if the Financial Controller services are cancelled by the Company, a break fee of 45 days of remuneration, being $3,750, will be payable to Numus, in addition to the Financial Controller services fee applicable for the 90 day notice period. If the Office services are cancelled by the Company without notice to Numus, a break fee of three months of remuneration, being $7,650, will be payable to Numus.

In addition, Numus shall have a first right of refusal to act as an advisor on a Sona transaction for a fee of 1.25% of the value of the transaction and Numus, or its subsidiary, shall have a first right of refusal to act as an agent on all financings conducted by Sona.

Numus Capital Corp. is a non-arm's length party and acted as an agent for the February 24, 2024 financing. As compensation for its services, the Agent received a cash fee of $82,000 and 820,000 broker warrants, being equal to 8.0% of the units sold, other than to insiders. Each warrant is exercisable to purchase one common share of the Company at a price of $0.10 per share for a period of 24 months from the closing date of the private placement.

As at July 31, 2023, the amount owing to Numus, related to accounts payable and was $42,667 (October 31, 2022 - $25,415). There was no loan balance or interest payable to Numus as at October 31, 2022.

In January 2022, the Company arranged a debt settlement of $1,452,724 in amounts owed to Numus through the issuance of 2,556,276 common shares at a deemed price of $0.45 per share. These amounts include accounts payable to Numus of $813,895 pursuant to its Services Agreement and the loan payable (with fees and accrued interest) of $638,829. Numus also forgave $282,913 and the remaining Debts as part of an agreement that includes amendments to the Services Agreement to reduce service fees. On the date of settlement, the Company's share price was $0.40 per common share, resulting in an additional gain on debt settlement of $127,814.

During the period ended July 31, 2023 the Company granted 2,000,000 incentive stock options in accordance with the Company's stock option plan to directors and officers of the Company. 1,175,000 of the options issued have an exercise price of $0.17 per share and 800,000 have an exercise price of $0.25 per share. These option vest at the rate of 25% every six months and will expire five years from the date of issuance.

During the year ended October 31, 2022, the Company granted 1,250,000 incentive stock options in accordance with the Company's stock option plan to directors of the Company. 1,000,000 of the options issued have and exercise price of $0.44 per share and 250,000 have an exercise price of $0.45. These options vest at the rate of 25% every six months and will expire in five years from the date of issuance.

As at July 31, 2023, the amount owing to Randall Consulting Inc., a company controlled by an officer of Sona, was $25,789 (October 31, 2022 - $24,276). As at July 31, 2023 and October 31, 2022, an amount of $38,750 was also owing to a director of the Company.

Compensation awarded to key management during the period ended July 31, 2023 was $612,428, including $435,748 in salaries and fees earned, and $176,680 in share-based compensation expense (2022 - $383,531 in salaries and fees earned, and $1,185,704 in share-based compensation expense). The Company's key management includes the directors, CEO, CFO, and the CSO.

RISKS AND UNCERTAINTIES

Limited Operating History and Continuing Losses

The Company has a limited operating history and its business is subject to all of the risks inherent in the establishment of a new business enterprise. The Company's likelihood of success must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with establishing a new life sciences company.

The Company has incurred substantial losses since its inception and has derived no revenue from operations. The Company may not achieve profitability in the foreseeable future, if at all. Sona expects to incur net losses and negative cash flows due in part to increasing research and development expenses, marketing expenses and hiring additional personnel. As a result, Sona will need to generate significant revenues in order to achieve and maintain profitability. Sona may not be able to generate these revenues or achieve profitability in the future. Even if Sona does achieve profitability, it may not be able to sustain or increase profitability.

Additional Funding Requirements

The Company will require additional financing in order to carry out its research and development and commercialization activities. Failure to obtain such financing on a timely basis could cause the Company to delay or indefinitely postpone further research and development of its projects, with the possible loss of intellectual property rights, curtail or terminate its operations, or miss certain acquisition opportunities. If the Company is not successful in generating significant revenues, or if future revenues decrease as a result of lower product margins or otherwise, it will affect the Company's ability to raise the necessary capital to replace its financial resources or to maintain its research and development activities and fund production of its products. If the Company's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or be available on favorable terms. The Company may issue securities on less than favorable terms to raise sufficient capital to fund its business plan. Any transaction involving the issuance of equity securities or securities convertible into Common Shares would result in dilution, possibly substantial, to present and prospective holders of Common Shares.

Dilution through Raising Capital

Raising additional capital may cause dilution to existing shareholders, restrict operations or require the Company to relinquish rights to its products. Until such time, if ever, as the Company can generate substantial product revenues, the Company expects to finance the cash needs through a combination of equity offerings, debt financings, government or other third-party funding, marketing and distribution arrangements and other collaborations, strategic alliances and licensing arrangements. Currently, the Company does not have any committed external source of funds. The Company will require substantial funding to complete the ongoing and planned research and development activities and to fund operating expenses and other activities. To the extent that the Company raises additional capital through the sale of equity or convertible debt securities, the shareholder's ownership interest will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the shareholders rights as a stockholder. Debt financing, if available, may involve agreements that include covenants limiting or restricting the Company's ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. If the Company raises additional funds through government or other third-party funding, marketing and distribution arrangements or other collaborations, strategic alliances or licensing arrangements with third parties, the Company may have to relinquish valuable rights to its products, future revenue streams, research programs or to grant licenses on terms that may not be favorable.

Intellectual Property Rights and Infringement

Sona has pending applications for patents outstanding. The Company intends to continue to seek patent protection for, or maintain as trade secrets, all of its commercially promising nanotechnology platforms and technologies. The Company's success depends, in part, on our and our collaborative partners' ability to obtain and maintain patent protection for products and product candidates, maintain trade secret protection and operate without infringing the

proprietary rights of third parties. Without patent and other similar protection, other companies could offer substantially identical products without incurring sizeable development costs which could diminish our ability to recover expenses of and realize profits on our developed products. If our pending patent applications are not approved, or if we are unable to obtain patents for additional developed technologies, the future protection for our technologies will remain uncertain. Furthermore, third parties may independently develop similar or alternative technologies, duplicate some or all of our technologies, design around our patent pending technologies or challenge our patents when issued. Such third parties may have filed patent applications, or hold issued patents, relating to products or processes competitive with those we are developing or otherwise restricting our ability to do business in a particular area. If we are unable to obtain patents or otherwise protect our trade secrets or other intellectual property and operate without infringing on the proprietary rights of others, our business, financial condition and results of operations could be materially adversely affected.

Third parties may claim we have infringed their patents, trademarks, copyrights or other rights. We may be unsuccessful in defending against such claims, which could result in the inability to protect our intellectual property rights or liability in the form of substantial damages, fines or other penalties such as injunctions precluding our manufacture, importation or sales of products. The resolution of a claim could also require us to change how we do business or enter into burdensome royalty or license agreements; provided, however, we may not be able to obtain the necessary licenses on acceptable terms, or at all. Insurance coverage may be denied or may not be adequate to cover every claim that third parties could assert against us. Even unsuccessful claims could result in significant legal fees and other expenses, diversion of management's time and disruptions in our business. Any of these claims could also harm our reputation. Any of the foregoing may have a material adverse effect upon our business and financial condition.

Medical Device Regulation

Medical devices and tests require approval of regulatory authorities, including Health Canada in Canada and the FDA in the U.S., before it can be sold for other than research purposes in those jurisdictions. The approval process can be lengthy and require significant data collection and conduct of clinical trials, which can involve significant costs. There can be no assurance that the Company would be successful in completing the clinical trials necessary to support its regulatory approval applications on a timely basis or at all. If the Company is successful in collecting the required data, and the data supports the performance at satisfactory levels, there is still no assurance that approvals from Health Canada of the FDA will be granted on a timely basis or at all. In addition to reviewing clinical trial results and third-party analytical studies, regulators may request additional studies/experiments or conduct their own clinical and analytical studies over which the Company may have no control. Also, regulatory requirements for device and test approvals may change over time given the evolving medical environment and view on societal needs and what is in the public interest. Without regulatory approvals, the Company cannot make sales in these markets, and any delay in obtaining approvals may adversely affect the Company's ability to compete with other medical devices and tests available in these markets, which may adversely affect its business and operating results.

Litigation

As described under "Legal Proceedings and Regulatory Actions" in the Company's Annual Information Form dated February 26, 2021 and under "Litigation" in the Company's Short Form Base Shelf Prospectus dated March 31, 2021, claims against the Company have been filed in the United States District Court for the Central District of California and the Supreme Court of Nova Scotia. Although the Company believes these claims are without merit and intends to contest the claims and mount a vigorous defence, there can be no assurance that the Company will be successful in its defense due to the inherent uncertainty of the litigation process. Further, while the Company is not aware of any regulatory investigations or additional pending claims relating to the allegations made in the existing class action claims, the Company may be subject to additional class action suits, other litigation, or regulatory proceedings or actions arising from such matters in the future.

While the Company maintains insurance coverage with respect to litigation, an adverse decision in respect of existing claims against the Company could result in significant settlement amounts, damages or other penalties, which may exceed the limits of the Company's existing insurance coverage. Losses and liabilities arising from insufficient insurance coverage could have a material adverse effect on the Company's business, financial condition and results of operation, as well as the market price of the Securities. Additionally, legal fees and costs incurred in defending legal disputes can be substantial, even where such claims that have no merit. The Company has and will

continue to incur expenses associated with its defense of the class action claims. There can be no assurance that the Company's existing insurance coverage will be sufficient to pay all of such costs, and any costs incurred in excess of insurance coverage may have a material adverse effect on the Company's financial condition.

In addition to the matters discussed above, the Company may be subject to regulatory investigations, civil claims, lawsuits and other proceedings in the ordinary course of its business, including securities law compliance, employee and customer claims, commercial disputes, landlord-tenant disputes, intellectual property issues and other matters. The results of any legal proceedings involving the Company cannot be predicted with certainty due to the uncertainty inherent in regulatory actions and litigation. There can be no assurance that any pending or future litigation, regulatory, agency or civil proceedings, investigations and audits will not result in substantial costs or a diversion of management's attention and resources. The nanotechnology life science industry is a new industry and the Company is a relatively new enterprise. It is therefore more difficult to predict the types of claims, proceedings and allegations and the quantum of costs related to such claims and proceedings and the direct and indirect effects of such allegations that the Company may face. Management is committed to conducting business in an ethical and responsible manner, which it believes will reduce the risk of legal disputes and allegations. However, if the Company is subject to legal disputes or negative allegations, there can be no assurances that these matters will not have a material adverse effect on the Company's business, financial condition or results of operations, or the market price of the Securities.

Competition

The life sciences business in general is intensely competitive in all of its phases and we compete with many companies possessing greater financial and technical resources. The severe impacts of the COVID-19 pandemic have led to significant research and development activity by companies pursuing COVID-19 tests. There are currently many approved COVID-19 tests in Canada, with a total of more than 300 emergency use authorizations issued by the FDA. Many of these tests are produced by companies with greater resources than Sona, and such tests may have demonstrated higher levels of specificity and sensitivity than Sona's COVID-19 Antigen test. Certain of such tests have established market acceptance and supply channels, which may make it difficult for Sona to secure customers for its product if it is successful in obtaining regulatory approval in Canada and the United States. In addition, a number of COVID-19 vaccines have been approved for use in Canada, the United States and Europe, and jurisdictions are establishing programs aimed to immunize large portions of their populations. While the Company expects diagnostic testing, and rapid testing in particular, to remain an important part of the fight against COVID-19, there can be no assurance that increasing rates of vaccination will not reduce demand for diagnostic testing, including the Company's products.

Competition in the life sciences business in general is primarily for the following: securing intellectual property rights; technical expertise to find, develop, and manage such intellectual properties; labour to develop and produce products; and capital for the purpose of funding such projects. Many competitors not only conduct research and development, but also conduct product development and production operations on a world-wide basis. Such competition may result in us being unable to: acquire desired intellectual properties; recruit or retain qualified employees; or obtain the capital necessary to fund our operations and develop our intellectual properties. Existing or future discoveries in the life sciences industry could make our project technically obsolete or may otherwise materially adversely affect our prospects for success in the future. Furthermore, increased competition could result in increased costs and lower prices for our products which, in turn, could reduce profitability. Consequently, our revenues, operations and financial condition could be materially adversely affected.

Confidentiality of its Trade Secrets

If the Company is unable to protect the confidentiality of its trade secrets, the Company's business and competitive position would be harmed, the Company's business and competitive position would be harmed. In addition to seeking patents for some of the Company's products, it also relies on trade secrets, including unpatented know-how, technology and other proprietary information, to maintain its competitive position. The Company seeks to protect these trade secrets, in part, by entering into non-disclosure and confidentiality agreements with internal and external parties who have access to them. Despite these efforts, any of these parties may breach the agreements and disclose the Company's proprietary information, including its trade secrets, and the Company may not be able to obtain adequate remedies for such breaches. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive and time-consuming, and the outcome is unpredictable. In addition, courts in certain jurisdictions are less willing or unwilling to protect trade secrets. If any of the Company's trade secrets were

to be lawfully obtained or independently developed by a competitor, it would have no right to prevent them from using that information to compete with the Company and its competitive position would be harmed.

Current Research and Development

The Company's investment in its current research and development efforts may not provide a sufficient, timely return. The development of Sona's gold nanorod particles is a costly, complex and time-consuming process and the investment in Sona's product development often involves a long wait until a return is achieved on such an investment. Sona is making, and will continue to make, significant investments in product research and development. Investments in new equipment, technology and processes are inherently speculative. Commercial success depends on many factors, including the products and services developed through Sona's research and development efforts, sufficient support from its strategic partners and effective distribution and marketing. These expenditures may adversely affect Sona's operating results if they are not offset by revenue increases.

Sona believes that it must continue to dedicate a significant amount of resources to its research and development efforts in order to maintain its competitive position. However, significant revenues from the products may not be achieved for a number of years, if at all. Moreover, the gold nanorod products may not be profitable, and even if they are profitable, operating margins for the gold nanorod products may not be as high as projected.

Management of Internal Resources During Periods of Company Growth

Sona must continue to manage its internal resources during periods of company growth or its operating results could be adversely affected. Sona's growth, coupled with the rapid evolution of its markets, may place significant strains on Sona's administrative and operational resources and increased demands on its internal systems, procedures and controls. Sona's administrative infrastructure, systems, procedures and controls may not adequately support its operations. In addition, Sona's management may not be able to achieve the rapid, effective execution of the product and business initiatives necessary to successfully implement Sona's operational and competitive strategy. If Sona is unable to manage growth effectively, its operating results will likely suffer which may, in turn, adversely affect its business.

Development and Sales and Marketing Capabilities

The Company expects to expand its development and sales and marketing capabilities, and as a result, the Company may encounter difficulties in managing its growth, which could disrupt the Company's operations. The Company expects to experience significant growth in the number of its employees and the scope of its operations, particularly in the areas of development and sales and marketing. To manage the Company's anticipated future growth, it must continue to implement and improve its managerial, operational and financial systems, expand its facilities and continue to recruit and train additional qualified personnel.

Due to the Company's limited financial resources, the Company may not be able to effectively manage the expansion of its operations or recruit and train additional qualified personnel. The physical expansion of the Company's operations may lead to significant costs and may divert its management and business development resources. Any inability to manage growth could delay the execution of the Company's business plans or disrupt the Company's operations.

Commercializing its Products

If the Company is unable to establish sales and marketing capabilities or enter into agreements with third parties to sell and market its product, the Company may not be successful in commercializing its products. The Company does not have a sales or marketing infrastructure in place. To achieve commercial success for any of its products that would be approved in the future, the Company must either develop a sales and marketing organization or outsource these functions to third parties. If the Company does not establish sales and marketing capabilities successfully, either on its own or in collaboration with third parties, it will not be successful in commercializing its product candidates.

Debt Obligations

Sona has, and may continue to have and incur, a significant amount of indebtedness, including substantial interest free loans from the Atlantic Canada Opportunities Agency, to be recovered from annual repayments between 3% to 5% of gross product revenues. As a result of challenging economic or other conditions affecting the Company, we may incur greater levels of indebtedness than currently exist. The amount of indebtedness that we currently have and which we may incur in the future could have a material adverse effect on our business, results of operations or

financial condition, for example, by (i) limiting our ability to obtain additional financing, (ii) requiring us to dedicate a substantial portion of our cash flow generated from operations to payments on our indebtedness, thereby reducing the funds available for other purposes, (iii) making us more vulnerable to economic downturns, and (iv) limiting our flexibility in planning for, or reacting to, competitive pressures or changes in our business environment. Our ability to make scheduled payments under our indebtedness will depend on, among other things, our future operating performance and our ability to refinance our indebtedness, if necessary. In addition, as we incur indebtedness which bears interest at fluctuating interest rates, to the extent that these interest rates increase, our interest expense will increase. There can be no assurance that we will be able to generate sufficient cash from our operations to pay our debts and other financing obligations. Each of these factors is, to a large extent, subject to economic, financial, competitive, regulatory, operational and other factors, many of which are beyond our control.

New Products and Lack of any Manufacturing Facilities

Because our present operations are in the research and development stage, we have no manufacturing facilities for any new products which we may develop for commercial sale, and the design, development and establishment of such facilities will entail significant costs and risks at all stages for the future commercialization of such products. The development and introduction of new products requires substantial research, development and marketing expenditures, which we may be unable to recoup if such products do not gain widespread market acceptance or if the market for such products does not develop as expected. Efforts to accelerate our innovation capabilities may exacerbate risks associated with innovation. If we are unsuccessful in meeting our objectives with respect to our proposed products, our financial condition, reputation and results of operations could be harmed. There can be no assurance that we can successfully produce and bring to market for sale any new products at a commercially profitable level. The new products of our competitors may beat our products to market, be more potent or effective, have more features or be less expensive than our products. They may obtain better market acceptance than our products or render our products obsolete. If we do not introduce new products to meet the changing needs and tastes of consumers in a timely manner and more effectively than our competitors, we may experience declining sales, which could have an adverse effect on our operating results.

Political, Regulatory and Other Similar Risks

Political or legal changes within Canada, and to the extent that our operations may extend beyond Canada, foreign political or legal changes, including changes in regulatory oversight and approvals, public protests and blockades, may adversely affect or ability to produce, market, transport or sell our proposed new products.

Failure to comply with or changes to applicable laws, regulations, and permitting requirements in respect of health and safety, consumer protection, or environmental matters, may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on our business, financial condition and results of operations.

Cyber Security Incidents and Privacy Breaches

Cyber security incidents and privacy breaches could result in important remediation costs, increased cyber security costs, litigation and reputational harm. Cyber security incidents can result from deliberate attacks or unintentional events. Cyber-attacks and security breaches could include unauthorized attempts to access, disable, improperly modify or degrade the Company's information, systems and networks, the introduction of computer viruses and other malicious codes and fraudulent "phishing" emails that seek to misappropriate data and information or install malware onto users' computers. Cyber-attacks in particular vary in technique and sources, are persistent, frequently change and are increasingly more targeted and difficult to detect and prevent against.

Disruptions due to cyber security incidents could adversely affect the Company's business. In particular, a cyber security incident could result in the loss or corruption of data from the Company's research and development activities, which may cause significant delays to some or all of the Company's research and development. Also, the Company's trade secrets, including unpatented know-how and other proprietary information could be disclosed to competitors further to a breach, which would harm the Company's business and competitive position. If the Company is unable to protect the confidentiality of its trade secrets, the Company's business and competitive position would be harmed.

Impact of Laws

The Company operates offices in Canada and plans to offer its products in Canada, the United States, Europe and eventually in other countries. Sona is and will be subject to a variety of laws in Canada, the United States and abroad, including laws regarding consumer protection, privacy, intellectual property, taxation and content suitability, distribution and antitrust, that are continuously evolving and developing. The scope, enforcement and interpretation of the laws that are or may be applicable to Sona are often uncertain and may be conflicting, particularly laws outside of Canada and the United States. It is also likely that as business grows and evolves to a greater number of countries, Sona will become subject to laws and regulations in additional jurisdictions. Compliance with applicable laws or regulations could be very difficult or liability could arise under these laws or regulations due to amendments to or evolving interpretation and enforcement of such laws and regulations. As a result, Sona could be directly harmed, and may be forced to implement new measures to reduce the exposure to this liability. This may require substantial resources to be expended or a modification of its products and services, which would harm the business, financial condition and results of operations of Sona.

Availability of Supplies, Transportation Providers, and Skilled Labour

Profitability is affected by the market prices and availability of supplies and commodities that we use or consume for our operations and new products, which are sourced from a limited number of suppliers. Prices for commodities used or which may be used in our business, like gold, electricity, steel, concrete, and chemicals can be volatile, and changes can be material, occur over short periods of time and be affected by factors beyond our control. Our operations depend on suppliers to meet those needs. We do not have long term contracts with our suppliers. We rely upon and will rely upon independent third-party transportation providers for substantially all of our product shipments. Our use of outside delivery services for shipments is subject to risks, including increases in fuel prices, which would increase our shipping costs (freight and delivery), labour disruptions, inclement weather and shipment delays.

Higher worldwide demand for critical supplies and skilled labour could affect our ability to acquire them and lead to delays in delivery and unanticipated cost increases, which could have an effect on our operating costs, capital expenditures and production schedules.

Additionally, we will be relying on certain key third-party suppliers and contractors for equipment, raw materials and services used in, and the provision of services necessary for our business activities. As a result, our operations will be subject to a number of risks, some of which are outside of our control, including negotiating agreements with suppliers and contractors on acceptable terms, the inability to replace a supplier or contractor and its equipment, raw materials or services in the event that either party terminates the agreement, interruption of operations or increased costs in the event that a supplier or contractor ceases its business due to insolvency or other unforeseen events, and failure of a supplier or contractor to perform under its agreement with us or to support our future demand. The occurrence of one or more of these risks could have a material adverse effect on our business, results of operations and financial condition.

Environmental Regulation

Our business activities are subject to environmental regulation pursuant to a variety of international conventions and federal, provincial, and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases, or emissions of various substances produced in association which may result from our business operations. The legislation also requires that facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable health and safety regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of hazardous substances or other pollutants into the air, soil or water may give rise to liabilities to governments (both foreign and domestic), and third parties and may require us to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, research and development activities or otherwise adversely affect our financial condition, results of operations or prospects.

The Company believes it is in substantial compliance with all material environmental laws and regulations which currently apply to its current activities. Failure to comply with applicable laws, regulations and permitting

requirements in the future may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions, and may result in civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

Amendments to current laws, regulations and permits governing operations and activities of nanotechnology life sciences companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or costs, or require abandonment or delays in developments of new projects.

Reliance on Key Employees

The success of the Company's operations will be largely dependent upon the performance of our key officers, employees and consultants. Developing new lateral flow testing devices depend largely on the scientific and technical skills of the personnel involved. Failure to retain key personnel or to attract or retain additional key individuals with necessary skills could have a materially adverse impact upon our success. We do not have any key man insurance policies with respect to any of our directors, officers or key employees and have no current plans to do so.

In assessing the risk of an investment in the Company's Common Shares, potential investors should realize that they are relying on the experience, judgment, discretion, integrity and good faith of the management of the Company. An investment in our Common Shares is suitable only for those investors who are willing to risk a loss of their entire investment and who can afford to lose their entire investment.

Conflict of Interest of Management

Certain of the Company's directors and officers also serve as directors, officers and/or advisors of and to other companies involved in scientific research and development. Consequently, there exists the possibility for such directors and officers to be in a position of conflict. We expect that any decision made by any of such directors and officers relating to the Company will be made in accordance with their duties and obligations to deal fairly and in good faith with the Company and its shareholders, but there can be no assurance in this regard. In addition, each of the directors is required to declare and refrain from voting on any matter in which such directors may have a conflict of interest.

Availability of Equipment and Access Restrictions

Scientific research and development and bio-technology companies rely heavily on the availability and access to required scientific or technical resources and related equipment in the particular fields of study. Demand for such scientific or technical resources or limitations on the supply of equipment or access restrictions may affect the availability of such scientific or technical resources and related equipment to the Company and may delay its business activities.

Uninsured or Uninsurable Risks

Although we maintain insurance to protect against certain risks in such amounts as we consider to be reasonable, our insurance will not cover all the potential risks associated with our operations and insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. It is not always possible to obtain insurance against all risks and we may decide not to insure against certain risks because of high premiums or other reasons. Moreover, insurance against risks such as loss of title to our intellectual properties, acts of war, labour interruptions, natural disasters, environmental pollution, or other hazards as a result of our research and development or future production may not be generally available to us or on acceptable terms. Losses from these events may cause us to incur significant costs that could have a material adverse effect upon our financial performance and results of operations.

Volatility of Current Global Economic or Financial Conditions

Current global economic or financial conditions have been subject to continued volatility. Trade wars, import tariffs, Brexit, public protests, rising consumer debt levels, epidemics, pandemics, or outbreaks of new infectious disease or viruses (including most recently, COVID-19), and the risk of sovereign debt defaults in many countries have caused and continue to cause significant uncertainties in the markets. Although the Company takes appropriate measures and safeguards to protect its staff from infection, these events can result in volatility and disruption to global supply chains, operations, transportation, and mobility of people, which are beyond the control of the

Company, and which could adversely affect the availability of components, supplies and materials, labour, interest rates, credit ratings, credit risk, inflation, business operations, financial markets, exchange rates, and other factors material to the Company.

Foreign Currency Risk
The Company conducts business with entities located in foreign jurisdictions, such as the United Kingdom and the United States of America. As a result, fluctuations in currency exchange rates could significantly affect our business, financial condition, results of operations and liquidity.

Potential Volatility of Market Price of Shares
Securities traded on the CSE have, from time to time, experienced significant price and volume fluctuations unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the market price of the Common Shares. In addition, the market price of the Shares is likely to be highly volatile. Factors such as metals prices, the average volume of shares traded, announcements by competitors, variations in the operating results of the Company, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Company, general economic conditions, cost estimates, results of research and development, production or operating results due to mechanical failure, labour unrest, legislative changes, and other events and factors outside of the Company's control.

The Company is unable to predict whether substantial amounts of its Shares will be sold in the open market. Any sales of substantial amounts of Shares in the public market, or the perception that such sales might occur, could materially and adversely affect the market price of the Shares.

Securities or Industry Analysts Reports
The trading market for the Shares will depend in part on the research and reports that securities or industry analysts may publish about us or our business. We currently have no research coverage by securities and industry analysts. If any analysts who may cover us in the future downgrade the Shares or publish inaccurate or unfavorable research about our business, our trading price may decline. If one or more of these analysts later ceases coverage of us or fails to publish reports on us regularly, demand for the Shares could decrease, which could cause our trading price and volume to decline.

Shareholders have Limited Control
Shareholders have limited control over changes in our policies and operations, which increases the uncertainty and risks of an investment in our Company. Our Board of Directors determines major policies, including policies regarding financing, growth, debt capitalization and any future dividends to Shareholders. Generally, our Board of Directors may amend or revise these and other policies without a vote of the Shareholders. Shareholders will only have a right to vote, as a class, as may be required by applicable corporate and securities legislation. Our Board of Director's broad discretion in setting policies and the limited ability of Shareholders to exert control over those policies increases the uncertainty and risks of an investment in our Company.

Financial Reporting and Other Disclosure Requirements
We are subject to reporting and other obligations under applicable Canadian securities laws and rules of any stock exchange on which the Shares are listed, including National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*. These reporting and other obligations place significant demands on our management, administrative, operational and accounting resources. If we are unable to accomplish any such necessary objectives in a timely and effective manner, our ability to comply with our financial reporting obligations and other rules applicable to reporting issuers could be impaired. Moreover, any failure to maintain effective internal controls could cause us to fail to satisfy our reporting obligations or result in material misstatements in our financial statements. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results could be materially adversely affected which could also cause investors to lose confidence in our reported financial information, which could result in a reduction in the trading price of the Shares.

Internal Controls and Procedures
We do not expect that our disclosure controls and procedures and internal controls over financial reporting will prevent all error or fraud. A control system, no matter how well-designed and implemented, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within an organization are detected. The inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of certain persons, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a control system, misstatements due to error or fraud may occur and may not be detected in a timely manner or at all.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed by the Company to ensure that financial information disclosed by the Company in the MD&A and in the unaudited financial statements of the Company is properly recorded, processed, summarized and reported to its officers and the Board of Directors. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") believe such controls and procedures as at July 31, 2023 are effective in providing reasonable assurance that material items requiring disclosure are identified and reported in a timely manner.

Internal Control Over Financial Reporting

The Company's management, with the participation of its CEO and CFO, has designed, established and is maintaining a system of internal control over financial reporting. Under the supervision of the CFO, as at July 31, 2023, the Company's internal control over financial reporting is a process designed to provide reasonable assurance that the financial information prepared by the Company for external purposes is reliable and has been recorded, processed and reported in an accurate and timely manner and in accordance with IFRS. The Company's controls include policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the audited financial statements.

There were no changes in the Company's internal control over financial reporting during the period ended July 31, 2023 or the year ended October 31, 2022 that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

The Company's management, including the CEO and CFO, believe that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are disclosed in note 3, *Summary of Significant Accounting Policies*, of the audited annual financial statements for the year ended October 31, 2022. Sona has identified certain accounting policies that it believes are most critical in understanding the judgments that are involved in producing the financial statements and the estimates made that could impact results of the operations, which are discussed below.

Government assistance

Non-repayable government assistance is recorded in the period earned as other income or netted against expenses. Repayable government loans are recorded initially at fair value, with the difference between book value and fair value recorded as other income.

Financial instrument

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.

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

Financial instrument	**IFRS 9**
Cash	Amortized cost
Amounts receivable	Amortized cost
Government grant receivable	Amortized cost
Marketable securities	FVTPL
Accounts payable	Amortized cost
Long-term debt	Amortized cost

Financial Assets

Subsequent to initial recognition, financial assets classified as loans and receivables are 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.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the audited annual 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 audited financial statements are outlined below.

Calculation of initial fair value and carrying amount of long-term debt

The initial fair value of the Atlantic Canada Opportunities Agency ("ACOA") loans is determined by using a discounted cash flow analysis for the loans, which requires a number of assumptions. The difference between the face value and the initial fair value of the ACOA loans is recorded in the statement of loss and comprehensive loss as government assistance. The carrying amount of the ACOA loans requires management to adjust the long-term debt to reflect actual and revised estimated cash flows whenever revised cash flow estimates are made or new information related to market conditions is made available. Management recalculates the carrying amount by computing the present value of the estimated future cash flows at the original effective interest rate. Any adjustments are recognized in the statement of loss and comprehensive loss as accreted interest and adjustments after initial recognition.

The significant assumptions used in determining the discounted cash flows include estimating the amount and timing of future revenue for the Company and the discount rate. As the ACOA loans are repayable based on a percentage of gross revenue, if any, the determination of the amount and timing of future revenue significantly impacts the initial fair value of the loans, as well as the carrying value of the ACOA loans at each reporting date. The Company is researching and developing its nanorod technology products; accordingly, determination of the amount and timing of revenue, if any, requires significant judgment by management. If the Company expected no future revenues, no repayments would be required on the ACOA loans and the amounts recorded for the ACOA loans on the statement of financial position would be $nil. The discount rate determined on initial recognition of the ACOA loans is used to determine the present value of estimated future cash flows expected to be required to settle the debt. In determining the appropriate discount rates, the Company considered the interest rates of similar long-term debt arrangements, with similar terms. The ACOA loan is repayable based on a percentage of gross revenue, if any; accordingly, finding financing arrangements with similar terms is difficult and management was required to use significant judgment in determining the appropriate discount rates. Management used a discount rate of 14.33% to discount the ACOA loan.

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 audited 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.

OTHER INFORMATION

Additional information regarding the Company is available on the Company's website at www.sonanano.com.