

Sona Nanotech Inc.
Management Discussion and Analysis
Six-months ended April 30, 2019

This Management Discussion and Analysis ("MD&A") provides a review of the performance of Sona Nanotech Inc. (formerly "Stockport Exploration Inc.") ("Sona" or the "Company") and should be read in conjunction with the unaudited condensed interim consolidated financial statements (the "Financial Statements") of Sona for the six-months ended April 30, 2019 and the audited consolidated financial statements of Sona for the year ended October 31, 2018, 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 June 27, 2019. The reporting currency for Sona is the Canadian dollar. Sona and 6321593 Canada Inc.'s functional currency is the Canadian dollar. Minera Zapoteca S.A. de C.V.'s functional currency is the Mexican Peso. 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 development plans for the Company's gold nanoparticle products and associated services;
- the Company's business strategy;
- 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 *Risk Factors*.

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 *Risk Factors*. 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. (formerly "Stockport Exploration 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. Refer to note 3, *Transaction with Sona Nanotech Ltd.*, in the unaudited condensed interim consolidated financial statements for details. The Company's corporate office is located at 1969 Upper Water Street, Suite 2001, Halifax, NS, Canada, B3J 3R7. The research and development office is located at 1 Research Drive, Bay 2, Dartmouth, NS, B2Y 4M9. The registered office of Sona is located at Suite 1750, 1185 West Georgia Street, Vancouver, BC, Canada, V6E 4E6.

The Company's Board of Directors, upon approval by written consents of a majority of the minority shareholders of Stockport, made the decision to voluntarily delist from the TSX Venture Exchange ("TSXV") and list on the Canadian Securities Exchange ("CSE"). The Company received conditional listing approval from the CSE on July 27, 2018 subject to the completion of the transaction with Sona. The Company's common shares were voluntarily delisted from the TSXV on August 7, 2018. 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 completed a private placement of its common shares at \$0.25 per share to raise gross proceeds of \$2,000,000, by the issuance of 8,000,000 common shares. 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".

Transaction with Sona Nanotech Ltd.

Under the terms of the Amalgamation Agreement (the "Agreement") dated August 8, 2018, the shareholders of the Company received one common share of the amalgamated company for every four shares of the Company held and the shareholders of Sona Nanotech received one common share for every 1.5802 shares of Sona Nanotech held (collectively referred to as the "Transaction"). Upon completion of the Transaction, the Company changed its name to Sona Nanotech Inc. and the shareholders of the Sona Nanotech received a total of 22,036,216 common shares and the shareholders of the Company received a total of 22,163,247 common shares based on the amalgamation ratios.

In substance, the Transaction involves Sona Nanotech shareholders obtaining control of the Company. As the Company does not meet the definition of a business prior to the Transaction, the Transaction is outside the scope of IFRS 3, *Business Combinations*. The Transaction has therefore been accounted for under IFRS 2, *Share-based payment*. Under this basis of accounting, the consolidated financial statements of the combined entity will represent the continuation of Sona Nanotech by which Sona Nanotech acquired the net assets and listing status of the Company as of August 8, 2018. Accordingly, the Transaction will be considered a reverse takeover transaction ("RTO") with Sona Nanotech acquiring the Company.

The excess of the estimated fair value of the equity instruments that Sona Nanotech is deemed to have issued to acquire the Company, plus the transaction costs and the estimated fair value of the Company's net liabilities (collectively the "Consideration"), will be recorded as a charge to the listing fee expense as a cost of obtaining the Company status as a Reporting Issuer. See note 3, *Transaction with Sona Nanotech Ltd.*, of the unaudited condensed interim consolidated financial statements for further details.

The Company adopted a financial year end of October 31st as a result of the closing of the Transaction.

Operational overview

In the last quarter of 2017, Darren Rowles was appointed as President and CEO of the Company. A commercially-minded scientist, Mr. Rowles joined Sona with 14 years experience in the diagnostic and nanoparticle industry. He previously worked for one of the leading providers of technologies to the global diagnostics market, where he specialized in product manufacturing and development in the area of noble metal nanoparticles and lateral flow diagnostics. During his time there, he helped grow nanoparticle sales from \$200,000 to \$5.5 million with \$4 million profit and introduced more than 15 new products to market. Mr. Rowles is a key opinion leader at industry seminars and conferences and acts as an Advisory Board Member to the World Gold Council.

Sona is the manufacturer of the Gemini™ and Omni™ Gold Nanorod (“GNR”) product lines. Sona is the world’s first company to develop the ability to synthesize high volumes of gold nanorods without the use of the cytotoxin, cetyltrimethylammonium bromide (“CTAB”). GNR products are ideally suited for in-vitro Diagnostics (“IVD”) test products including lateral flow assays, enzyme-linked immunosorbent assays (“ELISA”), flow through assays and lab analyzers. In addition, Sona’s gold nanorods have potential to be incorporated into disruptive emerging medical applications including targeted drug delivery, photothermal therapy and cell imaging.

Working in co-operation with several key collaborators including, Soma Biosciences, Expedeon Ltd, Operon S.A, Bond Digital Health Ltd, Cape Bretton University, Optricon, Anteo Diagnostics, University of Birmingham and Clemson University, Sona is disrupting the existing lateral flow market with the introduction of Sona powered, multiplexed lateral flow devices. The Company is also working towards providing the Life Science market with a step change in in-vivo imaging, drug delivery and photothermal therapies by offering the world’s first non-toxic gold nanorod product range.

The commercialization of products and services to be undertaken by Sona is concentrated in two areas: diagnostics and life sciences. The primary offering to the diagnostics market is technology licenses to use Sona’s gold nanorods in lateral flow assays. To aid in the sale of such licenses, Sona offers a contract development services to develop commercially viable diagnostic assays that provide superior performance to products to the market, reduce cost burdens for healthcare providers and individuals; and provide access to next generation multiplexed point of care tests. A secondary offering to the diagnostics market is a custom conjugation service and the supply of gold nanorods and spherical nanoparticles for customers to use in their own development will also be available through direct sales channels.

The offering to the Life Sciences market will include the supply of existing gold nanorod products through an exclusive distribution agreement with Expedeon Ltd, as well as, direct sales of its custom synthesis service which will help support the application of nanoresearch and its potential to improve nanotechnology driven applications in the Life Sciences sector.

BUSINESS OBJECTIVES

Sona is using its financial resources for the following key business objectives:

Future Diagnostics

The primary objective of the future diagnostic project is to identify and work with third parties interested in applying Sona’s gold nanorod technology to their established platforms to enhance the commercial potential of their product lines. Sona’s technology services are being enhanced to allow companies to provide the next generation of assays to the market and provide tests that perform better; are easier to interpret; provide both qualitative and quantitative outputs; and collect, store, manage and share associated data through its digital application and cloud services. Sona’s enhanced products will also empower healthcare professionals and individuals to make better diagnostics decisions and take more control of their own health.

Sona’s primary approach to market entry involves targeting firms that have established and ubiquitous platforms in place for lateral flow assays. By utilizing Sona’s gold nanorods in their existing products, firms will be able to transform their platforms by incorporating modern diagnostic techniques with broad applications across multiple diagnostic segments, ranging from human health conditions, antimicrobial resistance, animal health, and infectious diseases.

The Company's objectives in the future diagnostic project include:

- Develop feasible next generation, multiplexed, lateral flow assays utilizing Sona's gold nanorod technologies with commercial partners;
- Establish an equipped center for the production and characterization of gold nanoparticles and the development of lateral flow assays;
- Create lean production scale-up processes;
- Establish production characterization techniques;
- Develop a quality management system in preparation for applying for ISO certification to serve the diagnostics market;
- Demonstrate the feasibility of conjugating various biological materials using Sona's gold nanorod technologies;
- Demonstrate the feasibility of using Sona's gold nanorod technologies in a lateral flow platform;
- Develop a model system that will be used as a comparator to existing technologies in the market;
- Demonstrate the feasibility of new nanoparticle technologies in Sona's lateral flow assay platform;
- Integrate a digital platform offering through application and cloud-based technologies;
- Integrate data capture and automation technologies into production processes; and
- Advance existing production techniques to a more automated and continuous production processes.

Life Sciences

The Company's life sciences project deals with selected issues related to the diverse range of properties of gold nanorods. Specific projects will provide practical applications of the gold nanorod technology. The Company's objectives in the life sciences project include the following:

- Establish development programs to utilize Sona's nanorods in life science research with academic and commercial partners;
- Create a distribution network that services the life science and academic networks;
- Develop an improved understanding of the chemical and physical processes of gold nanorods in-vivo;
- Study the potential application of Sona's nanorod technology to a wide range of commercial applications;
- Develop a graduate training center for next generation nanotechnologists to collaborate with Sona on existing projects.

Recent updates

Throughout the year, the focus of the Company was to establish technical partnerships to enhance Sona's offering to the lateral flow market, create a distribution network that will service the Life Science and nanotechnology markets with Sona's products, establish a new research and development ("R&D") facility that allows the Company to grow and serve the highly regulated markets that Sona operates within. Sona has increased both operational and commercial staff numbers to fully promote its products and services and meet the increasing demand.

In late 2018, the Company completed the relocation of its laboratory facilities to Halifax, NS as it seeks to capitalize on recent business success and further expand its business in the diagnostics market. Following this period of recent growth, the Company agreed a three-year lease with Innovacorp for space at the Technology Innovation Centre on Research Drive.

In October 2018, the Company entered an agreement with Expedeon Ltd ("Expedeon"), a global biotech company, for the supply of Sona's unique gold nanorods for integration into Expedeon's product range. Expedeon has exclusive rights to promote and market the nanorods to life science researchers and diagnostic companies around the world through its extensive distribution network and strong direct sales channels. Expedeon will invest in R&D to incorporate Sona's technology into its comprehensive product range coupled with its own proprietary technologies. The Company also entered a collaboration with Soma BioScience ("Soma") to produce new diagnostic tests. Under the terms of the agreement Sona and Soma will work collaboratively in two projects, one to improve performance in a test in Soma's current product range and one to improve performance in a new test Soma plans to bring to market.

The Company signed a co-marketing agreement with Bond Digital Health, a UK-based digital healthcare company. The agreement will open up a new source of customers and collaborators for the Company. The Company also

engaged the services of Trevor Keel, a leading expert in gold and nanotechnology, to help develop its business proposition in Europe. Mr. Keel has a wide network of contacts to develop new business opportunities, collaborations and projects in the lateral flow market utilizing Sona's range of unique gold nanorods.

In December 2018, the Company signed a collaboration agreement with one of Europe's largest lateral flow test developers, which will integrate Sona's nanorod technology into their market-established lateral flow assays. Operon SA ("Operon"), based in Zaragoza, Spain, produces a range of rapid diagnostic tests and molecular diagnostic products, which it exports to more than 50 countries. Operon and Sona have agreed to work together to improve the performance of Operon's current in-market lateral flow tests to help further establish their market share in the infectious disease arena. If the feasibility study is successful, further development will take place with the expectation to launch products into the market in the first half of 2020.

In January 2019, the Company commenced a collaboration with an Australia-based nanotech company, Anteo Technologies Pty Ltd ("Anteo"), to accelerate the development of lateral flow immunoassays. Under the terms of the collaboration, Sona will supply its unique, proprietary gold nanorod technology to Anteo, which will combine it with its own proprietary AnteoBind™ technology and various biomarkers including, but not limited to, cardiac ("cTnI"), sepsis ("CRP") markers and HCG, the well-known fertility marker used in pregnancy tests. Anteo will supply Sona with these solutions for assessment in a lateral flow assay format as well as conducting its own in-house assessment.

In March 2019, the Company announced a collaboration with global diagnostics solutions provider Romer Labs to improve performance in their apidChek® SELECT™ pathogen test kits. With over 30 years of experience in this field, and labs in Austria, UK, US and Singapore, Romer Labs is a leading provider of diagnostic solutions for the agricultural, food and feed industry. Romer Labs uses lateral flow assay technology across multiple product lines including its RapidChek® SELECT™ and AgraStrip® test strips that detect foodborne pathogens, mycotoxins, food allergens, GMOs and meat and bone meal ("MBM") in animal feed. The companies are very optimistic that Sona's unique gold nanorods will increase the performance of Romer's RapidChek® SELECT™ product lines and have agreed to work collaboratively to achieve this goal.

In addition, the Company signed a collaboration agreement with a UK medical diagnostics company to develop new highly sensitive point of care diagnostic tests for infectious diseases. OLM Diagnostics ("OLM"), based in Newcastle Upon Tyne, England, manufactures, markets and distributes innovations in fungal and bacterial diagnostics to the healthcare sector. Its international network of clinicians, investors and stakeholders in the sector ensure its products have the best chance of success. OLM wants to develop new, rapid, multiplexed lateral flow assays to detect infectious diseases in humans, helping doctors in primary diagnosis. The company believes Sona's unique gold nanorods can help it develop quicker and more sensitive tests for infectious diseases than those currently on the market.

In May 2019, Sona announced a collaboration with the University of Birmingham in the UK to develop next generation nanorods for tissue imaging. The goal of the project is to investigate whether gold nanorods can eventually be used to target cancer cells in the human body.

In addition, Sona entered an agreement pursuant to which Antler Gold Inc. ("Antler") will acquire from Sona a 100% interest in certain mineral claims comprising the Crescent Lake/KM61 molybdenum-copper-silver project located in Armstrong, Ontario (the "Property"). Under the agreement, Antler will acquire the Property (the "Property Acquisition") in consideration of the assumption of all liabilities of Sona associated with the Property and the future payment to Sona of contingent consideration if Antler disposes of the Property to a third party, or enters into an agreement or arrangement with a third party to otherwise monetize the Property by way of joint venture, option or other form of transaction (a "Future Transaction"). The amount of the contingent consideration payable to Sona will be equal to 50% of the consideration received by Antler in the Future Transaction (net of Antler's aggregate expenses related to the marketing, selling, upkeep and maintenance of the Property incurred between the acquisition of the Property and the date of such Future Transaction), to a maximum of \$3,000,000. Antler has also agreed to purchase two subsidiaries of Sona that own technical and physical data on historical mineral interests in Mexico, and associated offsetting intercompany accounts, for a purchase price of \$1.00. The assets and third-party liabilities are nominal for both subsidiaries.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

	Apr 30, 2019	Jan 31, 2019	Oct 31, 2018	Jul 31, 2018	Apr 30, 2018	Jan 31, 2018	Oct 31, 2017	Jul 31, 2017
	\$	\$	\$	\$	\$	\$	\$	\$
Expenses								
Salaries and employee benefits	137,248	135,009	117,205	92,671	65,842	67,531	43,034	63,017
Professional and consulting fees	90,171	103,620	117,407	119,680	89,943	32,590	12,023	8,968
Management services	57,000	57,000	58,000	54,000	54,000	54,000	54,000	54,000
Research and development	26,048	3,490	8,432	12,387	19,973	1,962	4,649	693
Share-based compensation	93,907	10,098	–	–	–	–	–	–
Securities and regulatory	9,394	9,938	26,806	–	–	–	–	–
Other administrative	55,409	49,642	59,967	47,114	60,212	22,705	20,308	12,196
	(469,177)	(368,797)	(387,817)	(325,852)	(289,970)	(178,788)	(134,014)	(138,874)
Other income (expenses)								
Repayable government loans fair value adjustment	50,419	53,889	40,945	37,038	37,398	47,950	(4,067)	3,305
Scientific research tax credits	18,000	7,000	45,000	–	1,627	–	–	–
Interest expense	(13,790)	(14,153)	(14,245)	(3,000)	(3,092)	(3,427)	(3,325)	(3,000)
Accreted interest	(26,656)	(24,254)	(18,443)	(15,000)	(11,144)	(7,232)	(1,380)	(1,381)
Listing expense	–	–	(4,045,228)	–	–	–	–	–
Fair value adjustment on convertible debentures	–	–	(103,053)	–	–	–	–	–
	27,973	22,482	(4,095,024)	19,038	24,789	37,291	(8,772)	(1,076)
Net loss for the quarter	(441,204)	(346,315)	(4,482,841)	(306,814)	(265,181)	(141,497)	(142,786)	(139,950)
Loss per share – basic and diluted	(0.01)	(\$0.01)	(\$0.25)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)

Results of Operations for the six-months ended April 30, 2019

The Company reported a net loss for the six-months ended April 30, 2019 of \$787,519, or \$0.01 per share, as compared to a net loss of \$406,678, or \$0.02 per share, for the six-months ended April 30, 2018.

Expenses

During the six-months ended April 30, 2019, the Company incurred expenses of \$837,974, an increase of \$369,216 from the \$468,758 incurred in the comparable period. The increase results from the significant increase in business activities including an increase of salaries and employee benefits of \$138,884 due to the hiring of additional employees which increased salaries and employee benefits as well as less government funding received for salaries from the Industrial Research Assistance Program (“IRAP”). The Company incurred an additional \$71,258 in professional and consulting fees due to the engagement of additional consultants with its increased business activities. For the six-months ended April 30, 2019, management service fees of \$114,000 (2018 – \$108,000) relate to consulting services provided by Numus Financial.

Research and development costs increased from \$21,935 in the first six months of 2018 to \$29,538 in the first six months of 2019 due to increased business activities. During the current period, the Company also incurred securities and regulatory fees of \$19,332 associated with operating as a public company.

During the period ended April 30, 2019, general and administrative expenses increased by \$22,135 primarily resulting from rent and related costs increased by \$13,333 with the new lab facilities and office space rental in the last quarter of 2018, increased depreciation expense of \$10,832 due the additions to property and equipment during the period and other administrative expenses increased by \$10,256 due to additional costs associated with the set up of the new lab facility. The increase was offset by a decrease in travel costs of \$12,611 due to a decrease in travel costs associated with the relocation of the CEO in 2018.

During the period ended April 30, 2019, the Company granted 1,410,000 stock options, with an exercise price of \$0.35 to Directors, Officers, employees and consultants of the Company. The fair value of the stock options of \$360,601 was estimated at the grant date using the Black-Scholes option pricing model. This resulting fair value at the date of grant of the options has been assessed at \$0.256 per option. The assumptions used in the option pricing model include a volatility rate of 142%, an expected life of five years based on the contractual term of the options, a risk-free rate of 1% with no expected dividend yield. The Company is amortizing the fair value of its stock options, over the corresponding vesting period of 25% every six months. As a result, stock-based compensation of \$104,004 has been recorded for the six-months ended April 30, 2019.

Other income and expenses

During the period ended April 30, 2019, the Company recorded \$104,308 of other income relating to the fair value adjustment on the repayable government loans (the "ACOA loans") that relate to eligible costs incurred and claimed during the period. The value recorded in other income results from the difference between the face value of the ACOA loans and the initial fair value of the ACOA loans. The initial fair value of the loans is determined using the present value of the projected repayment of the loan, based on a 3 - 5% royalty on the estimated gross product revenues.

During the period ended April 30, 2019, the Company recorded \$25,000 of other income relating to an estimate of scientific research tax credits ("SR&ED"). The Company also recorded \$32,910 of accreted interest on the ACOA loans and \$18,000 of accreted interest on the convertible notes acquired as a result of the Transaction in 2018. The accretion expenses will be recognized over the term of the debt and ultimately the debt will be accreted to its original face value. The Company also incurred increased interest expense of \$27,943 due to the inclusion of interest on the convertible notes acquired with the Transaction.

Results of Operations for the three-months ended April 30, 2019

The Company reported a net loss for the three-months ended April 30, 2019 of \$441,204, or \$0.01 per share, as compared to a net loss of \$265,181, or \$0.01 per share, for the three-months ended April 30, 2018.

Expenses

During the three-months ended April 30, 2019, the Company incurred expenses of \$469,177, an increase of \$179,207 from the \$289,970 incurred in the comparable period. The increase results from the significant increase in business activities including an increase of salaries and employee benefits of \$71,406 due to the hiring of additional employees well as less government funding received from IRAP for salaries. For the three-months ended April 30, 2019, management service fees of \$57,000 (2018 - \$54,000) relate to consulting services provided by Numus Financial.

Research and development costs increased from \$19,973 in the second quarter of 2018 to \$26,048 in the second quarter of 2019 due to increased business activities. The Company also incurred securities and regulatory fees of \$9,394 associated with operating as a public company.

During the quarter ended April 30, 2019, general and administrative expenses decreased by \$4,803 primarily due to the decrease in travel costs of \$11,044 associated with the relocation of the CEO in 2018. The decrease was offset primarily by increased depreciation expense of \$4,941 due the additions to property and equipment during the period.

The Company is amortizing the fair value of its stock options, over the corresponding vesting period of 25% every six months. As a result, stock-based compensation of \$93,907 has been recorded for the three-months ended April 30, 2019.

Other income and expenses

During the quarter ended April 30, 2019, the Company recorded \$50,419 of other income relating to the fair value adjustment on the ACOA loans that relate to eligible costs incurred and claimed during the period.

During the quarter ended April 30, 2019, the Company recorded \$18,000 of other income relating to an estimate of SR&ED. The Company also recorded \$17,656 of accreted interest on the ACOA loans and \$9,000 of accreted interest on the convertible notes acquired as a result of the Transaction in 2018. The accretion expenses will be recognized over the term of the debt and ultimately the debt will be accreted to its original face value. The Company also incurred increased interest expense of \$13,790 due to the inclusion of interest on the convertible notes acquired with the Transaction.

Listing expense

During the three-months ended October 31, 2018, the Company recorded a listing expense of \$4,045,288. The listing expense is comprised of the fair value of the common shares, options, warrants of the Company deemed to be issued to the former equity holders of Stockport. It also contains the Transaction costs and the net liabilities of Stockport at the date of the amalgamation. The listing fee expense is summarized as follows:

<u>Net liabilities acquired:</u>	\$
Cash	(644,781)
Other current assets	(19,213)
Resource properties	(939,299)
Accounts payable and accrued liabilities	1,411,800
Accrued Transaction costs	131,500
Convertible notes	295,000
Convertible debentures	125,705
Net liabilities acquired	<u>(360,712)</u>
<u>Equities instruments deemed to be issued:</u>	
Common shares	3,501,793
Warrants	6,822
Options	102,966
Convertible debentures	72,935
	<u>4,045,228</u>

The Company has estimated the fair value of the equity instruments deemed to be issued as a result of the Transaction. The fair value of the 22,163,247 post consolidation common shares amounted to \$3,501,793, based on a recent Sona Nanotech private placement financing of \$0.158 per share post consolidation. The fair value of the 299,000 post-consolidation warrants, exercisable at \$0.40 per share for three months, amounted to \$6,822. The fair value of the 912,500 post-consolidation options, exercisable at various prices ranging from \$0.20 to \$0.28 per option, amounted to \$102,966. The fair value of these equity instruments were estimated using the Black-Scholes option pricing model applying a market price of \$0.158 per share, exercise price as noted above, a risk free rate of 1%, an expected volatility of 202% and an expected dividend yield of 0%. The fair value of the Company's common shares and equity instruments is recorded as a listing expense. The fair value of the convertible debentures exchangeable at \$2.00 per share amounted to \$72,934 based on a recent Sona Nanotech private placement financing of \$0.158 per share post consolidation.

The Company also recorded a fair value adjustment on convertible debentures based on the settlement of this liability through the issuance of common shares on the maturity date. The fair value of the shares issued was deemed to be \$301,693 based on the price of \$0.24 per share as at October 31, 2018 with \$103,053 recorded as a fair value adjustment expense.

SELECTED ANNUAL FINANCIAL INFORMATION

	Six-months ended April 30, 2019	Year ended October 31, 2018	Year ended October 31, 2017
	\$	\$	\$
Expenses	(837,974)	(1,182,427)	(536,223)
Other income (expenses)	50,455	(4,013,906)	85,446
Net loss	(787,519)	(5,196,333)	(450,777)
Loss per common share	(0.01)	(0.19)	(0.03)
Cash dividends per common share	—	—	—
Total assets	2,501,384	3,177,580	336,145
Current liabilities	2,283,468	2,435,322	962,024
Long-term liabilities	700,857	543,184	172,246
Shareholders' equity	(482,941)	199,074	(798,125)

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 April 30, 2019, Sona had cash of \$907,157 compared to \$1,803,549 as at October 31, 2018. The negative working capital balance at April 30, 2019 was \$919,827 as compared to the negative working capital balance of \$335,236 at October 31, 2018. The decrease in working capital is primarily due to operating and investing costs incurred through the normal course of operations.

During the six-months ended April 30, 2019, Sona used net cash of \$938,378 to fund operating activities. In addition, Sona raised net funds through cash received as a result of financing activities of \$124,763 during the six months from the net proceeds from long-term debt. Investing activities included additions to property and equipment, resulting in cash outflow from investing activities of \$82,777 for the six-months ended April 30, 2019.

Sona's business to date has been the research and development of its gold nanoparticle products. Sona 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.

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 financing alternatives. However, there can be no assurance that additional future financings will be available on acceptable terms or at all. If the Company is unable to obtain additional financing when required, the Company may have to substantially reduce or eliminate planned expenditures. Sona expects to record losses until such time as it further develops its gold nanorod products and secures customers. See the *Risk Factors* section of this MD&A and note 2, *Basis of presentation and going concern*, of the unaudited condensed interim consolidated financial statements for the six-months ended April 30, 2019 for additional details.

COMMITMENTS AND CONTINGENCIES

The Company has an employment agreement with the Chief Executive Officer ("CEO") which provide that, should a change in control event occur, as defined in the employment agreements, the CEO will receive lump sum payments equal to six months of his then current base salary during the first two years of employment and 12 months of his then current base salary following the two year anniversary of the agreement.

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 June 27, 2019, the Company had 53,662,769 common shares outstanding (April 30, 2019 – 53,456,519). 206,250 stock options were exercised on June 5, 2019.

As of June 27, 2019, the Company has 2,010,000 stock options outstanding at an average exercise price of \$0.31 per common share with varying expiry dates (April 30, 2019 – 2,310,000). 93,750 stock options expired on June 5, 2019.

As at April 30, 2019 and June 27, 2019, there were 596,250 common share purchase warrants outstanding with an exercise price of \$0.25 per common share and an expiry date of September 28, 2020.

RELATED PARTY TRANSACTIONS

During the six month period ended April 30, 2019, the Company incurred costs for service fees from a related party, Numus Financial Inc. (“Numus”), a company controlled by significant shareholders, including one Director of Sona, in the amount of \$114,000 (period ended April 30, 2018 – \$108,000), controller services of \$15,000 (period ended April 30, 2018 – \$nil) and incurred rent and administrative costs from Numus in the amount of \$15,300 (period ended April 30, 2018 – \$456). As at April 30, 2019, the amount owing to Numus was \$393,400 (April 30, 2018 – \$436,983).

As outlined in the Services Agreement (“Agreement”) between Numus and the Company, dated October 31, 2018, if the Agreement is cancelled by the Company, a break fee of eighteen months of remuneration, being \$342,000, will be payable to Numus, in addition to the service fees applicable for the 90 day notice period. If the Financial Controller services are cancelled by the Company, a break fee of six months of remuneration, being \$15,000, 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 with six months’ notice to Numus, a break fee of six months of remuneration, being \$15,300, 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.

During the year ended October 31, 2018, Numus Capital Corp. (“Numus Capital”), an exempt market dealer and a wholly owned subsidiary of Numus, assisted the Company with private placement financings completed by the Company. The Company incurred finders' fees of 8%, or \$35,200 from Numus Capital during the six-month period ended April 30, 2018. There were no finders fees incurred during the six-month period ended April 30, 2019. As at April 30, 2019, the amount owing to Numus Capital was \$nil (April 30, 2018 - \$3,200).

As a result of the Transaction, the Company acquired convertible notes (the “Notes”) of \$295,000 with accrued interest of \$146,255. Certain directors and significant shareholders of the Company contributed \$195,000 towards the Notes financing. During the six-month period ended April 30, 2019, the Company accrued \$14,505 of related party interest (six-month period ended April 30, 2018 – \$nil). As at April 30, 2019, accrued interest on the Notes in the amount of \$118,555 was payable to related parties (April 30, 2018 – \$nil).

As at October 31, 2017, the Company had a loan outstanding from Brigus Capital Inc. (“Brigus”), a company controlled by a significant shareholder of Sona. In 2018, the loan was transferred to Blue Ridge, a non-related third party. Prior to the transfer, the Company accrued interest of \$10,634 during the year ended October 31, 2018. During the year ended October 31, 2018, Brigus earned \$1,130 in consulting fees. As at April 30, 2019, the amount owing to Brigus was \$224,091 (April 30, 2018 – \$nil).

During the year ended October 31, 2017, the Company received a loan in the amount of \$44,959 from Numus. During the year ended October 31, 2018, the Company accrued interest on the loan of \$519 and made loan repayments of \$45,803. The loan was repaid in full during the year ended October 31, 2018.

RISKS AND UNCERTAINTIES

Sona has a limited operating history and its future profitability is uncertain

Sona 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 science company.

Sona has a history of losses and may never achieve or sustain profitability

Sona has incurred substantial losses since its inception, and it 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.

Sona needs to raise additional capital to operate its business

Sona is an early life science company focused on product development and commercialization and has generated only limited product revenues to date. For the foreseeable future, Sona will have to fund all of its operations and capital expenditures primarily from the net proceeds of future offerings, government grants, government loans and financing through the issuance of securities. Sona's actual capital requirements will depend on many factors. If Sona experiences unanticipated cash requirements, it may need to seek additional sources of financing, which may not be available on favorable terms, if at all. If Sona does not succeed in raising additional funds on acceptable terms, it may be forced to discontinue product development and/or commercialization, reduce or forego sales and marketing efforts and attractive business opportunities or discontinue operations.

Sona has limited access to the capital markets, and, even if it can raise additional funding, it may be required to do so on terms that are dilutive to shareholders

Sona has limited access to the capital markets to raise capital. The capital markets have been unpredictable in the recent past for other life science companies and unprofitable companies such as Sona. In addition, it is generally difficult for early commercial-stage companies to raise capital. The amount of capital that a company such as Sona is able to raise often depends on variables that are beyond its control. As a result, Sona may not be able to secure financing on terms attractive to it, or at all. If Sona is able to consummate a financing arrangement, the amount raised may not be sufficient to meet its future needs. If adequate funds are not available on acceptable terms, or at all, Sona's business, results of operations, financial condition and its continued viability may be materially adversely affected.

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 shareholders 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.

The Company's reliance on government funding adds uncertainty to the Company's research and commercialization efforts of its government-funded product candidates.

The Company has received significant funding from government organizations. There is no assurance the Company will continue to apply for and/or be awarded government funding in the future. If the Company is unable to obtain additional government funding, it will have to either obtain funds through raising additional capital or arrangements with strategic partners or others, if available, that may require the Company to relinquish material rights to certain technologies or potential markets. There is no certainty that financing will be available in amounts the Company requires to pursue the planned activities or on acceptable terms, if at all.

Unexpected events may materially harm Sona's ability to align incurred expenses with recognized revenues

Sona incurs operating expenses based upon anticipated revenue trends. Since a high percentage of these expenses may be relatively fixed, a delay in recognizing revenues from transactions related to these expenses (such a delay may be due to the factors described elsewhere in this risk factor section or it may be due to other factors) could cause significant variations in operating results from quarter to quarter, and such a delay could materially reduce operating income. If these expenses are not subsequently matched by revenues, Sona's business, financial condition, or results of operations could be materially and adversely affected.

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.

Sona may fail to achieve its financial forecasts due to inaccurate sales forecasts or other factors

Sona's revenues are difficult to forecast, and, as a result its quarterly operating results can fluctuate substantially. Sona's sales forecasts are only an estimate and may be an unreliable predictor of actual sales activity, both in a particular quarter and over a longer period of time. Many factors may affect actual sales activity, such as weakened economic conditions, which may cause Sona's potential customers to reduce, delay, or eliminate their planned expenditure on Sona's product; and potential collaborative partners to delay, reduce or eliminate their collaboration with Sona. If actual sales activity differs from Sona's forecasts, then Sona may have planned its activities and budgeted incorrectly and this may adversely affect its business, operating results and financial condition.

The Company may expend its limited resources to pursue a particular product and fail to capitalize on products that may be more profitable or for which there is a greater likelihood of success.

Because the Company has limited financial and managerial resources, the Company focuses on research and development of its product lines. As a result, the Company may forego or delay pursuit of opportunities with other products that later prove to have greater commercial potential. The Company's resource allocation decisions may cause the Company to fail to capitalize on viable commercial products or profitable market opportunities. The Company's spending on current and future research and development on its products for specific indications may not yield any commercially viable products.

The Company's future success depends on its ability to retain its key executives and to attract, retain and motivate qualified personnel.

The Company is highly dependent on its executive officers. Although the Company has formal employment agreements with each of its executive officers, these agreements do not prevent the Company's executives from terminating their employment with the Company at any time. The loss of the services of any of these persons could impede the achievement of the Company's research, development and commercialization objectives.

Recruiting and retaining qualified scientific, sales and marketing personnel will also be critical to the Company's success. The Company may not be able to attract and retain these personnel on acceptable terms given the

competition among numerous life science companies for similar personnel. In addition, the Company relies on consultants and advisors, to assist it in formulating its research and development and commercialization strategy. The Company's consultants and advisors may be employed by employers other than the Company and may have commitments under consulting or advisory contracts with other entities that may limit their availability to the Company.

If the Company is unable to protect the confidentiality of its trade secrets, 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.

Sona'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.

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.

Third parties may initiate legal proceedings alleging that the Company is infringing their intellectual property rights, the outcome of which would be uncertain and could have a material adverse effect on the success of the Company's business.

The Company's commercial success depends upon its ability and the ability of its collaborators to develop, manufacture, market and sell its product and use its proprietary products without infringing the proprietary rights of third parties. The Company may become party to, or threatened with, future adversarial proceedings or litigation regarding intellectual property rights with respect to its products and technology, including interference proceedings before the Canadian and/or U.S. Patent and Trademark Office or other similar regulatory authorities. Third parties may assert infringement claims against the Company based on existing patents or patents that may be granted in the future. If the Company is found to infringe a third party's intellectual property rights, it could be required to obtain a license from such third party to continue developing and marketing its products and technology. However, the

Company may not be able to obtain any required license on commercially reasonable terms or at all. Even if the Company was able to obtain a license, it could be non-exclusive, thereby giving its competitors access to the same products licensed to the Company. The Company could be forced, including by court order, to cease commercializing the infringing technology or product. In addition, the Company could be found liable for monetary damages. A finding of infringement could prevent the Company from commercializing its products or force the Company to cease some of its business operations, which could materially harm the Company's business. Claims that the Company has misappropriated the confidential information or trade secrets of third parties could have a similar negative impact on its business.

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 product.

The Company does not have a sales or marketing infrastructure in place. To achieve commercial success for any of its product 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.

If the Company is unable to obtain and maintain patent protection for its products, or if the scope of the patent protection obtained is not sufficiently broad, the Company's competitors could develop and commercialize products similar or identical to that of the Company's, and its ability to successfully commercialize its products may be adversely affected.

The Company's success depends in large part on its ability to obtain and maintain patent protection with respect to its proprietary products. This patent application process is expensive and time-consuming, and the Company may not be able to file and prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. It is also possible that the Company will fail to identify patentable aspects of its research and development output before it is too late to obtain patent protection.

The patent position of life science companies generally is highly uncertain, involves complex legal and factual questions and has in recent years been the subject of much litigation. As a result, the issuance, scope, validity, enforceability and commercial value of the Company's patent rights are highly uncertain. The Company's future patent applications may not result in patents being issued which protect its products or which effectively prevent others from commercializing competitive products. Changes in either the patent laws or interpretation of the patent laws may diminish the value of the Company's patents or narrow the scope of its patent protection.

The laws of foreign countries may not protect the Company's rights to the same extent as the laws of Canada and the United States. Publications of discoveries in the scientific literature often lag behind the actual discoveries, and patent applications in Canada and the United States and other jurisdictions are typically not published until 18 months after filing, or in some cases not at all. Therefore, the Company cannot be certain that it was the first to make the inventions claimed in its owned patents or pending patent applications.

Even if the Company's owned and licensed patent applications issue as patents, they may not issue in a form that will provide the Company with any meaningful protection, prevent competitors from competing with the Company or otherwise provide the Company with any competitive advantage. The Company's competitors may be able to circumvent its owned or licensed patents by developing similar or alternative technologies or products in a non-infringing manner. The issuance of a patent is not conclusive as to its scope, validity or enforceability, and the Company's owned and licensed patents may be challenged in the courts or patent offices in Canada, the United States and abroad. Such challenges may result in patent claims being narrowed, invalidated or held unenforceable, which could limit the Company's ability to or stop or prevent the Company from stopping others from using or commercializing similar or identical technology and products, or limit the duration of the patent protection of its technology and products. Given the amount of time required for the development, testing and regulatory review of new products, patents protecting such products might expire before or shortly after such products are commercialized. As a result, the Company's owned and licensed patent portfolio may not provide it with sufficient rights to exclude others from commercializing products similar or identical to the Company's.

Intellectual property litigation could cause the Company to spend substantial resources and distract its personnel from their normal responsibilities.

Even if resolved in the Company's favor, litigation or other legal proceedings relating to intellectual property claims may cause the Company to incur significant expenses and could distract the Company's technical and management personnel from their normal responsibilities. In addition, there could be public announcements of the results of hearings, motions or other interim proceedings or developments and if securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of the Company's common shares. Such litigation or proceedings could substantially increase the Company's operating losses and reduce the resources available for research and development activities. The Company may not have sufficient financial or other resources to adequately conduct such litigation or proceedings. Some of the Company's competitors may be able to sustain the costs of such litigation or proceedings more effectively than it can because of their greater financial resources. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could have a material adverse effect on the Company's ability to compete in the marketplace.

Foreign currency and exchange rate risk

Sona currently reports its results in the Canadian dollar. Fluctuations in the exchange rates between the European Euro, United States dollar and Canadian dollar may have a material adverse effect on the business, financial condition and operating results of the Company. To date, Sona has not engaged in exchange rate hedging activities and may not do so in the foreseeable future.

Sona's operating results could be adversely affected by any weakening of economic conditions

Sona's overall performance depends in part on worldwide economic conditions. Certain economies have experienced periods of downturn as a result of a multitude of factors, including, but not limited to, turmoil in the credit and financial markets, concerns regarding the stability and viability of major financial institutions, declines in gross domestic product, increases in unemployment and volatility in commodity prices and worldwide stock markets, and excessive government debt. The severity and length of time that a downturn in economic and financial market conditions may persist, as well as the timing, strength and sustainability of any recovery, are unknown and are beyond Sona's control. Moreover, any instability in the global economy affects countries in different ways, at different times and with varying severity, which makes the impact to Sona's business complex and unpredictable. In addition, deterioration of the global credit markets could adversely impact Sona's ability to complete licensing transactions and services transactions, including maintenance and support renewals. Any of these events, as well as a general weakening of, or declining corporate confidence in, the global economy, or a curtailment in government or corporate spending could delay or decrease Sona's projected revenues, and therefore have a material adverse effect on its business, operating results and financial condition.

Sona may become involved in litigation that may materially adversely affect it

From time to time in the ordinary course of Sona's business, it may become involved in various legal proceedings, including commercial, product liability, employment, class action and other litigation and claims, as well as governmental and other regulatory investigations and proceedings. Such matters can be time-consuming, divert management's attention and resources and cause Sona to incur significant expenses. Furthermore, because litigation is inherently unpredictable, the results of any such actions may have a material adverse effect on Sona's business, operating results or financial condition.

Stress in the global financial system may adversely affect Sona's finances and operations in ways that may be hard to predict or to defend against

Financial developments seemingly unrelated to Sona or to its industry may adversely affect Sona over the course of time. For example, material increases in any applicable interest rate benchmarks may increase the debt payment costs for Sona's credit facilities. Credit contraction in financial markets may hurt its ability to access credit in the event that Sona identifies an acquisition opportunity or require significant access to credit for other reasons. A reduction in credit, combined with reduced economic activity, may adversely affect businesses and industries that collectively constitute a significant portion of Sona's customer base and/or potential collaborative partners. As a result, these customers and/or collaborative partners may need to reduce their purchases of Sona's product and/or collaboration agreements with Sona, or Sona may experience greater difficulty in receiving payment for the products that these customers purchase from it. Any of these events, or any other events caused by turmoil in world financial markets, may have a material adverse effect on Sona's business, operating results, and financial condition.

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

Sona 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.

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 condensed interim consolidated 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 April 30, 2019 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 April 30, 2019, 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 unaudited condensed interim consolidated financial statements.

There were no changes in the Company's internal control over financial reporting during the six-months ended April 30, 2019 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 4, *Summary of Significant Accounting Policies*, of the annual consolidated financial statements for the year ended October 31, 2018. Sona has identified certain accounting policies that it believes are most critical in understanding the judgments that are involved in producing the consolidated 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. During the three-month period ended April 30, 2019, the Company recorded \$nil (quarter ended April 30, 2018 – \$26,370) of non-repayable government grants as an offset against consulting and wages. Repayable government loans are recorded initially at fair value, with the difference between book value and fair value recorded as other income. Six-month period ended April 30, 2019, the Company recorded \$104,308 as other income (period ended April 30, 2018 – \$85,348). At April 30, 2019, \$207,506 (October 31, 2018 – \$186,246) of government assistance, including government loans, is included in amounts receivable.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the unaudited condensed interim consolidated 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 unaudited condensed interim consolidated 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 require a number of assumptions. The difference between the face value and the initial fair value of the ACOA loans is recorded in the consolidated 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 consolidated statement of 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 consolidated 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 rates ranging from 8.0% to 14.3% to discount the ACOA loan.

If the weighted average discount rate used in determining the initial fair value and the carrying value at each reporting date of all ACOA loans, with repayment terms based on future revenue, had been determined to be higher by 10% (resulting in a discount rates ranging from 8.9% to 15.8%), or lower by 10% (resulting in a discount rates ranging from 7.3% to 12.9%), the carrying value of the long-term debt at April 30, 2019 would have been an estimated \$22,000 lower or \$26,000 higher, respectively. If the total forecasted revenue was reduced by 10% or increased by 10%, the carrying value of the long-term debt at April 30, 2019 would not have been materially impacted.

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.

Recoverability of resource properties

At the end of each reporting period, the Company assesses each of its mineral resource properties to determine whether any indication of impairment exists. Judgment is required in determining whether indicators of impairment exist, including factors such as the period for which the Company has the right to explore, expected renewals of exploration rights, whether substantive expenditures on further exploration and evaluation of resource properties are budgeted or planned, and results of exploration and evaluation activities on the exploration and evaluation assets.

Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. The impairment analysis requires the use of estimates and assumptions, such as long-term commodity prices, discount rates, future capital requirements, exploration potential, and operating performance. Fair value of mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. If the Company does not have sufficient information about a particular mineral resource property to meaningfully estimate future cash flows, the fair value is estimated by management through the use of, where available, comparison to similar market assets and, where available, industry benchmarks. Actual results may differ materially from these estimates.

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 unaudited condensed interim consolidated 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.

NEW ACCOUNTING STANDARDS ADOPTED DURING THE PERIOD

IFRS 9, Financial Instruments (“IFRS 9”)

Description of IFRS 9

IFRS 9 replaces provisions of the IASB’s IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”) that relates to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Company has adopted IFRS 9 using the retrospective approach from November 1, 2018.

Impact of adoption of IFRS 9

Financial liabilities that are considered modified must be accounted for by discounting the new cash flows at the original effective interest rate, resulting in an immediate impact to the Company’s net loss. Management identified one financial liability that was modified prior to January 1, 2018; however, the related gain was considered immaterial.

IFRS 9 requires the Company to use the Expected Credit Loss (“ECL”) impairment model in calculating impairment provisions which differs from the incurred credit loss model under IAS 39. The ECL model is a probability weighted estimate of credit losses. Management has determined that there is no impact on the financial statements due to this change in impairment models.

The Company determines the measurement of financial assets and liabilities at initial recognition and classifies them at amortized cost. The Company completed an assessment of its financial assets and liabilities as at November 1, 2018 and concluded that there were no changes in measurement due to the transition to IFRS 9.

Impact of adoption of IFRS 9

Cash and accounts receivable that were classified as loans and receivables under IAS 39 are classified as financial assets measured at amortized cost under IFRS 9. There has been no impact on classification of the Company’s financial liabilities.

Accounting policies associated with IFRS 9

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 unaudited condensed interim consolidated statement of loss.

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

Financial instrument	Classification
Cash	Amortized cost
Amounts receivable	Amortized cost
Marketable securities	FVOCI
Accounts payable	Amortized cost
Long-term debt	Amortized cost
Convertible notes and interest	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 Available-for-Sale 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 ("FVOCI"). 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 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.

Financial Liabilities

Financial liabilities are classified as other financial liabilities 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 consolidated 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.

IFRS 15, Revenue from contracts with customers ("IFRS 15")

In May 2014, the IASB issued IFRS 15. IFRS 15 replaces IAS 18, *Revenue*; IAS 11, *Construction Contracts*; and some revenue related Interpretations. IFRS 15 establishes a new control-based revenue recognition model and provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. The new standard is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively. Management has completed its assessment and the adaptation of IFRS 15 did not have a significant impact on the unaudited condensed interim consolidated financial statements of the Company.

STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE

IFRS 16, Leases ("IFRS 16")

IFRS 16 was issued on January 13, 2016 and replaces the current guidance in IAS 17, *Leases* ("IAS 17"). IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. Management is currently assessing the impact of the adoption of IFRS 16 on the unaudited condensed interim consolidated financial statements of the Company and the Company does not intend to early adopt this standard.

OTHER INFORMATION

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