

*Unaudited Condensed Interim Financial Statements of*

**SONA NANOTECH INC.**

January 31, 2020

(Expressed in Canadian Dollars)

April 2, 2020

### **Management's Report**

The accompanying unaudited condensed interim financial statements of **Sona Nanotech Inc.** are the responsibility of management and have been approved by the Board of Directors. The unaudited condensed interim financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The unaudited condensed interim 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 financial statements and recommended their approval by the Board of Directors.

These unaudited condensed interim 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.**  
**Unaudited Interim Statements of Financial Position**  
**As at January 31, 2020 and October 31, 2019**

*Expressed in Canadian dollars*

	<b>January 31, 2020</b>	October 31, 2019
	\$	\$
<b>Assets</b>		
Current assets		
Cash	249,372	580,656
Amounts receivable and other (note 5)	54,287	32,886
Marketable securities	5,500	4,500
	<u>309,159</u>	618,042
Property and equipment (note 7)	<u>226,368</u>	241,169
<b>Total assets</b>	<u><b>535,527</b></u>	<u>859,211</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	670,944	718,176
Convertible notes and accrued interest (note 10)	-	496,659
	<u>670,944</u>	1,214,835
Long-term debt (note 9)	<u>682,525</u>	666,819
<b>Total liabilities</b>	<u><b>1,353,469</b></u>	<u>1,881,654</u>
<b>Equity</b>		
Shareholders' deficiency	<u>(817,942)</u>	(1,022,443)
<b>Total liabilities and equity</b>	<u><b>535,527</b></u>	<u>859,211</u>

Basis of presentation and going concern (note 2)  
 Commitments and contingencies (note 18)  
 Subsequent event (note 20)

Approved on behalf of the Board of Directors on April 2, 2020.

*"Daniel Whittaker"*  
 Director

*"Robert McKay"*  
 Director

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

**Sona Nanotech Inc.**  
**Unaudited Interim Statements of Loss and Comprehensive Loss**  
**For the three-months ended January 31, 2020 and 2019**

*Expressed in Canadian dollars*

	<b>Three-months ended January 31, 2020</b>	Three-months ended January 31, 2019
	\$	\$
<b>Expenses</b>		
Salaries and employee benefits	<b>117,560</b>	135,009
Professional and consulting fees (note 16)	<b>41,586</b>	103,620
Management services (note 16)	<b>57,000</b>	57,000
Research and development costs	<b>(8,998)</b>	3,490
Travel costs	<b>9,536</b>	12,607
Sales and marketing costs	<b>10,007</b>	607
Share based compensation	<b>32,355</b>	10,098
Administrative costs	<b>12,099</b>	13,074
Depreciation expense	<b>16,651</b>	10,131
Securities and regulatory	<b>8,605</b>	9,938
Rent and related costs (note 16)	<b>11,127</b>	13,223
	<b>(307,528)</b>	(368,797)
<b>Other income (expenses)</b>		
Repayable government loans fair value adjustment	-	53,889
Scientific research and experimental development tax credits	-	7,000
Accreted interest on convertible notes (note 10)	-	(9,000)
Unrealized gain on available-for-sale securities	<b>1,000</b>	1,000
Interest expense	<b>(7,395)</b>	(14,153)
Accreted interest on repayable government loans (note 9)	<b>(15,706)</b>	(15,254)
	<b>(22,101)</b>	23,482
<b>Net loss and comprehensive loss for the period</b>	<b>(329,629)</b>	(345,315)
Loss per share – basic and diluted	<b>(0.01)</b>	(0.01)
Weighted-average number of common shares outstanding - basic and diluted	<b>58,250,758</b>	53,456,519

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

**Sona Nanotech Inc.**  
**Unaudited Interim Statements of Changes in Equity**  
**For the three-months ended January 31, 2020 and 2019 and October 31, 2019**

*Expressed in Canadian dollars*

	Number of Common Shares	Common Shares \$	Equity Portion of Convertible Debt \$	Warrants \$	Contributed Surplus \$	Deficit \$	Total \$
<b>Balance, November 1, 2018</b>	53,456,519	6,740,527	52,800	126,455	109,788	(6,830,496)	199,074
Net loss and comprehensive loss for the period	-	-	-	-	-	(345,315)	(345,315)
Share-based compensation expense	-	-	-	-	10,098	-	10,098
<b>Balance, January 31, 2019</b>	53,456,519	6,740,527	52,800	126,455	119,886	(7,175,811)	(136,143)
Net loss and comprehensive loss for the period	-	-	-	-	-	(2,176,394)	(2,176,394)
Shares issued pursuant to debt settlement (note 11)	4,067,489	1,027,847	(10,800)	-	-	-	1,017,047
Shares issued pursuant to option exercises (note 11)	206,250	59,710	-	-	(18,460)	-	41,250
Share-based compensation expense	-	-	-	-	231,797	-	231,797
<b>Balance, October 31, 2019</b>	57,730,258	7,828,084	42,000	126,455	333,223	(9,352,205)	(1,022,443)
Net loss and comprehensive loss for the period	-	-	-	-	-	(329,629)	(329,629)
Shares issued pursuant to Note conversion, net of share issuance costs (note 10)	2,520,270	543,775	(42,000)	-	-	-	501,775
Share-based compensation expense	-	-	-	-	32,355	-	32,355
<b>Balance, January 31, 2020</b>	60,250,528	8,371,859	-	126,455	365,578	(9,681,834)	(817,942)

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

**Sona Nanotech Inc.**  
**Unaudited Interim Statements of Changes in Cash Flows**  
**For the three-months ended January 31, 2020 and 2019**

*Expressed in Canadian dollars*

	<b>Three-months ended January 31, 2020</b>	Three-months ended January 31, 2019
	\$	\$
<b>Operating activities</b>		
Net loss for the period	<b>(330,629)</b>	(346,315)
Changes to loss not involving cash:		
Depreciation	<b>16,651</b>	10,131
Wire-off of property and equipment	-	248
Repayable government loans fair value adjustment	-	(53,889)
Share-based compensation	<b>32,355</b>	10,098
Interest expense	<b>7,395</b>	14,153
Accreted interest on repayable government loans	<b>15,706</b>	15,254
Accreted interest on convertible notes	-	9,000
	<b>(258,522)</b>	(341,320)
Decrease in amounts receivable and other	<b>(21,401)</b>	(160,008)
Increase in accounts payable and accrued liabilities	<b>(47,232)</b>	(177,573)
	<b>(327,155)</b>	(678,901)
<b>Financing activities</b>		
Proceeds from long-term debt	-	116,759
Share issuance costs associated with note conversion (note 10)	<b>(2,279)</b>	-
	<b>(2,279)</b>	116,759
<b>Investing activities</b>		
Additions to property and equipment	<b>(1,850)</b>	(51,799)
Additions to resource properties	-	(1,200)
	<b>(1,850)</b>	(52,999)
Decrease in cash during the period	<b>(331,284)</b>	(615,141)
Cash, beginning of the period	<b>580,656</b>	1,803,549
Cash, end of the period	<b>249,372</b>	1,188,408

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

**Sona Nanotech Inc.**  
**Notes to the Unaudited Condensed Interim financial Statements**  
**For the period ended January 31, 2020**

---

**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 (the “Transaction”). Refer to note 3 of the audited financial statements for the year ended October 31, 2019 for further details on the Transaction. 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 the Company, 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*

These unaudited condensed interim financial statements include the accounts of the Company and its wholly owned subsidiaries, 6321593 Canada Inc. and Minera Zapoteca, S.A. de C.V. up to the date the subsidiaries were transferred to Antler Gold Inc. during the year ended October 31, 2019 (note 3 of the audited financial statements for the year ended October 31, 2019). All amounts are expressed in Canadian dollars, unless otherwise noted.

*Basis of measurement*

These unaudited condensed interim 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 (refer to note 3 of the audited financial statements for the year ended October 31, 2019). The Company has incurred significant operating losses since inception and has an accumulated deficit of \$9,679,834 as at January 31, 2020 (October 31, 2019 – \$9,349,205).

These unaudited condensed interim 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, 2020, the Company incurred a net loss of \$330,629 (year ended October 31, 2019 – net loss of \$2,520,709). 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.**  
**Notes to the Unaudited Condensed Interim financial Statements**  
**For the period ended January 31, 2020**

---

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 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 ANTLER GOLD INC.**

During the year ended October 31, 2019, the Company and Antler Gold Inc. ("Antler") entered into an asset purchase agreement ("Purchase Agreement") pursuant to which Antler acquired the Company's 100% title and interest in and to certain mineral claims comprising the Crescent Lake/KM61 molybdenum-copper-silver project located in Armstrong, Ontario (the "Property").

Pursuant to the Purchase Agreement, Antler acquired the Property (the "Acquisition") in consideration of the assumption of all liabilities of the Company associated with the Property (which were nominal) and the future payment to the Company of contingent consideration if the Company disposes of the Property to a third party, or enters into an agreement or arrangement with a third party to otherwise monetize the Property by way of joint venture, option or other form of transaction (a "Future Transaction"). The amount of the contingent consideration payable to the Company will be equal to 50% of the consideration received by Antler in the Future Transaction (net of Antler's aggregate expenses related to the marketing, selling, upkeep and maintenance of the Property incurred between the acquisition of the Property and the date of such Future Transaction), to a maximum of \$3,000,000 ("Future Consideration").

The Acquisition is a non-arm's length transaction pursuant to CSE policies, as certain officers, directors and insiders of the Company are also insiders of Antler. Pursuant to Exchange requirements, the Acquisition (including the payment of the Future Consideration) required Antler's disinterested shareholder approval. In obtaining disinterested shareholder approval, the resolution must be passed by a simple majority of the votes cast by disinterested shareholders. The resolution covering the acquisition and the obligation to pay Future Consideration was passed at Antler's annual meeting held on June 27, 2019. The transfer of the Property from the Company to Antler was completed during the year ended October 31, 2019.

Antler also agreed to purchase two subsidiaries of Sona, 6321593 Canada Inc. and Minera Zapoteca, S.A. de C.V., that own technical and physical data on historical mineral interests in Mexico, and associated offsetting intercompany receivables, for a nominal purchase price (together with the property Acquisition, the "Transactions"). The assets and third-party liabilities other than the data referred to above are nominal for both subsidiaries, and Antler and the subsidiaries will not owe any amounts to Sona in relation to the intercompany receivables following the purchase. The purchase of these subsidiaries was completed during the year ended October 31, 2019.

**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 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 April 2, 2020.

**Sona Nanotech Inc.**  
**Notes to the Unaudited Condensed Interim financial Statements**  
**For the period ended January 31, 2020**

---

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 audited financial statements for the year ended October 31, 2019.

The policies applied in these unaudited condensed interim financial statements are based on the IFRS as of April 2, 2020, 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 year ended October 31, 2020 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 year ended October 31, 2019. Refer to note 5, *Significant Accounting Policies*, of the Company’s audited financial statements for the year ended October 31, 2019 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 period**

*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 has assessed the impact of the adoption of IFRS 16 on the unaudited condensed interim financial statements of the Company and determined that the adoption of IFRS 16 did not have a significant impact on the Company’s financial statements.

**5. AMOUNTS RECEIVABLE AND OTHER**

	<b>January 31, 2019</b>	<b>October 31, 2019</b>
	\$	\$
Amounts receivable, including amounts receivable from the government	37,320	15,956
Prepaid expenses and other	16,967	16,930
	<b>54,287</b>	<b>32,886</b>

**Sona Nanotech Inc.**  
**Notes to the Unaudited Condensed Interim financial Statements**  
**For the period ended January 31, 2020**

**6. RESOURCE PROPERTIES**

	<b>Canada KM61</b>
	<u>\$</u>
Balance, November 1, 2018	<b>940,500</b>
Net additions during the year	3,200
Loss on disposal of resource properties	<u>(943,700)</u>
Balance, October 31, 2019	<u>-</u>

**KM61**

The Company sold its 100% interest in the KM61 property as part of the Purchase Agreement with Antler (note 3). KM61 is a molybdenum-copper-silver prospect, located in northwestern Ontario, contiguous with the Seymour Lake project. The purchase price was nominal. As a result, the carrying value of the resource properties was written off as a loss on disposal during the year ended October 31, 2019. The loss on disposal was offset by a \$34,663 write-off of the accrued liabilities in the subsidiaries disposed of as part of the Purchase Agreement and \$75,888 in historical costs related to former operations.

**7. PROPERTY AND EQUIPMENT**

	<b>Office Equipment</b>	<b>Laboratory Equipment</b>	<b>Furniture and fixtures</b>	<b>Total</b>
<b>Cost</b>	\$	\$	\$	\$
As at November 1, 2018	<b>5,859</b>	<b>149,595</b>	<b>13,144</b>	<b>168,598</b>
Additions	6,425	149,102	-	155,527
Adjustments	(651)	-	-	(651)
As at October 31, 2019	<b>11,633</b>	<b>298,697</b>	<b>13,144</b>	<b>323,474</b>
Additions	-	1,850	-	1,850
As at January 31, 2020	<b>11,633</b>	<b>300,547</b>	<b>13,144</b>	<b>325,324</b>
<b>Accumulated depreciation</b>				
As at November 1, 2018	<b>1,447</b>	<b>29,912</b>	<b>245</b>	<b>31,604</b>
Depreciation charge	3,233	45,242	2,629	51,104
Adjustments	(403)	-	-	(403)
As at October 31, 2019	<b>4,277</b>	<b>75,154</b>	<b>2,874</b>	<b>82,305</b>
Depreciation charge	880	15,108	663	16,651
As at January 31, 2020	<b>5,157</b>	<b>90,262</b>	<b>3,537</b>	<b>98,956</b>
<b>Carrying amount</b>				
Balance, October 31, 2019	<b>7,356</b>	<b>223,543</b>	<b>10,270</b>	<b>241,169</b>
Balance, January 31, 2020	<b>6,476</b>	<b>210,285</b>	<b>9,607</b>	<b>226,368</b>

**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>January 31, 2020</b>	<b>October 31, 2019</b>
	<u>\$</u>	<u>\$</u>
Trade accounts payable and accrued liabilities	393,693	417,230
Amounts payable to related parties (note 16)	277,250	300,946
	<b>670,943</b>	<b>718,176</b>

**Sona Nanotech Inc.**  
**Notes to the Unaudited Condensed Interim financial Statements**  
**For the period ended January 31, 2020**

**9. LONG-TERM DEBT**

	<b>January 31, 2020</b>	<b>October 31, 2019</b>
	<u>\$</u>	<u>\$</u>
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, 2020, the amount drawn down on the loans was \$978,332 (October 31, 2019 – \$978,332).	682,525	666,819
Less: current portion	<u>-</u>	<u>-</u>
Long-term portion	<b><u>682,525</u></b>	<b><u>666,819</u></b>

***Long-term debt continuity***

	<b>January 31, 2020</b>	<b>October 31, 2019</b>
	<u>\$</u>	<u>\$</u>
Balance – beginning of period	666,819	672,277
Borrowings, net of \$nil (year-ended October 31, 2019 - \$194,078) allocated to other income	-	63,305
Loan repayment	-	(137,093)
Accreted interest on repayable government loans	15,706	60,330
Accrued interest	<u>-</u>	<u>8,000</u>
Balance – end of period	682,525	666,819
Less: current portion	<u>-</u>	<u>-</u>
Long-term portion	<b><u>682,525</u></b>	<b><u>666,819</u></b>

During the year ended October 31, 2019, the Company had a loan payable to Blue Ridge Resource Inc. (“Blue Ridge”), with an interest rate of 1% per month and repayable on demand. The Blue Ridge loan was convertible into common shares of the Company at a deemed value of \$0.158 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 during the year ended October 31, 2018. Blue Ridge entered into a settlement agreement for the outstanding balance of the loan and accrued interest, \$137,093, on July 16, 2019. Refer to note 11 for details.

**10. CONVERTIBLE NOTES**

The convertible notes were acquired as part of the Transaction (see note 3 of the audited financial statements for the year ended October 31, 2019 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. The maturity date of the Notes was extended to September 27, 2019 without revaluation.

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.

**Sona Nanotech Inc.**  
**Notes to the Unaudited Condensed Interim financial Statements**  
**For the period ended January 31, 2020**

---

During the period ended January 31, 2020, the Company repaid its Notes and the accrued interest on the Notes through the issuance of common shares. 2,520,270 common shares were issued at the Conversion Price of \$0.20 per share to repay the total Convertible Notes and accrued interest of \$504,054 as at the date of conversion. Of the common shares issued, 1,665,942 common shares were issued to related parties of the Company with a value of \$333,188. Costs associated with the conversion included legal fees of \$2,279.

The Company assessed the respective value of the Notes and accrued interest at the date of the Transaction and the conversion component. The Notes were initially recorded at a value of \$399,255 and the equity component of the Notes was valued at \$42,000. The initial recorded value of the Notes, in the amount of \$399,255, was accreted to the face value of the Notes over the remaining term. During the years ended October 31, 2018 and 2019 and the period ended January 31, 2020 to the date of repayment, the change in the recorded value of the Notes was as follows:

<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	<b>419,409</b>
Accreted interest	33,000
Interest expense	<u>44,250</u>
Recorded value of the Notes, October 31, 2019	<b>496,659</b>
Interest expense	7,395
Conversion of Notes	<u>(504,054)</u>
Recorded value of the Notes, January 31, 2019	<u>-</u>

In preparing the initial 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. 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, 2020, 12,324,343 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 October 4, 2018, and an additional 15% will be released every six months thereafter.

**Sona Nanotech Inc.**  
**Notes to the Unaudited Condensed Interim financial Statements**  
**For the period ended January 31, 2020**

---

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. The effect of the share conversion has been applied retrospectively in line with IAS 33, *Earnings per share*.

Option Exercise

During the year ended October 31, 2019, consultants exercised 81,250 options with an exercise price of \$0.20 per share for proceeds of \$16,250; directors exercised 125,000 options with an exercise price of \$0.20 per share for proceeds of \$25,000. On the exercise date, the share price was \$0.275 per common share.

Debt Settlement

During the year ended October 31, 2019, the Company arranged a debt settlement of \$799,953 in amounts owed to certain non-arm's length creditors, previously included in accounts payable to related parties in the financial statements of Sona (the "Debts"). The Debts were settled in full by the issuance to these creditors of an aggregate of 3,199,812 common shares at a price of \$0.25 per share. The Company also arranged a debt conversion of \$137,093 in amounts owed to an arm's length creditor as shown in the financial statements of Sona for the year ended October 31, 2019 (the "Convertible Debt"). The Convertible Debt has been settled in full based on its conversion price of \$0.158 per share resulting in the issuance of 867,677 common shares to the debt holder and \$80,000 loss on debt settlement. The 4,067,489 shares issued were subject to resale restrictions prohibiting resale for a period of four months and a day from their date of issue, being July 16, 2019.

Note Conversion

During the period ended January 31, 2020, the Company repaid its Notes and the accrued interest on the Notes through the issuance of 2,520,270 common shares. The shares were issued at the Conversion Price of \$0.20 per share to repay the total Convertible Notes and accrued interest of \$504,054 as at the date of conversion. Costs associated with the conversion included legal fees of \$2,279. \$42,000 of the Equity Portion of Convertible Debt was reclassified to Share Capital as of the date of the Note conversion.

**12. 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, 2020, 4,210,466 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.

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

	<b>October 31, 2019</b>
Risk-free interest rate	1.8%
Expected life	5.00
Expected volatility	141.9%
Expected dividend per share	0.0%
Exercise price	\$0.35

**Sona Nanotech Inc.**  
**Notes to the Unaudited Condensed Interim financial Statements**  
**For the period ended January 31, 2020**

During the three-month period ended January 31, 2020, 100,000 stock options with an average exercise price of \$0.35 were cancelled. The following table reconciles the stock option activity during the three-month period ended January 31, 2020 and the year ended October 31, 2019:

	<b>Number of options</b>	<b>Weighted-average exercise price</b>
	#	\$
Balance, November 1, 2018	900,000	0.21
Issued	1,410,000	0.35
Exercised	(206,250)	(0.20)
Expired	(206,250)	(0.24)
Balance, October 31, 2019	<b>1,897,500</b>	<b>0.31</b>
Expired	(100,000)	0.35
Balance, January 31, 2020	<b>1,797,500</b>	<b>0.31</b>

The following table summarizes information relating to outstanding and exercisable stock options as at January 31, 2020:

<b>Expiry date</b>	<b>Weighted-average remaining contractual life (in years)</b>	<b>Number of options outstanding</b>	<b>Number of options exercisable</b>	<b>Weighted-average exercise price</b>
February 16, 2021	1.0	50,000	50,000	\$0.20
July 11, 2021	1.4	437,500	437,500	\$0.20
January 21, 2024	4.0	1,310,000	655,000	\$0.35

**13. WARRANTS**

The following are the weighted-average assumptions used in calculating the value of the warrants granted during the year ended October 31, 2018.

	<b>October 31, 2018</b>
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

There were no warrants issued and no other warrant activity during the three-month period ended January 31, 2020 or the year ended October 31, 2019. As at January 31, 2020, 596,250 broker warrants are outstanding, exercisable at \$0.25 per share into common shares of the Company and expire on September 28, 2020.

**Sona Nanotech Inc.**  
**Notes to the Unaudited Condensed Interim financial Statements**  
**For the period ended January 31, 2020**

---

**14. 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:

	<b>October 31, 2019</b>	<b>October 31, 2018</b>
	\$	\$
Loss before income taxes	2,520,709	5,196,333
Statutory rate	31.0%	31.0%
Tax recovery at statutory rate	781,420	1,610,864
Decrease (increase) of losses and deductible temporary differences not recognized in current and prior years	5,447,197	(6,164,619)
Permanent differences and other	(6,228,617)	4,553,755
Income tax recovery	-	-
	<b>October 31, 2019</b>	<b>October 31, 2018</b>
	\$	\$
Deferred income tax assets		
Losses carried forward	1,202,541	4,762,974
Capital assets	1,611	9,798
Share issuance costs	36,267	90,644
Mineral properties	-	1,824,200
	1,240,419	6,687,616
Deferred income tax liabilities	-	-
	1,240,419	6,687,616
Unrecognized deferred income tax assets	(1,240,419)	(6,687,616)
Net deferred income tax assets	-	-

*Non-capital losses*

As at October 31, 2019, the Company had approximately \$3.8 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	25,845
2035	533,445
2036	388,884
2037	463,779
2038	854,053
2039	1,612,708
	<u>3,879,164</u>

**Sona Nanotech Inc.**  
**Notes to the Unaudited Condensed Interim financial Statements**  
**For the period ended January 31, 2020**

---

**15. KEY MANAGEMENT COMPENSATION**

Key management includes the Company’s directors, Chief Executive Officer and the Chief Financial Officer. Compensation awarded to key management is summarized as follows:

	<b>January 31, 2020</b>	<b>January 31, 2019</b>
Salaries and consulting fees earned	\$ 44,717	\$ 53,694
Share-based compensation expense	27,976	6,803
	<b>72,693</b>	<b>60,497</b>

**16. RELATED PARTY TRANSACTIONS**

During the three-month period ended January 31, 2020, 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, 2019 – \$57,000), controller services in the amount of \$7,500 (quarter ended January 31, 2019 - \$7,500), and incurred rent and administrative costs from Numus in the amount of \$30,600 (quarter ended January 31, 2019 – \$7,650). As at January 31, 2020, the amount owing to Numus was \$202,508 (January 31, 2019 – \$417,073).

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.

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 period ended January 31, 2020, the Company accrued related party interest of \$4,888 on the Notes (year ended October 31, 2019 - \$29,250). The Notes and all accrued interest were converted through the issuance of common shares during the three-month period ended January 31, 2020 (see note 10). 1,665,942 common shares with a value of \$333,188 were issued to related parties pursuant to the Note conversion.

During the year ended October 31, 2019, the Company had amounts owing to Brigus Capital Inc. (“Brigus”), a company controlled by a significant shareholder and director of Sona. On July 16, 2019, \$268,203 of the outstanding amount owing to Brigus was settled through the issuance of shares (note 11). As at January 31, 2020 and October 31, 2019, the amount owing to Brigus was \$nil.

**Sona Nanotech Inc.**  
**Notes to the Unaudited Condensed Interim financial Statements**  
**For the period ended January 31, 2020**

---

On July 16, 2019, \$30,000 of the outstanding amounts owing to Randall Consulting Inc. (“RCI”), a company controlled by an officer of Sona, were settled through the issuance of shares (note 11). As at January 31, 2020, the amount owing to RCI was \$35,993 (October 31, 2019 - \$43,646).

As at January 31, 2020, an amount was also owing to a director of the Company in the amount of \$38,750.

**17. 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, 2020 was approximately \$8.9 million (October 31, 2019 - \$8.3 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+.

**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.

**Sona Nanotech Inc.**  
**Notes to the Unaudited Condensed Interim financial Statements**  
**For the period ended January 31, 2020**

---

The Company is currently pursuing financing alternatives. 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, 2020:

	<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	404,463	-	-	-	404,463
Long-term debt	-	-	-	682,525	682,525
	<b>404,463</b>	<b>-</b>	<b>-</b>	<b>682,525</b>	<b>1,086,988</b>

**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, amounts receivable, and the long-term debt on the unaudited interim statement of financial position. The long-term debt has a 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.

**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, 2020 and October 31, 2019, the Company's marketable securities were measured and recognized on the unaudited condensed interim 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.

**Sona Nanotech Inc.**  
**Notes to the Unaudited Condensed Interim financial Statements**  
**For the period ended January 31, 2020**

---

**18. 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, 2020, the Company has a Services Agreement with Numus. See note 16 for further details.

**19. COMPARATIVE FIGURES**

Certain comparative figures in these financial statements have been reclassified in order to confirm with current period presentation.

**20. SUBSEQUENT EVENTS**

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. This non-repayable grant will be used to accelerate the development of a prototype and scale manufacturing capabilities with a view to deploying this Covid-19 virus-detecting, point-of-care test with Canadian medical authorities as soon as possible.

The Supercluster funding is pursuant to a \$50 million initiative led by NGen to support companies as they prepare to produce critically needed technologies, equipment, and medical products to aid in the fight against Covid-19.

Also subsequent to the period ended January 31, 2020, the Company granted 1,100,000 incentive stock options in accordance with the Company’s stock option plan, of which 540,000 were issued to related parties. Each option is exercisable into one common share of the Company at a price of \$0.60 per share and will vest at the rate of 25% every six months. The options will expire five years from the date of grant.