

SureNano Science Ltd.

Management's Discussion and Analysis

Year Ended June 30, 2022

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Management's Discussion and Analysis
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The following is management's discussion and analysis ("MD&A") of SureNano Science Ltd. ("SureNano" or the "Company"), prepared as of August 23, 2022. This MD&A is intended to assist the reader to assess material changes in the financial condition and results of operations of SureNano as of June 30, 2022 and for the period then ended. This MD&A should be read together with the audited financial statements for the year ended March 31, 2022 and related notes. Financial amounts are expressed in Canadian dollars unless otherwise indicated.

This MD&A contains "forward-looking information" which may include, but is not limited to, statements with respect to the future financial or operating performance of the Company. Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "seeks", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might", "likely" or "will" be taken, occur or be achieved.

To the extent that such statements are not recitations of historical fact, such statements constitute forward-looking statements which, by definition involve risks and uncertainties. Where in any forward-looking information, the Company expresses an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will result or be achieved or accomplished.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, the Company does not intend to update any of the forward-looking statements to conform these statements to actual results.

The Company's unaudited condensed interim financial statements for the three months ended June 30, 2022, have been prepared in accordance with IAS 34 – Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee.

Business Overview

SureNano was incorporated under the *Business Corporations Act* in British Columbia on January 14, 2021. The principal business of the Company is the sale and distribution of the SureNano™ surfactant, which is a ready-to-mix food grade compound that provides the base for high performance nano-emulsions to create incredibly homogeneous and stable products while maximizing bioavailability, clarity, and taste. The Company has exclusive licenses to distribute the SureNano™ surfactant within Canada, the State of Colorado, and the State of Oklahoma.

In December 2021, the Company's shares were listed on the Canadian Securities Exchange ("CSE") under the symbol "SURE". The Company's head office is located at 350 – 1650 West 2nd Avenue, Vancouver, British Columbia.

Covid-19

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds.

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Business Developments

- In June 2022, the Company entered into a licensing agreement with 1150641 BC Ltd. ("1150641"), whereby the Company was granted an exclusive license and right to produce, distribute, and enter into sub-licenses or agreements within the state of Oklahoma, USA, all current and future products developed by 1150641. See *Licensing Agreements* below.
- In January 2022, the Company entered into an agreement with a marketing firm to provide media and marketing services for a term of one year, whereby the marketing firm will receive monthly compensation of \$6,500. In addition, the Company agreed to grant the marketing firm 200,000 stock options. See *Share Capital* below.
- In December 2021, the Company's shares were approved for listing on the CSE and commenced trading on December 21, 2021 under the trading symbol "SURE".

Licensing Agreements

Fiscal 2023

In June 2022, the Company entered into a licensing agreement (the "Oklahoma Licensing Agreement") with 1150641 BC Ltd. ("1150641"), a company controlled by a director of the Company, whereby the Company was granted an exclusive license and right to produce, distribute, and enter into sub-licenses or agreements within the state of Oklahoma, USA, all current and future products developed by 1150641. Currently there is one product for sale: SureNano™ surfactant. The Oklahoma Licensing Agreement is for an initial term of 10 years, with an option to renew for an additional 10 years upon the Company providing written notice to 1150641 prior to the expiration of the initial term.

In consideration for the rights and licenses, the Company paid \$10,000 and agreed to pay an on-going royalty calculated as 25% of net sales, which is payable within 30 days of the end of each fiscal quarter. In the event any royalty is not paid when due, interest on such unpaid amount will be payable at a rate of 8% per year.

Fiscal 2022

In June 2021, the Company entered into a licensing agreement (the "Colorado Licensing Agreement") with 1150641 BC Ltd. ("1150641"), a company controlled by a director of the Company, whereby the Company was granted an exclusive license and right to produce, distribute, and enter into sub-licenses or agreements within the state of Colorado, USA, with respect to the SureNano™ surfactant (the "Product"), which is owned by 1150641. The Colorado Licensing Agreement is for an initial term of 10 years, with an option to renew for an additional 10 years upon the Company providing written notice to 1150641 prior to the expiration of the initial term.

In consideration for the rights and licenses, the Company paid \$25,000 and agreed to pay an on-going royalty calculated as 25% of net sales, which is payable within 30 days of the end of each fiscal quarter. In the event any royalty is not paid when due, interest on such unpaid amount will be payable at a rate of 8% per year.

Fiscal 2021

In February 2021, the Company entered into a licensing agreement (the "Licensing Agreement") with 1150641, a company controlled by an individual who was appointed as a director of the Company subsequent to entering into the Licensing Agreement, whereby the Company was granted an exclusive license and right to produce, distribute, and enter into sub-licenses or agreements within Canada with respect to the Product, which is owned by 1150641. The Company was also granted the first right of refusal over licenses and rights to the Product in Europe over the life of the Licensing Agreement. The Licensing Agreement is for an initial

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term of 10 years with an option to renew for an additional 10 years upon the Company providing written notice to 1150641 prior to the expiration of the initial term.

In consideration for the exclusive license and rights, the Company paid the following:

- (a) \$50,000 within three business days of signing the Licensing Agreement (paid);
- (b) \$50,000 on March 31, 2021 (paid);
- (c) \$50,000 on June 30, 2021 (paid); and
- (d) \$50,000 on September 30, 2021 (paid).

The Company also agreed to pay an on-going royalty calculated as 25% of net sales, which are payable within 30 days of the end of each fiscal quarter. In the event any royalty is not paid when due, interest on such unpaid amount will be payable at a rate of 8% per year.

Research Agreement

In June 2021, the Company entered into a collaborative research agreement with 1150641, a company controlled by a director of the Company, whereby the Company and 1150641 will participate in a collaborative research project regarding the use of surfactants in cannabis oil and the products resulting therefrom and does not include the development of new surfactant formulae. Pursuant to the research agreement, the Company agreed to pay and contribute half of the amounts required to pay for invoices of consultants in carrying out the research project to a maximum of \$100,000 during the term of the agreement. In addition, the Company was also responsible for covering half of the \$34,464 already paid by 1150641. The term of the research agreement is one year, unless extended by mutual agreement or terminated with 90 days prior written notice by either party.

Financial***Selected Annual Information***

The following provides a summary of the Company's financial position and results of operations:

	Year ended March 31, 2022	Period from incorporation on January 14, 2021 to March 31, 2021
	\$	\$
Loss for the period	(1,118,661)	(85,512)
Basic loss per share	(0.06)	(0.01)
Total assets	686,443	966,811
Total liabilities	36,495	17,323
Working capital	649,948	949,488
Weighted average number of shares	20,239,449	13,854,000

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Summary of Quarterly Results

The Company was formed in January 2021 and does not have a long history of preparing quarterly financial statements. The following table provides a summary of selected quarterly information:

Period ended:	Revenues \$	Net loss \$	Net loss per share \$
March 31, 2021	36,000	(82,512)	(0.01)
June 30, 2021	9,000	(596,344)	(0.03)
September 30, 2021	9,000	(151,862)	(0.01)
December 31, 2021	-	(151,363)	(0.01)
March 31, 2022	-	(219,092)	(0.01)
June 30, 2022	-	(116,507)	(0.01)

Notable differences in the results of operations relate to:

- March 31, 2021 – The Company incurred a license fee expense as set out in the Licensing Agreement and other professional expenses related to the Company's incorporation and financings in the period.
- June 30, 2021 – The Company's expenses increased in the current period due to increased business activity. Expenses included professional fees related to financings and regulatory matters and research and development expenses pursuant to the collaborative research agreement. The Company also incurred a license fee expense of \$75,000 pursuant to the licensing agreements and share-based compensation expense of \$403,817 with the grant of options in the period.
- September 30, 2021, and December 31, 2021– The Company incurred expenditures primarily related to the licensing and research agreements.
- March 31, 2022 - The Company incurred expenditures primarily related to the licensing and research agreements of \$50,072. The Company also incurred advertising fees of \$27,021 and filing fees of \$35,338 in the period.
- June 30, 2022 – The Company incurred expenditures primarily related to consulting fees of \$38,897 and advertising fees of \$15,500. The Company also incurred Management fees of \$24,750 and filing fees of \$7,770.

Results of Operations

For the three months ended June 30, 2022, the Company incurred a loss of \$116,507 (June 30, 2021 - \$596,344).

The expenses and related costs that reflect significant changes in the Company's operations during the three months ended June 30, 2022 include the following:

- License fee represents consideration paid to 1150641 pursuant to the licensing agreements for the exclusive licenses and rights for the SureNano™ surfactant in the State of Oklahoma. In the three months ended June 30, 2022, the Company recognized a license fee of \$10,000 (June 30, 2021 - \$75,000).
- Professional fees include audit and legal fees in the normal course of business operations. In the three months ended June 30, 2022, the Company recognized professional fees of \$4,146 (June 30, 2021 - \$38,707).

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- Research and development fees include amounts required to carry out the research project pursuant to the collaborative research agreement. In the three months ended June 30, 2022, the Company recognized research and development of \$855 (June 30, 2021 - \$26,114).
- Royalties relate to the ongoing royalties payable to 1150641 pursuant to the terms of the licensing agreements. In the three months ended June 30, 2022, the Company recognized royalty expense of \$nil (June 30, 2021 - \$2,250).

Liquidity and Capital Resources

At June 30, 2022, the Company had cash of \$490,881 (March 31, 2022 - \$667,092) and working capital of \$508,637 (March 31, 2022 - \$649,948). For the three months ended June 30, 2022, the Company had negative cash flows from operations.

Some factors that may affect the Company's liquidity include:

- The Company has ongoing royalty expenses pursuant to its licensing agreements relating to the SureNano™ surfactant. The ongoing royalties are calculated as 25% of net sales, payable within 30 days of the end of each fiscal quarter. In the event any royalty is not paid when due, interest on such unpaid amount will be payable at a rate of 8% per year.
- In connection with the research agreement with 1150641, a company controlled by a director of the Company, the Company has committed to pay and contribute amounts related to the research project to a maximum of \$100,000 over the term of the research agreement.
- The Company has entered into a media and marketing services agreement with a marketing firm whereby the Company has agreed to pay \$6,500 per month as compensation, for a term of one year.
- The Company's shares were publicly listed on the CSE in December 2021. The Company expects to incur ongoing public company expenses as a result of listing on the CSE.
- Obtaining financing is subject to a number of factors that may make the timing, amount, terms or conditions of additional financing unavailable to the Company.

Related Party Transactions

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Company has determined that its key management personnel are the members of the Company's current and former board of directors and its executive officers.

- During the three months ended June 30, 2022, the Company incurred management fees of \$22,500 (June 30, 2021 – \$15,000) to the Chief Executive Officer of the Company. As at June 30, 2022, the Company owed \$nil (March 31, 2022 – \$7,875) to the CEO, The amount is non-interest bearing, unsecured and due on demand.
- During the three months ended June 30, 2022, the Company incurred management fees of \$2,250 (June 30, 2021 – \$15,000) to the Chief Financial Officer ("CFO") of the Company.
- During the three months ended June 30, 2022, the Company incurred royalties of \$nil (June 30, 2021 – \$2,250) and license fees of \$10,000 (June 30, 2021 – \$75,000) to a company controlled by a director of the Company. As at June 30, 2022, the Company owed \$nil (March 31, 2022 – \$4,710) to a company controlled by a Director of the Company. The amount is non-interest bearing, unsecured and due on demand.
- During the three months ended June 30, 2022, the Company incurred consulting fees of \$21,000 (June 30, 2021 – \$15,000) to a company controlled by the son of the CFO of the Company. As at June 30, 2022, the Company owed \$nil (March 31, 2022 - \$3,199) to the son of the CFO of the Company. The amount is non-interest bearing, unsecured and due on demand.

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- During the three months ended June 30, 2022, the Company incurred share-based compensation of \$nil (June 30, 2021 – \$302,863) to officers and directors of the Company.
- During the three months ended June 30, 2022, the Company purchased equipment for \$20,000 (2021 – \$nil) from a company with common directors.

Significant Accounting Policies

The Company's condensed interim consolidated financial statements have been prepared using the same accounting policies and estimates and judgements used in the Company's audited financial statements as at, and for the period ended March 31, 2022.

Capital Management

The Company's objectives when managing capital are to raise the necessary equity financing to fund its projects and to manage the equity funds raised which best optimizes its programs and the interests of its equity shareholders at an acceptable risk. In the management of capital, the Company includes the components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may raise additional equity funds. The Company is not subject to externally imposed capital requirements. There have been no changes to the Company's capital management during the period.

Fair Value Measurements and Risk Management

(a) Fair Values

The Company classified the fair value of the financial instruments according to the following fair value hierarchy based on the amount of observable inputs used to value the instruments:

- Level 1 - quoted prices in active markets for identical assets or liabilities.
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e.: as prices) or indirectly (i.e.: derived from prices).
- Level 3 - inputs for the asset or liability that are not based on observable market data.

The Company has recorded its cash at fair value using level 1 inputs. The fair values of the Company's other financial instruments, which include accounts receivable and accounts payable approximate their carrying values due to the relatively short-term maturity of these instruments.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below.

(b) Credit Risk

Credit risk is the risk of a loss if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including accounts receivable. Accounts receivable consists of trade receivables from customers. Of the Company's trade receivables outstanding at June 30, 2022, nil% (June 30, 2021 – 100%) is held with nil (June 30, 2021 – One) customer of the Company. The carrying amount of these financial assets represents the maximum credit exposure.

(c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

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The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company raising equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs.

The Company manages liquidity risk by maintaining sufficient cash balances and adjusting its operating budget and expenditure. Liquidity requirements are managed based on expected cash flows to ensure that there is sufficient capital in order to meet short-term and other specific obligations.

(d) Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

(i) Interest Rate Risk

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The exposure to interest rates for the Company is considered minimal. The Company has no interest bearing borrowings.

(ii) Foreign Exchange Rate Risk and Interest Rate Risk

The Company is not currently exposed to foreign exchange rate risk or interest rate risk.

(iii) Price Risk

The Company is not exposed to significant price risk.

(e) Economic Dependence Risk

Economic dependence risk is the risk of reliance upon a select number of customers which significantly impact the financial performance of the Company. During the year ended June 30, 2022, the Company recorded sales from nil (June 30, 2021 – one) customer of the Company representing 100% (June 30, 2021 – 100%) of total revenue.

Subsequent Event

None.

Risk Factors

The Company has a limited history of operations, no history of cash flow or profitability and only a nominal history of revenue. The Company has no source of operating cash flow and no assurance that additional funding will be available for expenses when required. There is no guarantee that the Company will operate its business successfully and obtain enough customers to justify its ongoing expenses. If the Company does not generate substantial revenue, it may be unable to sustain its operations, in which case it will become insolvent and investors will lose their investment.

The Company has a history of negative cash flow and losses, and it does not expect that to change in the short term. The Company has had negative operating cash flow since its date of incorporation, and the Company will continue to have negative operating cash flow for the foreseeable future. No assurance can be given that the Company will ever attain positive cash flow or profitability.

Management Experience

The Company's success is currently largely dependent on the performance of its directors and officers. The business of supplying surfactants for nanoemulsion to the cannabis industry is a new business and it has yet

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to be seen whether the Company's management will operate well in it. While the Company's management team has some related experience, there are many unknowns. Its management team may lack the management or technical expertise required to make this business a success. The experience of these individuals is a factor that will contribute to the Company's potential success and growth. The Company will initially be relying on its board members, as well as independent consultants, for certain aspects of its business. The amount of time and expertise expended on the Company's affairs by each of its management team and directors will vary according to its needs. The Company does not intend to acquire any key man insurance policies and there is, therefore, a risk that the death or departure of any member of management, the board, or any key consultant, could have a material adverse effect on the Company's future. Investors who are not prepared to rely on the Company's management team should not invest in its securities.

Supply Risk

Delays in the delivery of ingredients to the manufacturer or of the product to customers could have a material, negative impact on the Company's operations. The Company currently relies on one manufacturer to source most ingredients and manufacture and deliver the SureNano™ surfactant to its customers. The Company also currently relies on one supplier for the ingredient that it sources and sends to the manufacturer. There are many other manufacturers and suppliers that the Company could engage to source ingredients and produce and deliver the SureNano™ surfactant but changing manufacturers or suppliers could cause significant delays and expense. There could be delays to the production and delivery of product to customers, which could lose customers and have a negative impact on the Company's financial position.

Share Capital

The Company had 21,457,800 common shares issued and outstanding at June 30, 2022 (March 31, 2022 – 21,457,800).

Share Issuances

In December 2021, the Company issued 1,757,700 common shares upon the conversion of 1,757,700 special warrants.

Special Warrants

In May 2021, the Company completed a private placement of 1,757,700 non-transferable special warrants at \$0.25 per special warrant for gross proceeds of \$439,425. Each special warrant entitles subscribers to acquire, without payment of any consideration in addition to that already paid, one common share of the Company. In connection with the private placement, the Company paid a finder's fee of \$27,350 and incurred other issuance costs of \$4,230. In December 2021, the Company converted 1,757,700 special warrants into 1,757,700 common shares of the Company.

Stock Options

In June 2021, the Company adopted a stock option plan to provide effective incentives to directors, officers and employees of the Company and to enable the Company to attract and retain experienced and qualified individuals in those positions by permitting such individuals to directly participate in an increase in per share value created for the Company's shareholders. The option plan provides that the aggregate number of securities reserved for issuance, set aside and made available for issuance under the option plan may not exceed 10% of the number of common shares of the Company issued and outstanding from time to time. The option plan is administered by the board of directors and options granted under the plan have a maximum term of 10 years and vest at the discretion of the board of directors.

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In June 2021, the Company granted stock options to directors and officers to acquire up to 2,000,000 common shares of the Company at \$0.25 per share. The options vest immediately and expire on June 16, 2024.

In January 2022, the Company granted stock options to a marketing firm to acquire up to 200,000 common shares of the Company at 0.30 per share. The options vest in four equal instalments over one year and expire on February 15, 2023.

Outstanding Share Information

The Company has one class of authorized capital, being an unlimited number of common shares without par value. As at the date of this MD&A, the Company has the following issued and outstanding:

- 21,457,800 common shares.
- 2,200,000 stock options to purchase common shares.