Financial Statements of

SONA NANOTECH Inc.

For the years ended October 31, 2022 and 2021

(Expressed in Canadian Dollars)

February 27, 2023

Management's Report

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

The Board of Directors of the Company is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements and the accompanying management discussion and analysis. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors and a majority of its members are independent directors. It meets with the Company's management and auditors and reviews internal control and financial reporting matters to ensure that management is properly discharging its responsibilities before submitting the financial statements to the Board of Directors for approval.

Manning Elliott LLP, appointed as the Company's auditors by the shareholders, has examined these financial statements and their report follows.

(signed) "*David Regan*"
Chief Executive Officer
Halifax, Canada

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

manning elliott

17th floor, 1030 West Georgia St., Vancouver, BC, Canada V6E 2Y3

Tel: 604. 714. 3600 **Fax:** 604. 714. 3669 **Web:** manningelliott.com

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of Sona Nanotech Inc.

Opinion

We have audited the financial statements of Sona Nanotech Inc. (the "Company") which comprise the statements of financial position as at October 31, 2022 and 2021, and the statements of loss and comprehensive losses, changes in deficiency and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information (collectively referred to as the "financial statements").

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

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 of the accompanying financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information, which comprises the information included in the Company's Management Discussion & Analysis to be filed with the relevant Canadian securities commissions.

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

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

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditors’ report is Fernando J. Costa.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, Canada
February 27, 2023

Sona Nanotech Inc.
Statements of Financial Position
As at October 31, 2022 and October 31, 2021
Expressed in Canadian dollars

	October 31, 2022	October 31, 2021
	$	$
Assets		
Current assets		
Cash	**155,420**	1,183,260
Amounts receivable and other (note 4)	**305,615**	215,990
Marketable securities	**9,000**	13,000
	470,035	1,412,250
Equipment (note 6)	**50,737**	111,058
Total assets	**520,772**	1,523,308
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	**420,161**	1,410,605
Current portion of long-term debt (notes 8 and 14)	**-**	635,310
	420,161	2,045,915
Long term debt (note 8)	**608,467**	700,761
Total liabilities	**1,028,628**	2,746,676
Deficiency		
Shareholders' deficiency	**(507,856)**	(1,223,368)
Total liabilities and deficiency	**520,772**	1,523,308

Basis of presentation and going concern (note 2)
Commitments and contingencies (note 16)
Subsequent events (note 17)

Approved on behalf of the Board of Directors on February 27, 2023.

"Jim Megann"
Director

"Michael Gross"
Director

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

Sona Nanotech Inc.
Statements of Loss and Comprehensive Loss
For the years ended October 31, 2022 and 2021
Expressed in Canadian dollars

	2022	2021
	$	**$**
Expenses		
Salaries and benefits (note 13)	**1,007,332**	1,340,594
Professional and consulting fees (note 13)	**223,380**	354,175
Administrative	**203,194**	186,932
Securities and regulatory	**96,401**	115,416
Management services (note 14)	**78,000**	228,000
Research and development costs	**70,883**	154,137
Depreciation expense	**60,321**	65,594
Travel	**49,498**	7,075
Rent and related costs (note 14)	**50,379**	50,035
Sales and marketing	**33,713**	125,350
Foreign exchange gain	**5,267**	(41,618)
Share-based compensation	**1,469,257**	8,241,389
Recovery of project expenses (note 5)	**(206,199)**	(95,292)
	(3,141,426)	(10,731,787)
Other income (expenses)		
Repayable government loans fair value adjustment (note 8)	**173,080**	277,571
Accreted interest on repayable government loans (note 8)	**(80,786)**	-
Gain on debt settlement (note 14)	**410,727**	-
Gain on reversal of accounts payable	**165,146**	-
Interest expense	**(3,519)**	(20,849)
Scientific research and experimental development credits	**119,374**	102,846
Unrealized gain (loss) on available-for-sale securities	**(4,000)**	5,000
	780,022	364,568
Net loss and comprehensive loss for the period	**(2,361,404)**	(10,367,219)
Loss per share – basic and diluted	**(0.03)**	(0.16)
Weighted-average number of common shares outstanding - basic and diluted	**68,408,299**	64,052,177

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

Sona Nanotech Inc.
Statements of Changes in Deficiency
For the years ended October 31, 2022 and 2021
Expressed in Canadian dollars

	Number of Common Shares	Common Shares	Warrants	Contributed Surplus	Deficit	Total
		$	$	$	$	$
Balance, October 31, 2020	**61,271,778**	**8,847,446**	**-**	**3,341,317**	**(15,624,228)**	**(3,435,465)**
Net loss and comprehensive loss for the period	-	-	-	-	(10,367,219)	(10,367,219)
Units issued pursuant to private placement, net of costs (note 9)	2,259,200	1,672,379	577,306	-	-	2,249,685
Shares issued pursuant to At-The-Market share offering, net of costs (note 9)	1,312,400	1,984,492	-	-	-	1,984,492
Shares issued pursuant to option exercises (note 9)	331,250	160,150	-	(68,900)	-	91,250
Shares issued pursuant to warrant exercises (note 9)	10,000	17,632	(5,132)	-	-	12,500
Share-based compensation expense	-	-	-	8,241,389	-	8,241,389
Balance, October 31, 2021	**65,184,628**	**12,682,099**	**572,174**	**11,513,806**	**(25,991,447)**	**(1,223,368)**
Net loss and comprehensive loss for the period	-	-	-	-	(2,361,404)	(2,361,404)
Shares issues pursuant to debt settlement (note 8 and 14)	2,556,276	1,022,510	-	-	-	1,022,510
Shares issued pursuant to At-The-Market share offering, net of costs (note 9)	1,147,000	550,149	-	-	-	550,149
Shares issued pursuant to option exercises (note 9)	100,000	60,574	-	(25,574)	-	35,000
Share-based compensation expense	-	-	-	1,469,257	-	1,469,257
Stock option cancellation (note 10)	-	-	-	(8,846,021)	8,846,021	-
Balance, October 31, 2022	**68,987,904**	**14,315,332**	**572,174**	**4,111,468**	**(19,506,830)**	**(507,856)**

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

Sona Nanotech Inc.
Statements of Changes in Cash Flows
For the years ended October 31, 2022 and 2021
Expressed in Canadian dollars

	2022	2021
	$	$
Operating activities		
Net loss for the year	**(2,361,404)**	(10,367,219)
Changes to loss not involving cash:		
Depreciation	**60,321**	65,594
Interest expense	**3,519**	20,849
Unrealized (gain) loss on available-for-sale securities	**4,000**	(5,000)
Accreted interest on repayable government loans (note 8)	**80,786**	-
Share-based compensation	**1,469,257**	8,241,389
Recovery of project costs (note 5)	**(206,199)**	(95,292)
Repayable government loans fair value adjustment (note 8)	**(173,080)**	(277,571)
Gain on debt settlement (note 14)	**(410,727)**	-
Gain on accounts payable reversal	**(165,146)**	-
	(1,698,673)	(2,417,250)
Decrease (increase) in amounts receivable and other	**(75,840)**	(139,396)
Decrease in accounts payable and accrued liabilities	**(30,890)**	(1,256,694)
	(1,805,403)	(3,813,340)
Financing activities		
Project funding received (note 5)	**192,414**	455,891
Proceeds from a related party loan (note 14)	**-**	100,000
Proceeds received upon private placement financing, net of costs (note 9)	**-**	2,249,685
Proceeds received from At-The-Market share offering, net of costs (note 9)	**550,149**	1,984,492
Proceeds received upon exercise of stock options (note 10)	**35,000**	91,250
Proceeds received upon exercise of warrants (note 9)	**-**	12,500
	777,563	4,893,818
Change in cash during the year	**(1,027,840)**	1,080,478
Cash, beginning of the year	**1,183,260**	102,782
Cash, end of the year	**155,420**	1,183,260

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

1. NATURE OF OPERATIONS

Sona Nanotech Inc. ("Sona" and "the Company") is a company involved in the nanotechnology life sciences industry, The Company's corporate and registered office is located at Suite 2001, 1969 Upper Water Street, Halifax, Nova Scotia, Canada, B3J 3R7. The research and development office is located at 1 Research Drive, Bay 2, Dartmouth, NS, B2Y 4M9.

The Company is listed on the Canadian Securities Exchange ("CSE") and trades under the symbol "SONA". Effective April 8, 2020, the Company's common shares were approved for trading on the OTCQB Marketplace under the trading symbol "SNANF".

2. BASIS OF PRESENTATION AND GOING CONCERN

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

Going concern
The Company's operations have been financed through the sale of common shares, issuance of debt and government funding. The Company has incurred significant operating losses since inception and has an accumulated deficit of $19,506,830 as at October 31, 2022 (October 31, 2021 – $25,991,447).

These financial statements have been prepared on a going-concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. For the year ended October 31, 2022, the Company incurred a net loss of $2,361,404 (October 31, 2021 - $10,367,219). The Company has negative cash flow from operations. In addition to its working capital requirements, the Company must secure sufficient funding to further develop its gold nanorod products and to fund its general operating costs. Such circumstances create material uncertainties that may cast significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. Management is evaluating alternatives to secure additional financing so that the Company can continue to operate as a going concern. However, there can be no assurance that these initiatives will be successful or sufficient.

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

2. BASIS OF PRESENTATION AND GOING CONCERN (CONTINUED)

Covid 19 Pandemic
In March 2020, the World Health Organization declared the outbreak of the coronavirus, also known as "COVID-19". The pandemic spread across the globe and has impacting worldwide economic activity. Conditions surrounding the coronavirus continue to evolve.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Board of Directors approved these financial statements for issue on February 27, 2023.

b) Critical accounting judgments and estimates

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

Calculation of initial fair value and carrying amount of long-term debt
The initial fair value of the Atlantic Canada Opportunities Agency ("ACOA") loans is determined by using a discounted cash flow analysis for the loans, which requires a number of assumptions. The difference between the face value and the initial fair value of the ACOA loans is recorded in the statement of loss and comprehensive loss as government assistance. The carrying amount of the ACOA loans requires management to adjust the long-term debt to reflect actual and revised estimated cash flows whenever revised cash flow estimates are made or new information related to market conditions is made available. Management recalculates the carrying amount by computing the present value of the estimated future cash flows at the original effective interest rate. Any adjustments are recognized in the statement of loss 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 gold nanorod technology products; accordingly, determination of the amount and timing of revenue, if any, requires significant judgment by management. If the Company expected no future revenues, no repayments would be required on the ACOA loans and the amounts recorded for the ACOA loans on the statement of financial position would be $nil. The discount rate determined on initial recognition of the ACOA loans is used to determine the present value of estimated future cash flows expected to be required to settle the debt. In determining the appropriate discount rates, the Company considered the interest rates of similar long-term debt arrangements, with similar terms. The ACOA loan is repayable based on a percentage of gross revenue, if any; accordingly, finding financing arrangements with similar terms is difficult and management was required to use significant judgment in determining the appropriate discount rates. Management used a discount rate of 14.33% to discount the ACOA loan.

If the discount rate used in determining the carrying value at the reporting date of all ACOA loans had been determined to be higher or lower by 1.0% (resulting in discount rates ranging from 13.33% to 15.33%) the carrying value of the long-term debt at October 31, 2022 would be an estimated $20,000 higher or $20,000 lower, respectively. If timing of forecasted revenue was increased by 1 or 2 years, the carrying value of the long-term debt at October 31, 2022 would be decreased an estimated $81,000 and $180,000 respectively.

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

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

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

c) Financial Instruments

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

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

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

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

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

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

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

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

d) Cash

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

e) Equipment

Equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises the purchase price and any directly attributable costs of bringing the asset to the working condition and location of its intended use.

All other costs, such as repairs and maintenance, are charged to the statements of loss and comprehensive loss during the period in which they are incurred.

Expressed in Canadian dollars

The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimate accounted for on a prospective basis. The Company depreciates the cost equipment over their estimated useful lives at the following rates:

Office equipment	30% per annum
Laboratory equipment	20% per annum
Furniture and fixtures	20% per annum

The gain or loss arising on the disposal or retirement of an item of equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statements of loss and comprehensive loss.

f) Government assistance

Non-repayable government assistance is recorded in the period earned as other income or netted against expenses. During the year ended October 31, 2022, the Company recorded $nil (2021 – $27,318) of non-repayable government grants as a recovery of project expenses on the statement of loss and comprehensive loss and $nil (2021 – $nil) as a cost recovery of property and equipment (note 6).

Repayable government loans are recorded initially at fair value, with the difference between book value and fair value recorded as other income or other expense. During year ended October 31, 2022, the Company recorded $173,080 as other income (2021 – $277,571) relating to the revaluation of the ACOA loan (note 8).

g) Research and development tax credits

Refundable investment tax credits relating to scientific research and experimental development expenditures are recorded in the accounts in the fiscal period in which the qualifying expenditures are incurred provided there is reasonable assurance that the tax credits will be realized. Refundable investment tax credits, in connection with research and development activities, are accounted for as other income. Amounts recorded for refundable investment tax credits are calculated based on the expected eligibility and tax treatment of qualifying scientific research and experimental development expenditures recorded in the Company's financial statements.

h) Share Capital

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

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

i) Share-based payments

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

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

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

j) Income taxes

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

k) Loss per share

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

l) Provisions

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

m) Foreign currency translation

Foreign currency transactions are translated as follows: (i) monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the exchange rate prevailing at the statement of financial position date; and (ii) non-monetary assets and liabilities denominated in foreign currencies and measured in terms of historic costs are translated using exchange rates at the transaction dates.

n) Related party transactions

Unless otherwise disclosed herein, all transactions with related parties are in the normal course of business and are measured at the exchange amount (note 14).

o) Lease obligations and right of use assets

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At the lease commencement date, a lease obligation is recognized at the present value of future lease payments, typically using the applicable incremental borrowing rate. A corresponding right-of-use asset is recognized at the amount of the lease obligation. Lease payments are applied against the lease obligation and interest expense is recognized on the lease obligation using the effective interest rate method. Depreciation is recognized on the right-of-use asset on a straight-line basis over the lease term. Sona assesses the right-of-use asset for impairment when such indicators exist. Sona does not recognize leases for short-term leases with a lease term less than 12 months or less, or leases for low-value assets.

Expressed in Canadian dollars

4. AMOUNTS RECEIVABLE AND OTHER

	October 31, 2022	October 31, 2021
	$	$
Amounts receivable from the government	252,805	132,828
Prepaid expenses and other	52,810	83,162
	305,615	**215,990**

5. GOVERNMENT GRANT

On March 31, 2020, Sona announced that it has been awarded a $4.1 million grant from Canada's Next Generation Manufacturing ("NGen"), Canada's Advanced Manufacturing Supercluster, to develop and commercialize its Covid-19 rapid-response antigen test. Eligible costs under the NGen program were incurred by the Company until November 15, 2020. During the year ended October 31, 2021, eligible expense recoveries of $27,318 were incurred.

During the year ended October 31, 2022, the Company also incurred eligible expense recoveries of $206,199 under the Industrial Research Assistance Program ("IRAP") of Canada (October 31, 2021 - $67,974). Cash received from recoveries was $188,967 for the year ended October 31, 2022. $17,232 was included in Amounts receivable from the government as at October 31, 2022. This amount was received in full subsequent to year end.

6. EQUIPMENT

	Office Equipment	Laboratory Equipment	Furniture and Fixtures	Total
Cost	$	$	$	$
As at November 1, 2020	**11,633**	**300,547**	**13,144**	**325,324**
Additions	-	-	-	-
As at October 31, 2021	**11,633**	**300,547**	**13,144**	**325,324**
Additions	-	-	-	-
As at October 31, 2022	**11,633**	**300,547**	**13,144**	**325,324**
Accumulated depreciation				
As at November 1, 2020	**7,777**	**135,385**	**5,510**	**148,672**
Depreciation charge	2,855	60,110	2,629	65,594
As at October 31, 2021	**10,632**	**195,495**	**8,139**	**214,226**
Depreciation charge	1,001	56,692	2,628	60,321
As at October 31, 2022	**11,633**	**252,187**	**10,767**	**274,587**
Carrying amount				
Balance, October 31, 2021	**1,001**	**105,052**	**5,005**	**111,058**
Balance, October 31, 2022	**-**	**48,360**	**2,377**	**50,737**

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	October 31, 2022	October 31, 2021
	$	$
Trade accounts payable and accrued liabilities	331,720	576,014
Amounts payable to related parties (note 14)	88,441	834,591
	420,161	**1,410,605**

Expressed in Canadian dollars

8. LONG-TERM DEBT

	October 31, 2022	October 31, 2021
	$	$
Atlantic Canada Opportunities Agency ("ACOA")	608,467	700,761
Numus Financial Inc. loan (note 14)	-	635,310
Balance – end of period	608,467	1,336,071
Less: current portion	-	(635,310)
Long-term portion	**608,467**	700,761
Face Value ACOA Loans	**978,332**	978,332

The Company has two interest free loans with ACOA under the Business development program. There is no fixed term to the loans and repayments are to be made based on 3% and 5% of annual gross product revenue. The carrying amount of the loans is determined by computing the present value of the estimated future cash flows. During the year ended October 31, 2022 the Company recorded $80,786 of accretion expense (2021 - $nil), relating to the ACOA loans.

During the year ended October 31, 2020, the Company entered into a loan agreement with Numus Financial Inc. ("Numus"). The loan is for up to $600,000, has an annual interest rate of prime plus 1% and has a 2% lender fee. The loan is repayable in full, including all interest and lender fees, on demand. For the year ended October 31, 2021 the Company had drawings of $635,310, including lender fees and accrued interest, on the loan.

On January 5, 2022, the Company arranged a debt settlement of $1,452,724 in amounts owed to Numus through the issuance of 2,556,276 common shares at a deemed price of $0.45 per share (note 14). These amounts include settlement of the loan payable with fees and accrued interest of with a fair value of $638,829.

Debt continuity	**2022**	**2021**
	$	$
Balance – beginning of year	1,336,071	1,490,793
Repayable government loans fair value adjustment	(173,080)	(277,571)
Borrowings from Numus, including a 2% lender fee	-	102,000
Accrued interest, Numus	3,519	20,849
Debt settlement, Numus	(638,829)	-
Accreted interest on repayable government loans	80,786	-
Balance – end of year	**608,467**	**1,336,071**

9. SHARE CAPITAL

a) Common shares

Authorized share capital of the Company consists of an unlimited number of fully paid common shares without par value.

Private Placement Financing
On December 15, 2020, the Company completed a non-brokered private placement financing for aggregate gross proceeds of $2,259,200. The Company issued 2,259,200 units at $1.00 per unit, with each unit comprised of one common share and one-half common share purchase warrant. Each whole warrant is exercisable into one common share of the Company at an exercise price of $1.25 per common share for a period of 24 months from the closing date. Directors and officers of the Company subscribed for 250,000 units pursuant to the financing.

The value allocated to the common shares issued was $1,679,452, and the value allocated to the common share purchase warrants was $579,748. Total costs associated with the private placement, consisting primarily of professional and regulatory fees, were $9,515. The Company allocated $7,073 to the costs of issuing the common shares, for net proceeds to the Company of $1,672,379. The remaining $2,442 were allocated to costs of issuing the warrants, for net proceeds to the Company of $577,306. All securities issued pursuant to the private placement were subject to a four-month hold period in accordance with securities legislation.

At-The-Market Share Offering (the “ATM”)
On April 9, 2021, the Company announced that, pursuant to an equity distribution agreement with Canaccord Genuity Corp., the Company may, from time to time, sell up to $10 million of common shares. Under the ATM Offering, common shares will be distributed at trading prices prevailing at the time of the sale and therefore prices may vary during the period of distribution. The volume and timing of sales are determined at the sole discretion of the Company’s management and in accordance with the terms of the Equity Distribution Agreement.

During the year ended October 31, 2021, the Company sold 1,312,400 common shares pursuant to the ATM for gross proceeds of $2,271,427. Costs of the shares sold under the ATM during the period were $286,935, for net proceeds to the Company of $1,984,492. Sona intends to use the net proceeds of the ATM for general corporate and working capital requirements and funding ongoing operations including research and development.

During the year ended October 31, 2022 the Company sold 1,147,000 common shares pursuant to the ATM for gross proceeds of $567,163. Costs of the shares sold under the ATM during this period were $17,014, for net proceeds to the Company of $550,149.

Option Exercise
During the year ended October 31, 2022 100,000 options were exercised with an exercise price of $0.35 per share for proceeds of $35,000. On the exercise date, the weighted-average share price was $0.35 per common share.

During the year ended October 31, 2021, 331,250 options were exercised with a weighted-average exercise price of $0.28 per share for proceeds of $91,250. On the exercise dates, the weighted-average share price was $0.80 per common share.

Warrant Exercise
During the year ended October 31, 2021, 10,000 warrants were exercised with an exercise price of $1.25 per share for proceeds of $12,500. On the exercise date, the share price was $1.80 per common share.

Expressed in Canadian dollars

10. STOCK OPTIONS

The Company has adopted a stock option plan, providing the Board of Directors with the discretion to issue an equivalent number of options of up to 10% of the issued and outstanding share capital of the Company. Stock options are granted with an exercise price of not less than the closing share price the date preceding the date of grant. As at October 31, 2022, 2,941,040 remain available for grant under the terms of the stock option plan.

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

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

	October 31, 2022	**October 31, 2021**
Risk-free interest rate	1.35%	0.7%
Expected life	5.00	5.00
Expected volatility	150%	150%
Expected dividend per share	0.0%	0.0%
Exercise price	$0.44	$1.61
Forfeiture Rate	0.0%	0.0%

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

	Number of options	**Weighted-average exercise price**
	#	$
Balance, November 1, 2020	**4,337,500**	**3.35**
Issued	585,000	1.61
Exercised	(331,250)	(0.28)
Balance, October 31, 2021	**4,591,250**	**3.35**
Issued	1,250,000	0.44
Exercised	(100,000)	(0.35)
Expired / forfeited	(43,500)	3.13
Cancelled	(1,740,000)	6.32
Balance, October 31, 2022	**3,957,750**	**1.20**

During the year ended October 31, 2022, the Company cancelled certain outstanding stock options. As a result of these cancellations, effective October 31, 2022, the Company reclassified stock-based compensation expense for cancelled options, which was previously recorded as contributed surplus, to deficit.

Expressed in Canadian dollars

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

Expiry date	Weighted-average remaining contractual life (in years)	Number of options outstanding	Number of options exercisable	Weighted-average exercise price	Black-Scholes option value of options outstanding
		#	#	$	$
January 21, 2024	1.2	1,002,500	1,002,500	0.35	262,779
March 17, 2025	2.4	1,011,250	1,011,250	0.60	559,939
July 7, 2025	2.7	84,000	84,000	7.47	569,229
September 24, 2025	2.9	25,000	25,000	6.57	148,529
October 17, 2025	3.0	200,000	200,000	7.91	1,435,138
November 2, 2025	3.0	250,000	187,500	3.36	762,118
September 28, 2026	3.9	335,000	167,500	0.30	88,127
November 11, 2026	4.0	800,000	200,000	0.44	320,182
January 4, 2027	4.2	250,000	62,500	0.45	90,400
		3,957,750	**2,940,250**		

11. WARRANTS

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

	Number of warrants	Weighted-average exercise price
	#	$
Balance, October 31, 2020	-	-
Issued pursuant to financing	1,129,600	1.25
Exercised	(10,000)	(1.25)
Balance, October 31, 2021	1,119,600	1.25
Exercised	-	-
Balance, October 31, 2022	**1,119,600**	**1.25**

During the year ended October 31, 2021, the Company issued 1,129,600 warrants pursuant to the private placement completed on December 15, 2020. The warrants are exercisable at $1.25 and expire on December 15, 2022. The fair value of the warrants issued has been estimated at the grant date using the Black-Scholes option pricing model. The weighted-average assumptions used in the pricing model for the year ended October 31, 2021 are as follows:

	October 31, 2021
Risk-free interest rate	0.25%
Expected life	2.0 years
Expected volatility	150%
Expected dividend per share	0.0%
Weighted-average exercise price	$1.25

Expressed in Canadian dollars

12. INCOME TAXES

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

	2022	2021
	$	$
Loss before income taxes	2,361,404	10,515,520
Statutory rate	29.0%	29.0%
Tax recovery at statutory rate	(684,807)	3,049,501
Decrease (increase) of losses and deductible temporary differences not recognized in current and prior years	(222,099)	(678,798)
Permanent differences and other	(462,708)	(2,370,703)
Income tax recovery	-	-

	2022	2021
	$	$
Deferred income tax assets		
Losses carried forward	2,699,551	2,474,067
Capital assets	25,417	18,034
Share issuance costs	78,541	99,789
	2,803,508	2,591,890
Deferred income tax liabilities	-	-
	2,803,508	2,591,890
Unrecognized deferred income tax assets	(2,803,508)	(2,591,890)
Net deferred income tax assets	-	-

Non-capital losses

As at October 31, 2022, the Company had approximately $9.4 million in losses available to reduce future taxable income for Canadian income tax purposes. The benefit of these losses has not been recorded in the accounts as realization is not considered probable. These losses may be claimed no later than:

		$
During the year ended	2033	450
	2034	25,485
	2035	533,456
	2036	388,884
	2037	463,779
	2038	854,053
	2039	1,276,295
	2040	2,914,173
	2041	2,074,691
	2042	777,530
		9,308,796

Expressed in Canadian dollars

13. KEY MANAGEMENT COMPENSATION

Key management includes the Company's directors, Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), and the Chief Scientific Officer ("CSO"). Compensation awarded to key management for the years ended October 31, 2022 and 2021 is summarized as follows:

	2022	**2021**
	$	$
Salaries and consulting fees earned	490,870	561,965
Share-based compensation expense	1,250,328	4,148,875
	1,741,198	**4,710,840**

14. RELATED PARTY TRANSACTIONS

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

During the year ended October 31, 2022, the Company incurred costs for service fees from a related party, Numus, a company controlled by significant shareholders, including one director of Sona, in the amount of $78,000 (2021 – $228,000), controller services of $30,000 (2021 - $30,000), and incurred rent and administrative costs from Numus in the amount of $30,600 (2021 – $30,600). Effective January 1, 2022, the monthly service fee was reduced from $19,000 to $4,000 per month.

As at October 31, 2022, the amount owing to Numus, related to accounts payable and was $25,415. There was no loan balance or interest payable to Numus as at October 31, 2022. As at October 31, 2021, the amount owing to Numus, including accounts payable, the loan balance and accrued interest, was $1,398,668.

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

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

During the year ended October 31, 2020, the Company entered into a loan agreement with Numus. The loan is for up to $600,000, has an annual interest rate of prime plus 1% and has a 2% lender fee. The loan is repayable in full, including all interest and lender fees, on demand. The Company has drawn $612,000 on the loan, including a lender fee of $12,000, and has accrued interest of $26,829. This amount was settled during the quarter ended January 31, 2022 (see below).

On January 5, 2022, the Company arranged a debt settlement of $1,452,724 in amounts owed to Numus through the issuance of 2,556,276 common shares at a deemed price of $0.45 per share. These amounts include accounts payable to Numus of $813,895 pursuant to its services agreement with the Company and a loan payable (with fees and accrued interest) of $638,829. Numus will forgive $282,913 and the remaining debts as part of an agreement that includes amendments to the Services Agreement to reduce service fees. On the date of settlement, the Company's share price was $0.40 per common share, resulting in an additional gain on debt settlement of $127,814.

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

During the year ended October 31, 2021, the Company granted 585,000 stock options under the Company's stock option plan. 550,000 of the stock options were issued to directors and officers of Sona. 250,000 of the options issued have an exercise price of $3.36 per share and 300,000 have an exercise price of $0.30. These options vest at the rate of 25% every six months and will expire five years from the date of issuance. During the year ended October 31, 2021, officers and directors exercised 237,500 stock options at an exercise price of $0.20, for gross proceeds of $47,500. On the exercise date the share prices was $0.30 per common share.

As at October 31, 2022, the amount owing to Randall Consulting Inc. ("RCI"), a company controlled by an officer of Sona, was $24,276 (October 31, 2021 - $37,483). As at October 31, 2022 and October 31, 2021, an amount of $38,750 was also owing to a director of the Company. These amounts are non-interest bearing and are payable on demand.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Capital Management

The Company's capital structure consists of share capital, warrants and contributed surplus, which at October 31, 2022 was approximately $18.9 million (October 31, 2021 - $24.8 million). The Company's objective when managing capital is to maintain adequate levels of funding to support the research and development of its nanorod technology products and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing and government funding. Future financings are dependent on market conditions, and there can be no assurance the Company will be able to raise funds in the future. There were no changes to the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements.

b) Fair Values of Financial Instruments

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

c) Financial Risk Management Objectives

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

d) Credit Risk

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

Cash is held with a reputable bank in Canada. The long-term credit rating of these banks, as determined by Standard and Poor's, was A+.

Expressed in Canadian dollars

e) Liquidity Risk

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

The Company is currently pursuing financing alternatives and completed a debt settlement of $1.45 million on January 5, 2022 (note 14). There can be no assurance that additional future financings will be available on acceptable terms or at all. If the Company is unable to obtain additional financing when required, the Company may have to substantially reduce or eliminate planned expenditures.

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

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

	Within 1 year	2-3 years	4-5 years	Over 5 years	Total
	$	$	$	$	$
Accounts payable	420,161	-	-	-	420,161
Long-term debt	-	608,467	-	-	608,467
	420,161	**608,467**	**-**	**-**	**1,028,628**

f) Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk exposure arises from the Company entering into transactions which are denominated in currencies other than its functional currency.

For the year ended October 31, 2022, the sensitivity of the Company's net loss and comprehensive loss due to changes in the exchange rate between the Canadian dollar and foreign currencies (primarily the United States dollar) would have impact net loss and comprehensive loss by $2,306 for a 5% increase or decrease in the Canadian dollar.

g) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates.

An immaterial amount of interest rate exposure exists in respect of cash balances, and the long-term debt on the statement of financial position. The long-term debt interest rates are at a nil rate and the interest on the cash balances is insignificant. As a result, the Company is not exposed to material cash flow interest rate risk on its cash balances.

h) Fair Value Measurements Recognized in the Statement of Financial Position

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

At October 31, 2022 and October 31, 2021, the Company's marketable securities were measured and recognized on the statement of financial position at fair value. The fair value was based on level 1 inputs. There were no transfers between levels during the period.

16. COMMITMENTS AND CONTINGENCIES

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

As at October 31, 2022, the Company has a Services Agreement with Numus. See note 14 for further details.

On December 17, 2020, a putative shareholder class action lawsuit was filed in the United States District Court for the Central District of California ("US Court"). The complaint asserts claims against the company under Sections 10(b) and 20 of the Securities Exchange Act of 1934 on behalf of a putative class of investors who purchased or otherwise acquired stock of the Company in US transactions between July 2, 2020 and November 25, 2020 (the "US action"). The suit alleges that the Company made material misstatements regarding its rapid detection Covid-19 antigen test. On October 28, 2021 the US Court issued and order granting the Company's motion to dismiss and granted leave to the plaintiff to file an amended complaint within 14 days. During November, the plaintiffs filed an amended complaint which the Company has refuted with motion to dismiss the amended action. On March 18, 2022, US Court granted the Company's motion to dismiss without leave to amend and has entered a final judgement of the dismissal with prejudice. The deadline for the plaintiffs filing an appeal has passed with no appeal filed.

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

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

17. SUBSEQUENT EVENTS

a) Acquisition of Siva Therapeutics, Inc.

On January 26, 2023, Sona entered a binding agreement (the "Definitive Agreement") to acquire Siva Therapeutics, Inc. ("Siva"), (the "Proposed Transaction"). Under the Definitive Agreement, Sona has agreed to acquire all of the issued and outstanding common shares of Siva with total consideration to the Siva shareholders of US $2.0 million in Sona shares (the "Transaction Shares") at the date of closing (the "Closing Date"), plus up to an additional US $6.65 million in Sona shares over multiple instalments conditional on Siva's future achievement of specific performance milestones by January 31, 2025 (the "Performance Shares"). This agreement supersedes the commercial agreement with Siva, announced October 2022.

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

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

- Upon Siva securing a contract for a large animal colorectal cancer tumor model, suitable for the evaluation of Siva's THT therapy by no later than June 30, 2023, a further US $650,000;
- Upon Siva obtaining delivery and acceptance of infrared light devices meeting certain technical and costing requirements, by no later than nine months from the Closing Date, a further US $750,000;
- Upon Siva achieving results from a large animal study of THT therapy for colorectal cancer tumors that support an US Food and Drug Administration Investigational Device Exemption for human study, by no later than January 31, 2024, a further US $2,700,000; and
- Upon Siva obtaining positive results from the first cohort of a "first in human" clinical study for THT therapy, and a notice of allowance for a patent for the infrared light device to protect THT for colorectal cancer, by no later than January 31, 2025, a final US $2,550,000.

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

Completion of the Proposed Transaction is subject to the satisfaction of a number of closing conditions, including satisfactory resolution of outstanding Siva stock options, completion of two interim equity financings by Sona, and certain other customary closing conditions, and is subject to review and acceptance by the Exchange. The Definitive Agreement will terminate if the Proposed Transaction is not completed by March 31, 2023, unless extended by mutual agreement of the parties.

b) Planned Financings

As contemplated under the Siva Definitive Agreement, Sona intends to first complete a private placement financing to raise up to $500,000 (the "Working Capital Financing") by the issuance of up to 5,000,000 common shares at an offering price of $0.10 per share. Sona has entered into an agreement with a registered dealer to act as placement agent for the Working Capital Financing, pursuant to which Sona has agreed to pay a cash fee equal to 8% of proceeds raised from investors introduced by the placement agent and to issue compensation warrants entitling the placement agent to purchase that number of common shares as is equal to eight percent (8.0%) of the common shares sold to investors introduced by the placement agent. Each compensation warrant will be exercisable into a common share of Sona Nanotech at $0.10 per share at any time for a period of 24 months from closing.

The closing of the Proposed Siva Transaction is conditional upon Sona completing an additional equity raise for gross proceeds of at least US $1.0 million, or any other amount that is mutually agreed by the Parties, which is expected to close by February 28, 2023. The details of this offering are currently being negotiated, and the net proceeds will be held in escrow pending the closing of the Proposed Transaction.

c) Working Capital Financing

The Company increased the Working Capital Financing to 11,000,000 common shares at the offering price of $0.10 per share, for gross proceeds of $1,100,000. This Financing closed on February 24, 2023.