

Consolidated Financial Statements of

SONA NANOTECH INC.

For the years ended October 31, 2019 and 2018

(Expressed in Canadian Dollars)

February 28, 2020

Management's Report

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

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

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

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

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

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



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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of Sona Nanotech Inc..

Opinion

We have audited the consolidated financial statements of Sona Nanotech Inc. (the "Company") which comprise the consolidated statements of financial position as at October 31, 2019 and 2018, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information (collectively referred to as the "consolidated financial statements").

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 of the consolidated financial statements, which indicates that the Company incurred a net loss of \$2,520,709 for the year ended October 31, 2019 and, as of that date, the Company had an accumulated deficit of \$9,349,205. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, Canada
February 28, 2020

Sona Nanotech Inc.
Consolidated Statements of Financial Position
As at October 31, 2019 and 2018

Expressed in Canadian dollars

| | October 31, 2019 | October 31, 2018 |
|---|-------------------------|-------------------------|
| | \$ | \$ |
| Assets | | |
| Current assets | | |
| Cash | 580,656 | 1,803,549 |
| Amounts receivable and other (note 6) | 32,886 | 291,037 |
| Marketable securities | 4,500 | 5,500 |
| | <u>618,042</u> | 2,100,086 |
| Resource properties (note 7) | - | 940,500 |
| Property and equipment (note 8) | <u>241,169</u> | 136,994 |
| Total assets | <u>859,211</u> | <u>3,177,580</u> |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (note 9) | 718,176 | 1,886,820 |
| Current portion of long-term debt (note 10) | - | 129,093 |
| Convertible notes and accrued interest (note 11) | <u>496,659</u> | 419,409 |
| | <u>1,214,835</u> | 2,435,322 |
| Long-term debt (note 10) | <u>666,819</u> | 543,184 |
| Total liabilities | <u>1,881,654</u> | 2,978,506 |
| Equity | | |
| Shareholders' equity (deficiency) | <u>(1,022,443)</u> | 199,074 |
| Total liabilities and equity | <u>859,211</u> | <u>3,177,580</u> |

Basis of Presentation and going concern (note 2)
 Commitments and contingencies (note 19)
 Subsequent event (note 21)

Approved on behalf of the Board of Directors on February 28, 2020.

"Daniel Whittaker"
 Director

"Robert McKay"
 Director

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

Sona Nanotech Inc.
Consolidated Statements of Loss and Comprehensive Loss
For the years ended October 31, 2019 and 2018

Expressed in Canadian dollars

| | 2019 \$ | 2018 \$ |
|--|---------------------------|---------------------------|
| Expenses | | |
| Salaries and employee benefits | 528,901 | 343,249 |
| Professional and consulting fees (notes 16 and 17) | 376,503 | 266,269 |
| Management services (note 17) | 228,000 | 220,000 |
| Share-based compensation | 241,896 | - |
| Travel costs | 77,037 | 80,528 |
| Rent and related costs (note 17) | 52,248 | 19,796 |
| Research and development costs | 51,896 | 136,105 |
| Depreciation expense | 51,104 | 27,808 |
| Securities and regulatory | 48,080 | 26,806 |
| Administrative costs | 42,959 | 30,077 |
| Sales and marketing costs | 39,260 | 31,789 |
| | <u>(1,737,884)</u> | <u>(1,182,427)</u> |
| Other income (expenses) | | |
| Repayable government loans fair value adjustment | 194,078 | 163,331 |
| Scientific research and experimental development tax credits | 81,826 | 46,627 |
| Fair value adjustment on convertible debentures (note 12) | - | (103,053) |
| Listing expense (note 3) | - | (4,045,228) |
| Interest expense on long-term debt (note 10) | (8,000) | (12,610) |
| Accreted interest on convertible notes (note 11) | (33,000) | (9,000) |
| Interest expense on convertible notes (note 11) | (44,250) | (11,154) |
| Accreted interest on repayable government loans (note 10) | (60,330) | (42,819) |
| Loss on debt settlement (note 12) | (80,000) | - |
| Loss on disposal of resource properties (note 4) | (833,149) | - |
| | <u>(782,825)</u> | <u>(4,013,906)</u> |
| Net loss for the year | (2,520,709) | (5,196,333) |
| <i>Items that will be subsequently reclassified to the statement of loss</i> | | |
| Unrealized loss on available-for-sale securities | <u>(1,000)</u> | <u>(2,000)</u> |
| Comprehensive loss for the year | <u>(2,521,709)</u> | <u>(5,198,333)</u> |
| Loss per share – basic and diluted | <u>(0.05)</u> | <u>(0.19)</u> |
| Weighted-average number of common shares outstanding - basic and diluted | <u>54,744,245</u> | <u>27,500,240</u> |

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

Sona Nanotech Inc.
Consolidated Statements of Changes in Equity
For the years ended October 31, 2019 and 2018

Expressed in Canadian dollars

| | Number of Common Shares | Common Shares | Equity Portion of Convertible Debt | Warrants | Contributed Surplus | Accumulated Other Comprehensive Income | Deficit | Total |
|---|-------------------------------|------------------|---|----------------|------------------------|---|--------------------|--------------------|
| | | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance, November 1, 2017 | 30,421,662 | 823,238 | 10,800 | - | - | - | (1,632,163) | (798,125) |
| Net loss and comprehensive loss for the year | - | - | - | - | - | (2,000) | (5,196,333) | (5,198,333) |
| Shares issued pursuant to private placement (note 12) | 4,400,000 | 440,000 | - | - | - | - | - | 440,000 |
| Share issuance costs (note 12) | - | (40,679) | - | - | - | - | - | (40,679) |
| 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) | 22,036,216 | - | - | - | - | - | - | - |
| Options issued pursuant to the Transaction (note 3) | 22,163,247 | 3,501,793 | - | - | - | - | - | 3,501,793 |
| Warrants issued pursuant to the Transaction (note 3) | - | - | - | 6,822 | 102,966 | - | - | 102,966 |
| Equity portion of convertible notes (note 3) | - | - | 42,000 | - | - | - | - | 6,822 |
| 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 (note 14) | - | - | - | (6,822) | 6,822 | - | - | - |
| Shares issued in settlement of convertible debenture (note 12) | 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 year | - | - | - | - | - | (1,000) | (2,520,709) | (2,521,709) |
| Shares issued pursuant to debt settlement (note 12) | 4,067,489 | 1,017,047 | - | - | - | - | - | 1,017,047 |
| Shares issued pursuant to option exercises (note 13) | 206,250 | 59,710 | - | - | (18,460) | - | - | 41,250 |
| Share-based compensation expense | - | - | - | - | 241,895 | - | - | 241,895 |
| Balance, October 31, 2019 | 57,730,258 | 7,817,284 | 52,800 | 126,455 | 333,223 | (3,000) | (9,349,205) | (1,022,443) |

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

Sona Nanotech Inc.
Consolidated Statements of Changes in Cash Flows
For the years ended October 31, 2019 and 2018

Expressed in Canadian dollars

| | 2019 | 2018 |
|---|--------------------|--------------------|
| | \$ | \$ |
| Operating activities | | |
| Net loss for the year | (2,520,709) | (5,196,333) |
| Changes to loss not involving cash: | | |
| Listing expense (note 3) | - | 4,045,228 |
| Depreciation | 51,104 | 27,808 |
| Interest expense | 52,250 | 23,673 |
| Accreted interest on repayable government loans (note 10) | 60,330 | 42,819 |
| Accreted interest on convertible notes (note 11) | 33,000 | 9,000 |
| Repayable government loans fair value adjustment | (194,078) | (163,331) |
| Share-based compensation | 241,895 | - |
| Loss on disposal of resource properties (note 7) | 833,149 | - |
| Loss on debt settlement (note 12) | 80,000 | - |
| Fair value adjustment on convertible debentures (note 12) | - | 103,053 |
| | <u>(1,287,171)</u> | <u>(1,108,083)</u> |
| Decrease (increase) in amounts receivable and other | 258,151 | (136,818) |
| Decrease in accounts payable and accrued liabilities | (257,891) | (309,871) |
| | <u>(1,362,799)</u> | <u>(1,554,772)</u> |
| Financing activities | | |
| Receipt of cash from the Transaction (note 3) | - | 644,781 |
| Gross proceeds from long-term debt (note 10) | 257,383 | 491,449 |
| Repayment of long-term debt (note 10) | - | (45,803) |
| Proceeds received from the exercise of stock options (note 12) | 41,250 | - |
| Proceeds received upon the completion of private placements (note 12) | - | 2,440,000 |
| Share issuance costs associated with private placements (note 12) | - | (199,742) |
| | <u>298,633</u> | <u>3,330,685</u> |
| Investing activities | | |
| Additions to property and equipment (note 8) | (155,527) | (144,486) |
| Additions to resource properties (note 7) | (3,200) | (1,201) |
| | <u>(158,727)</u> | <u>(145,687)</u> |
| Increase (decrease) in cash during the year | (1,222,893) | 1,630,226 |
| Cash, beginning of the year | 1,803,549 | 173,323 |
| Cash, end of the year | <u>580,656</u> | <u>1,803,549</u> |

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

Sona Nanotech Inc.
Notes to the Consolidated Financial Statements
Years ended October 31, 2019 and 2018

1. NATURE OF OPERATIONS

Sona Nanotech 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 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 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. up to the date the subsidiaries were transferred to Antler Gold Inc. (note 4). All amounts are expressed in Canadian dollars, unless otherwise noted.

Basis of measurement

These 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 \$9,349,205 as at October 31, 2019 (October 31, 2018 – \$6,828,496).

These 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 year ended October 31, 2019, the Company incurred a net loss of \$2,520,709 (October 31, 2018 - \$5,196,333). 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 Consolidated Financial Statements
Years ended October 31, 2019 and 2018

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 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 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 is 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"), are 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 consolidated financial statements are issued under the legal parent, Sona Nanotech Inc., but are considered a continuation of the consolidated 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 consolidated financial statements at their historical carrying values where applicable.
- 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 statement of loss and comprehensive loss as listing expense during the year ended October 31, 2018.

Sona Nanotech Inc.
Notes to the Consolidated Financial Statements
Years ended October 31, 2019 and 2018

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. 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").

Sona Nanotech Inc.
Notes to the Consolidated Financial Statements
Years ended October 31, 2019 and 2018

4. TRANSACTION WITH ANTLER GOLD INC. (CONTINUED)

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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Statement of compliance

The consolidated 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 consolidated financial statements for issue on February 28, 2020.

b) Critical accounting judgments and estimates

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

Sona Nanotech Inc.
Notes to the Consolidated Financial Statements
Years ended October 31, 2019 and 2018

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Critical accounting judgments and estimates (continued)

Calculation of initial fair value and carrying amount of long-term debt

The initial fair value of the Atlantic Canada Opportunities Agency (“ACOA”) loans is determined by using a discounted cash flow analysis for the loans, which requires a number of assumptions. The difference between the face value and the initial fair value of the ACOA loans is recorded in the statement of loss and comprehensive loss as government assistance. The carrying amount of the ACOA loans requires management to adjust the long-term debt to reflect actual and revised estimated cash flows whenever revised cash flow estimates are made or new information related to market conditions is made available. Management recalculates the carrying amount by computing the present value of the estimated future cash flows at the original effective interest rate. Any adjustments are recognized in the statement of loss as accreted interest and adjustments after initial recognition.

The significant assumptions used in determining the discounted cash flows include estimating the amount and timing of future revenue for the Company and the discount rate. As the ACOA loans are repayable based on a percentage of gross revenue, if any, the determination of the amount and timing of future revenue significantly impacts the initial fair value of the loans, as well as the carrying value of the ACOA loans at each reporting date.

The Company is researching and developing its nanorod technology products; accordingly, determination of the amount and timing of revenue, if any, requires significant judgment by management. If the Company expected no future revenues, no repayments would be required on the ACOA loans and the amounts recorded for the ACOA loans on the statement of financial position would be \$nil. The discount rate determined on initial recognition of the ACOA loans is used to determine the present value of estimated future cash flows expected to be required to settle the debt. In determining the appropriate discount rates, the Company considered the interest rates of similar long-term debt arrangements, with similar terms. The ACOA loan is repayable based on a percentage of gross revenue, if any; accordingly, finding financing arrangements with similar terms is difficult and management was required to use significant judgment in determining the appropriate discount rates. Management used a discount rates ranging from 8.0% to 15.0% to discount the ACOA loan.

If the weighted average discount rate used in determining the initial fair value and the carrying value at each reporting date of all ACOA loans, with repayment terms based on future revenue, had been determined to be higher by 10% (resulting in a discount rates ranging from 8.9% to 16.5%), or lower by 10% (resulting in a discount rates ranging from 7.3% to 13.5%), the carrying value of the long-term debt at October 31, 2019 would have been an estimated \$25,000 lower or \$27,000 higher, respectively. If the total forecasted revenue was reduced by 10% or increased by 10%, the carrying value of the long-term debt at October 31, 2019 would have been an estimated \$8,000 lower or \$8,000 higher, respectively.

Share-based payments

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

Sona Nanotech Inc.
Notes to the Consolidated Financial Statements
Years ended October 31, 2019 and 2018

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Critical accounting judgments and estimates (continued)

Recoverability of resource properties

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

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

Deferred income taxes

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

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

c) Financial Instruments

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

Sona Nanotech Inc.
Notes to the Consolidated Financial Statements
Years ended October 31, 2019 and 2018

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Financial Instruments (continued)

The Company's financial instruments are classified and subsequently measured under the new and old standard as follows:

| Financial instrument | IAS 39 | IFRS 9 |
|--------------------------------|-----------------------------|----------------|
| Cash | Loans and receivables | Amortized cost |
| Amounts receivable | Loans and receivables | Amortized cost |
| Marketable securities | Available-for sale | FVOCI |
| Accounts payable | Other financial liabilities | Amortized cost |
| Long-term debt | Other financial liabilities | Amortized cost |
| Convertible notes and interest | Other financial liabilities | Amortized cost |

Financial Assets

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

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

Impairment of financial assets at amortized cost

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

Financial Liabilities

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

Offsetting financial instruments

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

d) Cash

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

Sona Nanotech Inc.
Notes to the Consolidated Financial Statements
Years ended October 31, 2019 and 2018

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Property and equipment

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

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

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

| | |
|------------------------|-----------------|
| Office equipment | 30.0% per annum |
| Laboratory equipment | 20.0% per annum |
| Furniture and fixtures | 20.0% per annum |

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

f) Resource properties and related deferred costs

The Company defers all expenditures related to its resource properties until such time as the properties are put into commercial production, sold, abandoned or considered to be impaired. Under this method, all amounts shown as resource properties represent costs incurred to date less amounts amortized, received from exploration partners and/or written off and do not necessarily represent present or future values.

If the properties are put into commercial production, the expenditures will be depleted following the unit of production method. If the properties are sold or abandoned, or considered to be impaired in value, the expenditures will be charged to operations. The Company does not accrue the estimated future costs of maintaining its resource properties in good standing.

Resource properties are reviewed for impairment on a property by property basis whenever events or changes in circumstances indicate that the carrying amount of a resource property may not be recoverable. If the Company has sufficient information about a resource property to estimate future cash flows expected to be generated by the resource property, then recoverability is measured by a comparison of the carrying amount to the estimated cash flows. If the Company does not have sufficient information about the resource property to estimate future cash flows expected to be generated by the resource property, then the carrying amount is compared to the estimated fair value. If the carrying amount exceeds the estimated future cash flows or estimated fair value, the resource property will be written down to its estimated fair value. The ultimate recoverability of the amounts capitalized for the resource properties is dependent upon the delineation of economically recoverable ore reserves, the Company's ability to obtain the necessary financing to complete their development and realize profitable production or proceeds from the disposition thereof.

Sona Nanotech Inc.
Notes to the Consolidated Financial Statements
Years ended October 31, 2019 and 2018

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment losses for resource properties are reversed if the conditions that gave rise to the impairment are no longer present and it has been determined that the asset is no longer impaired or the impairment has been reduced as a result. This reversal is recognized in the statements of loss and comprehensive loss and is limited to the carrying value that would have been determined had no impairment charge been recognized in prior years.

Management's estimates of recoverability of the Company's investment in various projects have been based on current conditions; however, it is possible that changes could occur in the near term which could adversely affect management's estimates and may result in future write-downs of capitalized resource property carrying values.

Conversely, properties which have been written down may represent future value of the Company in excess of management's estimates and/or the carrying values of the properties.

g) Property option agreements

From time to time, the Company may acquire or dispose of an interest in a resource property pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable, in accordance with the terms of the options, are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

h) Government assistance

Non-repayable government assistance is recorded in the period earned as other income or netted against expenses. During the year ended October 31, 2019, the Company recorded \$nil (year ended October 31, 2018 – \$72,052) of non-repayable government grants as an offset against consulting and wages. Repayable government loans are recorded initially at fair value, with the difference between book value and fair value recorded as other income. During year ended October 31, 2019, the Company recorded \$194,078 as other income (year ended October 31, 2018 – \$163,331). At October 31, 2019, \$nil (October 31, 2018 – \$76,172) of government assistance, including government loans, is included in amounts receivable.

i) Research and development tax credits

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

j) Share-based payments

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

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

Sona Nanotech Inc.
Notes to the Consolidated Financial Statements
Years ended October 31, 2019 and 2018

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Share-based payments (continued)

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

k) Income taxes

Current income taxes

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

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

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

Deferred income taxes

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

Sona Nanotech Inc.
Notes to the Consolidated Financial Statements
Years ended October 31, 2019 and 2018

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Income taxes (continued)

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

l) Loss per share

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

m) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material. There were no material provisions recorded within the consolidated financial statements as at October 31, 2019.

n) Foreign currency translation

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

o) Related party transactions

Unless otherwise disclosed herein, all transactions with related parties are in the normal course of business and are measured at the exchange amount (note 17).

p) 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.

Sona Nanotech Inc.
Notes to the Consolidated Financial Statements
Years ended October 31, 2019 and 2018

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 consolidated 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.

Cash and amounts 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.

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 consolidated financial statements of the Company.

q) 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 has assessed the impact of the adoption of IFRS 16 on the consolidated financial statements of the Company and determined the adoption of IFRS 16 will not have a significant impact on the Company’s consolidated financial statements. The standard is effective for periods beginning on or after January 1, 2019, with early adoption permitted for entities that have adopted IFRS 15.

6. AMOUNTS RECEIVABLE AND OTHER

| | 2019 | 2018 |
|--|---------------|----------------|
| | \$ | \$ |
| Amounts receivable from the government | 15,956 | 276,983 |
| Prepaid expenses and other | 16,930 | 14,054 |
| | 32,886 | 291,037 |

Sona Nanotech Inc.
Notes to the Consolidated Financial Statements
Years ended October 31, 2019 and 2018

7. RESOURCE PROPERTIES

| | Canada KM61 |
|--|------------------------|
| | <u>\$</u> |
| Balance, November 1, 2017 | - |
| Net additions as a result of the Transaction | 939,299 |
| Net additions during the year | <u>1,201</u> |
| Balance, October 31, 2018 | 940,500 |
| 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. As described in Note 4, 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. 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.

8. 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 | 168,589 |
| Additions | 6,425 | 149,102 | - | 155,527 |
| Adjustments | (651) | - | - | (651) |
| As at October 31, 2019 | 11,633 | 298,697 | 13,144 | 323,474 |
| 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 | 3,233 | 45,242 | 2,629 | 51,104 |
| Adjustments | (403) | - | - | (403) |
| As at October 31, 2019 | 4,277 | 75,154 | 2,874 | 82,305 |
| Carrying amount | | | | |
| Balance, October 31, 2018 | 4,412 | 119,683 | 12,899 | 136,994 |
| Balance, October 31, 2019 | 7,356 | 223,543 | 10,270 | 241,169 |

Sona Nanotech Inc.
Notes to the Consolidated Financial Statements
Years ended October 31, 2019 and 2018

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | 2019 | 2018 |
|--|----------------|------------------|
| | \$ | \$ |
| Trade accounts payable and accrued liabilities | 417,230 | 727,481 |
| Amounts payable to related parties (note 17) | 300,946 | 1,159,339 |
| | 718,176 | 1,886,820 |

10. LONG-TERM DEBT

| | 2019 | 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 October 31, 2019, the amount drawn down on the loans was \$978,332 (October 31, 2018 – \$720,949). | 666,819 | 543,184 |
| Blue Ridge Resources Inc. (“Blue Ridge”) loan with an interest rate of 1% per month, repayable on demand | - | 129,093 |
| Balance – end of year | 666,819 | 672,277 |
| Less: current portion | - | (129,093) |
| Long-term portion | 666,819 | 543,184 |

Long-term debt continuity

| | 2019 | 2018 |
|--|----------------|----------------|
| | \$ | \$ |
| Balance – beginning of year | 672,277 | 334,624 |
| Borrowings, net of \$194,078 (year ended October 31, 2018 - \$163,331) allocated to other income | 63,305 | 328,118 |
| Loan repayment | - | (45,803) |
| Debt settlement through share issuance | (137,093) | - |
| Accreted interest on repayable government loans | 60,330 | 42,819 |
| Accrued interest | 8,000 | 12,519 |
| Balance – end of year | 666,819 | 672,277 |
| Less: current portion | - | (129,093) |
| Long-term portion | 666,819 | 543,184 |

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 12 for details.

Sona Nanotech Inc.
Notes to the Consolidated Financial Statements
Years ended October 31, 2019 and 2018

11. CONVERTIBLE NOTES (SEE NOTE 21)

The convertible notes were acquired as part of the Transaction (note 3). 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 and were repaid through the issuance of shares of the Company subsequent to the year ended October 31, 2019 (note 21).

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 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, has been accreted to the face value of the Notes over the remaining term. During the years ended October 31, 2019 and October 31, 2018, the change in the recorded value of the Notes was as follows:

| <i>Convertible note continuity</i> | \$ |
|---|-----------------------|
| Recorded value of the Notes, November 1, 2017 | - |
| 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 for the year | 9,000 |
| Interest expense for the year | <u>11,154</u> |
| Recorded value of the Notes, October 31, 2018 | 419,409 |
| Accreted interest for the year | 33,000 |
| Interest expense for the year | <u>44,250</u> |
| Recorded value of the Notes, October 31, 2019 | <u>496,659</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.

Sona Nanotech Inc.
Notes to the Consolidated Financial Statements
Years ended October 31, 2019 and 2018

12. SHARE CAPITAL

a) Common shares

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

Escrowed Shares

As at October 31, 2019, 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 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*.

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 28, 2020 (see note 14 for additional details).

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

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 consolidated 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 consolidated financial statements of Sona (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 are subject to resale restrictions prohibiting resale for a period of four months and a day from their date of issue, being July 16, 2019.

Sona Nanotech Inc.
Notes to the Consolidated Financial Statements
Years ended October 31, 2019 and 2018

12. SHARE CAPITAL (CONTINUED)

a) **Common shares (continued)**

Convertible Debentures Settlement

The Company acquired a convertible debenture liability as at the date of the Transaction (note 3). 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. 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

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 October 31, 2019, 3,875,526 remain available for grant under the terms of the stock option plan.

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

The following are the weighted-average assumptions used in calculating the value of the stock options granted during the years ended October 31, 2019 and October 31, 2018.

| | <u>October 31, 2019</u> | <u>October 31, 2018</u> |
|-----------------------------|-------------------------|-------------------------|
| Risk-free interest rate | 1.8% | 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 years ended October 31, 2019 and October 31, 2018:

| | <u>Number of options</u> | <u>Weighted-average exercise price</u> |
|---------------------------------------|--------------------------|--|
| | # | \$ |
| Balance, November 1, 2017 | - | - |
| Listed 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 |
| Exercised | (206,250) | 0.20 |
| Expired | (206,250) | (0.24) |
| Balance, October 31, 2019 | 1,897,500 | 0.31 |

Sona Nanotech Inc.
Notes to the Consolidated Financial Statements
Years ended October 31, 2019 and 2018

13. STOCK OPTIONS (CONTINUED)

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

| Expiry date | Weighted-average remaining contractual life (in years) | Number of options outstanding | Number of options exercisable | Weighted-average exercise price |
|--------------------|---|--------------------------------------|--------------------------------------|--|
| February 16, 2021 | 1.3 | 50,000 | 50,000 | \$0.20 |
| July 11, 2021 | 1.7 | 437,500 | 437,500 | \$0.20 |
| January 21, 2024 | 4.2 | 1,410,000 | 352,500 | \$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 year ended October 31, 2019.

| | October 31, 2018 |
|---------------------------------|-------------------------|
| 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 years ended October 31, 2019 and October 31, 2018 was as follows:

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

As at October 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.

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:

| | 2019 | 2018 |
|--|-------------|-------------|
| | \$ | \$ |
| 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 | - | - |

Sona Nanotech Inc.
Notes to the Consolidated Financial Statements
Years ended October 31, 2019 and 2018

15. INCOME TAXES (CONTINUED)

| | 2019 | 2018 |
|---|------------------|------------------|
| | \$ | \$ |
| 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 |
| | <u>1,240,419</u> | <u>6,687,616</u> |
| Deferred income tax liabilities | - | - |
| | <u>1,240,419</u> | <u>6,687,616</u> |
| Unrecognized deferred income tax assets | (1,240,419) | (6,687,616) |
| Net deferred income tax assets | <u>-</u> | <u>-</u> |

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 | <u>1,612,708</u> |
| | | <u>3,879,164</u> |

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:

| | 2019 | 2018 |
|-------------------------------------|----------------|----------------|
| | \$ | \$ |
| Salaries and consulting fees earned | 191,529 | 188,825 |
| Share-based compensation expense | 148,310 | 52,751 |
| | <u>339,839</u> | <u>241,576</u> |

Sona Nanotech Inc.
Notes to the Consolidated Financial Statements
Years ended October 31, 2019 and 2018

17. RELATED PARTY TRANSACTIONS

During the year ended October 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 \$228,000 (year ended October 31, 2018 – \$220,000), controller services of \$30,000 (year ended October 31, 2018 - \$nil), and incurred rent and administrative costs from Numus in the amount of \$30,603 (year ended October 31, 2018 – \$3,412). On July 16, 2019, \$153,000 of the outstanding amounts owing to Numus were settled through the issuance of shares of the Company (note 12). As at October 31, 2019, the amount owing to Numus was \$218,550 (October 31, 2018 – \$410,940).

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

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

During the year ended October 31, 2018, Numus Capital Corp. (“Numus Capital”), an exempt market dealer and a wholly owned subsidiary of Numus, assisted the Company with private placement financings completed by the Company. The Company incurred finders’ fees of 8%, or \$35,200, and 7.5%, or \$149,063, from Numus Capital, for total finders fees of \$184,263, during the year ended October 31, 2018. There were no finders fees incurred during the year ended October 31, 2019.

As a result of the Transaction described in Note 3, 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 year ended October 31, 2019, the Company accrued \$29,250 of related party interest (year ended October 31, 2018 - \$7,373). As at October 31, 2019, accrued interest on the Notes in the amount of \$133,300 was payable to related parties (October 31, 2018 – \$104,050).

As at November 1, 2017, the Company had a loan outstanding from Brigus Capital Inc. (“Brigus”), a company controlled by a significant shareholder and director of Sona. As of September 19, 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. On July 16, 2019, \$268,203 of the outstanding amount owing to Brigus was settled through the issuance of shares (note 12). As at October 31, 2019, the amount owing to Brigus was \$nil (October 31, 2018 – \$224,091).

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 12). As at October 31, 2019, the amount owing to RCI was \$43,646 (October 31, 2018 - \$132,000).

Sona Nanotech Inc.
Notes to the Consolidated Financial Statements
Years ended October 31, 2019 and 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 notes, warrants and contributed surplus, which at October 31, 2019 was approximately \$8.3 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 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.

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.

Sona Nanotech Inc.
Notes to the Consolidated Financial Statements
Years ended October 31, 2019 and 2018

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

In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the remaining contractual maturities of the Company's financial liabilities as at October 31, 2019:

| | <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 | 448,483 | - | - | - | 448,483 |
| Convertible notes and accrued interest | 496,659 | - | - | - | 496,659 |
| Long-term debt | - | - | - | 666,819 | 666,819 |
| | 945,142 | - | - | 666,819 | 1,611,961 |

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 and accrued liabilities 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 statement of financial position. The long-term debt and convertible notes are at 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.

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

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

At October 31, 2019 and October 31, 2018, the Company's marketable securities were measured and recognized on the statement of financial position at fair value. The fair value was based on level 1 inputs. There were no transfers between levels during the period.

Sona Nanotech Inc.
Notes to the Consolidated Financial Statements
Years ended October 31, 2019 and 2018

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.

As at October 31, 2019, the Company has a Services Agreement with Numus. See note 17 for further details.

20. COMPARATIVE FIGURES

Certain comparative figures in these consolidated financial statements have been reclassified in order to conform with current year presentation.

21. SUBSEQUENT EVENT

Subsequent to the end of the year, the Company repaid its Convertible Notes and the accrued interest on its Convertible 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.