

Unaudited Condensed Interim Consolidated Financial Statements of

SONA NANOTECH INC.
(formerly "Stockport Exploration Inc.")

January 31, 2019

(Expressed in Canadian Dollars)

March 29, 2019

Management's Report

The accompanying unaudited condensed interim consolidated financial statements of **Sona Nanotech Inc. (formerly "Stockport Exploration Inc.")** are the responsibility of management and have been approved by the Board of Directors. The unaudited condensed interim consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The unaudited condensed interim consolidated financial statements include certain amounts and assumptions that are based on management's best estimates and have been derived with careful judgment.

In fulfilling its responsibilities, management has developed and maintains a system of internal accounting controls. These controls are designed to provide reasonable assurance that the financial records are reliable for the preparation of the financial statements. The Audit Committee of the Board of Directors reviewed and approved the Company's unaudited condensed interim consolidated financial statements and recommended their approval by the Board of Directors.

These unaudited condensed interim consolidated financial statements have not been reviewed by the external auditors of the Company.

(signed) "*Darren Rowles*"
Chief Executive Officer
Halifax, Canada

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

Sona Nanotech Inc. (formerly “Stockport Exploration Inc.”)
Unaudited Interim Consolidated Statements of Financial Position
As at January 31, 2019 and October 31, 2018

Expressed in Canadian dollars

	January 31, 2019	October 31, 2018
	\$	\$
Assets		
Current assets		
Cash	1,188,408	1,803,549
Amounts receivable and other (note 5)	451,045	291,037
Marketable securities	6,500	5,500
	1,645,953	2,100,086
Resource properties (note 6)	941,700	940,500
Property and equipment (note 7)	178,414	136,994
Total assets	2,766,067	3,177,580
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	1,709,247	1,886,820
Current portion of long-term debt (note 9)	132,093	129,093
Convertible notes and accrued interest (note 10)	439,562	419,409
	2,280,902	2,435,322
Long-term debt (note 9)	621,308	543,184
Total liabilities	2,902,210	2,978,506
Equity		
Shareholders' equity	(136,143)	199,074
Total liabilities and equity	2,759,067	3,177,580

Basis of presentation and going concern (note 2)
Commitments and contingencies (note 19)
Subsequent events (note 20)

Approved on behalf of the Board of Directors on March 29, 2019.

“Daniel Whittaker”
Director

“Robert McKay”
Director

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

Sona Nanotech Inc. (formerly “Stockport Exploration Inc.”)
Unaudited Interim Consolidated Statements of Loss and Comprehensive Loss
For the three-months ended January 31, 2019 and 2018

Expressed in Canadian dollars

	Three-months ended January 31, 2019 \$	Three-months ended January 31, 2018 \$
Expenses		
Salaries and employee benefits	135,009	67,531
Professional and consulting fees (note 17)	82,620	32,590
Management services (note 17)	57,000	54,000
Research and development costs	24,490	1,962
Travel costs	12,607	14,174
Sales and marketing costs	607	638
Share based compensation	10,098	-
Administrative costs	13,074	3,653
Depreciation expense	10,131	4,240
Securities and regulatory	9,938	-
Rent and related costs (note 17)	13,223	-
	<u>(368,797)</u>	<u>(178,788)</u>
Other income (expenses)		
Repayable government loans fair value adjustment	53,889	47,950
Scientific research and experimental development tax credits	7,000	-
Accreted interest on convertible notes (note 10)	(9,000)	-
Interest expense	(14,153)	(3,427)
Accreted interest on repayable government loans (note 9)	(15,254)	(7,232)
	<u>22,482</u>	<u>37,291</u>
Net loss for the period	(346,315)	(141,497)
<i>Items that will be subsequently reclassified to the statement of loss</i>		
Unrealized gain on available-for-sale securities	<u>1,000</u>	-
Comprehensive loss for the year	(345,315)	(141,497)
Loss per share – basic and diluted	<u>(0.01)</u>	<u>(0.01)</u>
Weighted-average number of common shares outstanding - basic and diluted	<u>53,456,519</u>	<u>20,322,702</u>

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

Sona Nanotech Inc. (formerly “Stockport Exploration Inc.”)
Unaudited Interim Consolidated Statements of Changes in Equity
For the three-months ended January 31, 2019 and 2018

Expressed in Canadian dollars

	Number of Common Shares	Common Shares	Equity Portion of Convertible Debt	Warrants	Contributed Surplus	Accumulated Comprehensive Income	Deficit	Total
		\$	\$				\$	\$
Balance, October 31, 2017	30,421,662	823,238	10,800	-	-	-	(1,632,163)	(798,125)
Net loss and comprehensive loss for the period	-	-	-	-	-	-	(141,497)	(5,198,333)
Shares issued pursuant to private placement (note 12)	4,000,000	400,000	-	-	-	-	-	400,000
Share issuance costs (note 12)	-	(32,000)	-	-	-	-	-	(32,000)
Balance, January 31, 2018	34,421,662	1,191,238	10,800	-	-	-	(1,773,660)	(571,622)
Net loss and comprehensive loss for the period	-	-	-	-	-	(2,000)	(5,054,836)	(5,056,836)
Shares issued pursuant to private placement (note 12)	400,000	40,000	-	-	-	-	-	40,000
Share issuance costs (note 12)	-	(8,679)	-	-	-	-	-	(8,679)
Shares of Sona Nanotech exchanged for common shares of the Company (note 3)	(34,821,662)	-	-	-	-	-	-	-
Shares of the Company deemed to be issued, post four for one share consolidation (note 3)	22,163,247	3,501,793	-	-	-	-	-	3,501,793
Options issued pursuant to the Transaction (note 3)	-	-	-	-	102,966	-	-	102,966
Warrants issued pursuant to the Transaction (note 3)	-	-	-	6,822	-	-	-	6,822
Equity portion of convertible notes (note 3)	-	-	42,000	-	-	-	-	42,000
Shares issued in Sona Nanotech Inc. pursuant to the Private placement financing (note 12)	8,000,000	2,000,000	-	-	-	-	-	2,000,000
Share issuance costs (note 12)	-	(159,063)	-	-	-	-	-	(159,063)
Broker warrants (note 14)	-	(126,455)	-	126,455	-	-	-	-
Expiry of warrants	-	-	-	(6,822)	6,822	-	-	-
Shares issued in settlement of convertible debenture (note 11)	1,257,056	301,693	-	-	-	-	-	301,693
Balance, October 31, 2018	53,456,519	6,740,527	52,800	126,455	109,788	(2,000)	(6,828,496)	199,074
Net loss and comprehensive loss for the period	-	-	-	-	-	1,000	(346,315)	(345,315)
Share-based compensation expense	-	-	-	-	10,098	-	-	10,098
Balance, January 31, 2019	53,456,519	6,740,527	52,800	126,455	119,886	(1,000)	(7,174,811)	(136,143)

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

Sona Nanotech Inc. (formerly “Stockport Exploration Inc.”)
Unaudited Interim Consolidated Statements of Changes in Cash Flows
For the three-months ended January 31, 2019 and 2018

Expressed in Canadian dollars

	Three-months ended January 31, 2019	Three-months ended January 31, 2018
	\$	\$
Operating activities		
Net loss for the period	(346,315)	(141,497)
Changes to loss not involving cash:		
Depreciation	10,131	4,240
Wire-off of property and equipment	248	-
Stock-based compensation	10,098	-
Interest expense	14,153	3,427
Accreted interest on repayable government loans	15,254	7,232
Accreted interest on convertible notes	9,000	-
	<u>(287,431)</u>	(126,598)
Increase in amounts receivable and other	(160,008)	(34,646)
Decrease in accounts payable and accrued liabilities	(177,573)	(177,307)
	<u>(625,012)</u>	(338,551)
Financing activities		
Proceeds from long-term debt	62,870	140,566
Repayment of long-term debt	-	(10,000)
Proceeds received upon the completion of private placements	-	400,000
Share issuance costs associated with private placements	-	(32,000)
	<u>62,870</u>	498,566
Investing activities		
Additions to property and equipment	(51,799)	(128,384)
Additions to resource properties	(1,200)	-
	<u>(52,999)</u>	(128,384)
Increase (decrease) in cash during the period	(615,141)	31,631
Cash, beginning of the period	1,803,549	173,323
Cash, end of the period	<u>1,188,408</u>	204,954

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

Sona Nanotech Inc. (formerly “Stockport Exploration Inc.”)
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three-months ended January 31, 2019

1. NATURE OF OPERATIONS

Sona Nanotech Inc. (formerly Stockport Exploration Inc.), (the “Company”) 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 for details). The Company’s corporate office is located at Suite 2001, 1969 Upper Water Street, Halifax, Nova Scotia, Canada, B3J 3R7. The research and development office is 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. The CSE listing was subject to the completion of the transaction with Sona and approval of the CSE for listing. The Company’s common shares were voluntarily delisted from the TSXV on August 7, 2018. The transaction with shareholder approval was completed on August 8, 2018. The Company submitted its listing application to the CSE on September 28, 2018 and commenced trading on October 4, 2018.

2. BASIS OF PRESENTATION AND GOING CONCERN

Basis of presentation and consolidation

These unaudited condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, 6321593 Canada Inc. and Minera Zapoteca, S.A. de C.V. All inter-company transactions and balances have been eliminated on consolidation of the accounts. All amounts are expressed in Canadian dollars, unless otherwise noted.

Basis of measurement

These unaudited condensed interim consolidated financial statements have been prepared under a historical cost basis except for certain financial instruments recorded at fair value

Going concern

The Company’s operations have been financed through the sale of common shares, issuance of debt, government funding and funds received from the Transaction (note 3). The Company has incurred significant operating losses since inception and has an accumulated deficit of \$7,181,811 as at January 31, 2019 (October 31, 2018 – \$6,828,496).

These unaudited condensed interim consolidated 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 three-month period ended January 31, 2019, the Company incurred a net loss of \$353,315. 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.

Sona Nanotech Inc. (formerly “Stockport Exploration Inc.”)
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three-months ended January 31, 2019

2. BASIS OF PRESENTATION AND GOING CONCERN (continued)

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 unaudited condensed interim consolidated 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.

3. 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. As a result of the Transaction, 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 unaudited condensed interim 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 expense as a cost of obtaining the Company status as a Reporting Issuer.

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

The accounting for this Transaction resulted in the following:

- The unaudited condensed interim consolidated financial statements are issued under the legal parent, Sona Nanotech Inc., but are considered a continuation of the financial statements of the legal subsidiary, Sona Nanotech Ltd.
- Since Sona Nanotech Ltd. is deemed to be the acquirer for accounting purposes, its assets and liabilities are included in the unaudited condensed interim consolidated financial statements at their historical carrying values.
- There has been an elimination of the Company’s pre-acquisition share capital of \$22,597,563, contributed surplus of \$4,747,205, warrants of \$30,000, the equity portion of the convertible notes of \$90,000, the accumulated other comprehensive loss of \$4,500 and the accumulated deficit of \$27,820,980.

Since the share and share-based consideration allocated to the former shareholders of the Company on closing the Transaction is considered within the scope of IFRS 2, the value in excess of the net identifiable assets and obligations of the Company acquired on closing is expensed in the consolidated statement of loss and comprehensive loss as listing expense.

Sona Nanotech Inc. (formerly “Stockport Exploration Inc.”)
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three-months ended January 31, 2019

3. TRANSACTION WITH SONA NANOTECH LTD. (continued)

The listing expense in the amount of \$4,025,228 is comprised of the fair value of the common shares, options, warrants of the Company retained by the former shareholders of the Company, transaction costs and the net liabilities of the Company at August 8, 2018, as well as other direct expenses of the Transaction. 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 \$72,935 based on a recent Sona Nanotech private placement financing of \$0.158 per share post consolidation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Statement of compliance

The unaudited condensed interim 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 March 29, 2019.

These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* (“IAS 34”), as issued by the IASB. Accordingly, certain information normally included in annual financial statements prepared in accordance with IFRS, as issued by the IASB, have been omitted or condensed. The unaudited condensed interim financial statements should be read in conjunction with the Company’s audit consolidated financial statements for the year ended October 31, 2018.

Sona Nanotech Inc. (formerly “Stockport Exploration Inc.”)
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three-months ended January 31, 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Statement of compliance (continued)

The policies applied in these unaudited condensed interim financial statements are based on the IFRS as of March 29, 2019, the date the Board of Directors approved the financial statements. Any subsequent changes to IFRS that are given effect in the Company’s financial statements for the period ended October 31, 2019 could result in the restatement of these unaudited condensed interim financial statements.

These financial statements have been prepared using the same policies and methods of computation as the audited financial statements of the Company for the period ended October 31, 2018. Refer to note 4, *Significant Accounting Policies*, of the Company’s audited financial statements for the period ended October 31, 2018 for information on the accounting policies, significant accounting estimates and judgements, and new accounting standards not yet effective.

These unaudited condensed interim financial statements are presented in Canadian dollars, the Company’s functional currency, and have been prepared on the historical costs basis.

b) New accounting standards adopted during the year

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

Sona Nanotech Inc. (formerly “Stockport Exploration Inc.”)
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three-months ended January 31, 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New accounting standards adopted during the year (continued)

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	Fair value through other comprehensive income
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.

Sona Nanotech Inc. (formerly “Stockport Exploration Inc.”)
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three-months ended January 31, 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New accounting standards adopted during the year (continued)

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.

c) 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.

5. AMOUNTS RECEIVABLE AND OTHER

	January 31, 2019	October 31, 2018
	\$	\$
Amounts receivable from the government	433,470	276,983
Prepaid expenses and other	17,575	14,054
	451,045	291,037

6. RESOURCE PROPERTIES

	Canada KM61
	\$
Balance, November 1, 2017	-
Net additions as a result of the Transaction	939,299
Net additions during the period	1,201
Balance, October 31, 2018	940,500
Additions during the period	1,200
Balance, January 31, 2019	941,700

KM61

The Company holds a 100% interest in the KM61 property, which is a molybdenum-copper-silver prospect, located in northwestern Ontario, contiguous with the Seymour Lake project. The majority of the KM61 property, including the mineralized zone, is subject to a 0.5% net smelter royalty (“NSR”). Of the remaining claims on the KM61 property, certain portions are subject to a 3% NSR and the balance are not subject to any royalties. The Company can repurchase 50% of the 0.5% NSR for \$250,000 and/or 50% of the 3% NSR for \$1.0 million. As at January 31, 2019, the Company determined that there were no indicators of impairment or impairment reversals on the KM61 property.

Sona Nanotech Inc. (formerly “Stockport Exploration Inc.”)
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three-months ended January 31, 2019

7. PROPERTY AND EQUIPMENT

	Office Equipment	Laboratory Equipment	Furniture and fixtures	Total
Cost	\$	\$	\$	\$
As at November 1, 2017	2,900	21,212	-	24,112
Additions	2,959	128,383	13,144	144,486
As at October 31, 2018	5,859	149,595	13,144	168,598
Additions	4,949	46,850	-	51,799
Write-offs	(651)	-	-	(651)
As at January 31, 2019	10,157	196,445	13,144	219,746
Accumulated depreciation				
As at November 1, 2017	390	3,406	-	3,796
Depreciation charge	1,057	26,506	245	27,808
As at October 31, 2018	1,447	29,912	245	31,604
Depreciation charge	674	8,794	663	10,131
Write-offs	(403)	-	-	(403)
As at January 31, 2018	1,718	38,706	908	41,332
Carrying amount				
Balance, October 31, 2018	4,412	119,683	12,899	136,994
Balance, January 31, 2019	8,439	157,739	12,236	178,414

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	January 31, 2019	October 31, 2018
	\$	\$
Trade accounts payable and accrued liabilities	507,705	727,481
Amounts payable to related parties (note 17)	1,201,540	1,159,339
	1,709,245	1,886,820

9. LONG-TERM DEBT

	January 31, 2019	October 31, 2018
	\$	\$
Atlantic Canada Opportunities Agency (“ACOA”) under the Business Development Program interest-free loan with a maximum contribution of \$979,476. Annual repayments are calculated between 3% - 5% of gross product revenue. As at January 31, 2019, the amount drawn down on the loans was \$837,708 (October 31, 2018 – \$720,949).	621,308	543,184
Blue Ridge Resources Inc. (“Blue Ridge”) loan with an interest rate of 1% per month, repayable on demand	132,093	129,093
Balance – end of period	753,401	672,277
Less: current portion	(132,093)	(129,093)
Long-term portion	621,308	543,184

Sona Nanotech Inc. (formerly “Stockport Exploration Inc.”)
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the three-months ended January 31, 2019

9. LONG-TERM DEBT (continued)

<i>Long-term debt continuity</i>	January 31, 2019	October 31, 2018
	<u>\$</u>	<u>\$</u>
Balance – beginning of period	672,277	334,624
Borrowings, net of \$53,889 (year-ended October 31, 2017 - \$163,331) allocated to other income	62,870	328,118
Loan repayment	-	(45,803)
Accreted interest on repayable government loans	15,254	42,819
Accrued interest	3,000	12,519
	<u>753,401</u>	<u>672,277</u>
Balance – end of period	753,401	672,277
Less: current portion	(132,093)	(129,093)
Long-term portion	<u>621,308</u>	<u>543,184</u>

The Blue Ridge loan is convertible into common shares of the Company at a deemed value of \$0.10 per share for all outstanding principal and interest at Blue Ridge’s discretion. The loan was originally made by Brigus Capital Inc., however the loan was transferred to Blue Ridge as of September 19, 2018.

The minimum annual principal repayments of long-term debt over the next five years are limited to the repayment of the Blue Ridge loan, as the ACOA loan repayments are not determinable at this time. The minimum annual principal repayments of long-term debt over the next five years are as follows:

Year ending October 31, 2019	\$100,000
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10. CONVERTIBLE NOTES

The convertible notes were acquired as part of the Transaction (see note 3 for details). On February 25, 2015, the Company completed a \$295,000 bridge loan financing from various directors and other private investors of the Company by the issuance of unsecured convertible promissory notes (the “Notes”). The Notes bear an interest rate of 15% per annum, payable quarterly. During the prior year, the maturity date of the Notes was extended to September 27, 2019.

The principal amount of the Notes is convertible into common shares of the Company at the election of the holder at the rate of \$0.20 of principal converted per share (the “Conversion Price”). If the Notes are not repaid within three days of the maturity date, they will be automatically converted into common shares of the Company at the Conversion Price. If interest is not paid each quarter, any accrued interest can be converted, at the option of the holder, into shares of the Company at a conversion price of \$0.20 per share or a five-day volume weighted-average price (“VWAP”) preceding the date of conversion, whichever is higher. The holders of the Notes have not yet elected to convert any unpaid accrued interest to common shares of the Company.

The Company has assessed the respective value of the Notes and accrued interest at the date of the Transaction and the conversion component. The Notes have been initially recorded at a value of \$399,255 and the equity component of the Notes has been valued at \$42,000. The initial recorded value of the Notes, in the amount of \$399,255, will be accreted to the face value of the Notes over the remaining term. During the year ended October 31, 2018 and the three-month period ended January 31, 2019, the change in the recorded value of the Notes was as follows:

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10. CONVERTIBLE NOTES (continued)

<i>Convertible note continuity</i>	\$
Net additions as a result of the Transaction – principal balance	295,000
Net additions as a result of the Transaction – accrued interest balance	146,255
Equity component of convertible notes	<u>(42,000)</u>
Recorded value of the Notes, August 8, 2018	399,255
Accreted interest	9,000
Interest expense	<u>11,154</u>
Recorded value of the Notes, October 31, 2018	419,409
Accreted interest	9,000
Interest expense	<u>11,153</u>
Recorded value of the Notes, January 31, 2019	<u>439,262</u>

In preparing the allocation of value between the Notes and the equity component of the Notes, the Company estimated an interest rate of 25% for a similar debt instrument with no conversion option. If the Company had used an interest rate of 20%, the recorded value of the equity component of the Notes would have been \$20,000 lower. If the Company had used an interest rate of 30%, the recorded value of the equity component of the Notes would have been \$24,000 higher.

11. CONVERTIBLE DEBENTURES

The Company acquired the convertible debenture liability as at the date of the Transaction (see note 3 for details). The convertible debenture liability acquired is based upon the full settlement obligation to issue 1,257,056 common shares on October 31, 2018, the maturity date. As of the date of the Transaction, the Company estimated the fair value of these shares as \$198,640, based on a price of \$0.158 per share (see note 3 for details).

The Company’s settled the convertible debenture liability through the issuance of common shares on October 31, 2018, the maturity date. The fair value of the shares issued of \$301,693 was determined based on the market trading price of \$0.24 per share as at October 31, 2018 with \$103,053 recorded as a fair value adjustment expense to convertible debentures.

12. SHARE CAPITAL

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

Escrowed Shares

As at January 31, 2019, 18,486,503 common shares of the Company are subject to an escrow agreement pursuant to the terms of the Transaction which states 10% of the escrowed shares were released from escrow on the Initial Release date, being September 28, 2018, and an additional 15% will be released every six months thereafter.

Share Exchange

The legal capital of the Company has been restated at an exchange ratio of 1.5802 common shares of the Company as a result of the Transaction described in note 3. The effect of the share conversion has been applied retrospectively in line with IAS 33, *Earnings per share*.

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12. SHARE CAPITAL (continued)

Private Placement Financings

During the year ended October 31, 2018, the Company completed non-brokered private placement financings for aggregate gross proceeds of \$440,000. The Company issued 2,784,549 common shares at a price of \$0.158 per share. Total costs associated with the private placement financings, consisting of finders fees paid to a related party of 8% and professional fees, were \$40,679.

On September 28, 2018, the Company completed a private placement financing for aggregate gross proceeds of \$2.0 million. The Company issued 8.0 million shares at a price of \$0.25 per common share (the “Offering”). In connection with the Offering, total costs, consisting of finders fees of 7.5% paid to a related party and professional fees, were \$159,063. In addition, the Company issued finder’s share purchase warrants to a private company controlled by a director and a consultant to Sona. The share purchase warrants give the right to purchase up to 596,250 common shares at an exercise price of \$0.25 per share until September 27, 2020 (see note 14 for additional details).

13. 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 January 31, 2019, 3,035,652 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 three-month period ended January 31, 2019 and the year ended October 31, 2018:

	January 31, 2019	October 31, 2018
Risk-free interest rate	1.81%	1.0%
Expected life	5.00	1.96
Expected volatility	141.9%	202.0%
Expected dividend per share	0.0%	0.0%
Exercise price	\$0.35	\$0.21

The following table reconciles the stock option activity during the three-month period ended January 31, 2019 and the year ended October 31, 2018:

	Number of options	Weighted-average exercise price
	#	\$
Balance, November 1, 2017	-	-
Granted as a result of the transaction	912,500	0.21
Expired	(12,500)	(0.20)
Balance, October 31, 2018	900,000	0.21
Issued	1,410,000	0.35
Balance, January 31, 2019	2,310,000	0.30

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13. STOCK OPTIONS (continued)

The following table summarizes information relating to outstanding and exercisable stock options as at January 31, 2019:

<u>Expiry date</u>	<u>Weighted-average remaining contractual life (in years)</u>	<u>Number of options outstanding</u>	<u>Number of options exercisable</u>	<u>Weighted-average exercise price</u>
June 5, 2019	0.3	300,000	300,000	\$0.20
July 4, 2019	0.4	62,500	62,500	\$0.28
September 11, 2019	0.6	50,000	50,000	\$0.28
February 16, 2021	2.0	50,000	50,000	\$0.20
July 11, 2021	2.4	437,500	437,500	\$0.20
January 21, 2024	5.0	1,410,000	-	\$0.35

14. WARRANTS

The following are the weighted-average assumptions used in calculating the value of the warrants granted during the year ended October 31, 2018. There were no warrants issued during the three-month period ended January 31, 2019.

	<u>October 31, 2018</u>
Risk-free interest rate	1.0%
Expected life	1.42
Expected volatility	202.0%
Expected dividend per share	0.0%
Weighted-average exercise price	\$0.30

Warrant activity during the three month period ended January 31, 2019 and year ended October 31, 2018 was as follows:

	<u>Number of warrants</u>	<u>Weighted-average exercise price</u>
	#	\$
Balance, November 1, 2017	-	-
Granted	895,250	\$0.30
Expired	(299,000)	\$0.40
Balance, October 31, 2018 and January 31, 2019	<u>596,250</u>	<u>\$0.25</u>

As at January 31, 2019, 596,250 broker warrants are outstanding, exercisable at \$0.25 per share into common shares of the Company and expire on September 28, 2020.

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15. 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:

	October 31, 2018	October 31, 2017
	\$	\$
Loss before income taxes	5,196,333	450,777
Statutory rate	31.0%	31.0%
Tax recovery at statutory rate	1,610,864	139,741
Recovery for losses and deductible temporary differences not recognized in current and prior years	(6,164,619)	(157,343)
Permanent differences and other	4,553,755	17,602
Income tax recovery	-	-
	2018	2017
	\$	\$
Deferred income tax assets		
Losses carried forward	4,762,974	516,299
Capital assets	9,798	1,177
Share issuance costs	90,644	5,521
Mineral properties	1,824,200	-
	6,687,616	522,997
Deferred income tax liabilities	-	-
	6,687,616	522,997
Unrecognized deferred income tax assets	(6,687,616)	(522,997)
Net deferred income tax assets	-	-

Non-capital losses

As at October 31, 2018, the Company had approximately \$11,323,280 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	
2026	71,266
2027	851,632
2028	1,290,035
2029	672,313
2030	675,745
2031	824,951
2032	842,323
2033	351,862
2034	215,446
2035	1,061,930
2036	682,911
2037	1,992,985
2038	1,789,881
	<u>11,323,280</u>

As at October 31, 2018, the Company had approximately \$4,041,156 in accumulated Mexican tax losses that may be carried forward and used to reduce taxable income from Mexico in future years. These losses expire between 2018 and 2021.

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16. KEY MANAGEMENT COMPENSATION

Effective October 1, 2017, key management of the Company includes the Company’s directors and Chief Executive Officer. Effective August 8, 2018, key management was updated to include the Chief Financial Officer. Compensation awarded to key management is summarized as follows:

	January 31, 2019	January 31, 2018
Salaries and consulting fees earned	\$ 53,694	\$ 40,466
Share-based compensation expense	6,803	-
	60,497	40,466

17. RELATED PARTY TRANSACTIONS

During the three-month period ended January 31, 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 \$57,000 (quarter ended January 31, 2018 – \$54,000) and incurred rent and administrative costs from Numus in the amount of \$7,650 (quarter ended January 31, 2018 – \$nil). As at January 31, 2019, the amount owing to Numus was \$417,073 (January 31, 2018 – \$413,745).

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 three-month period ended January 31, 2019 and the year ended October 31, 2017, 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 \$32,000 from Numus Capital during the three-month period ended January 31, 2018. There were no finders fees incurred during the three-month period ended January 31, 2019. As at January 31, 2019, the amount owing to Numus Capital was (January 31, 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 three-month period ended January 31, 2019, the Company accrued \$7,373 of related party interest (three-month period ended January 31, 2018 – \$nil). As at January 31, 2019, accrued interest on the Notes in the amount of \$111,422 was payable to related parties (January 31, 2018 – \$nil).

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17. RELATED PARTY TRANSACTIONS (continued)

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. As of September 18, 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 January 31, 2019, the amount owing to Brigus was \$224,091 (January 31, 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.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Capital Management

The Company’s capital structure consists of share capital, the equity portion of convertible debt, warrants and contributed surplus, which at January 31, 2019 was approximately \$7.0 million (October 31, 2018 - \$7.0 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 consolidated 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+.

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18. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 private placement financings of \$2.4 million during the year ended October 31, 2018. 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 January 31, 2019, excluding the ACOA loan repayments which are not determinable at this time, are as follows:

	<u>Within 1 year</u>	<u>2-3 years</u>	<u>4-5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Accounts payable	\$ 638,998	\$ -	\$ -	\$ -	\$ 638,998
Current portion of long-term debt	132,093	-	-	-	132,093
Convertible notes and accrued interest	439,562	-	-	-	439,562
	<u>1,210,653</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,210,653</u>

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.

The Company is not exposed to material currency risk on its cash, accounts payable that are held in currencies that are not in the transacting entity’s functional currency.

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, the long-term debt and the convertible notes on the unaudited interim consolidated statement of financial position. The long-term debt and convertible notes have a nil or fixed interest 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.

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18. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 January 31, 2019, the Company’s marketable securities were measured and recognized on the unaudited condensed interim consolidated 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.

19. COMMITMENTS AND CONTINGENCIES

The Company has employment agreements 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.

At January 31, 2019, the Company has a Services Agreement with Numus. See note 17 for further details.