

Unaudited Condensed Interim Financial Statements of

SONA NANOTECH INC.

July 31, 2021

(Expressed in Canadian Dollars)

September 27, 2021

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.

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

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

Sona Nanotech Inc.
Unaudited Condensed Interim Statements of Financial Position
As at July 31, 2021 and October 31, 2020
Expressed in Canadian dollars

	July 31, 2021	October 31, 2020 (audited)
	\$	\$
Assets		
Current assets		
Cash	1,887,985	102,782
Amounts receivable and other (note 4)	145,181	76,594
Government grant receivable (note 5)	-	360,601
Marketable securities	11,000	8,000
	2,044,166	547,977
Property and equipment (note 6)	127,388	176,652
Total assets	2,171,554	724,629
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	1,747,598	2,669,301
Current portion of long-term debt (note 8)	1,608,363	1,490,793
Total liabilities	3,355,961	4,160,094
Equity		
Shareholders' deficiency	(1,184,407)	(3,435,465)
Total liabilities and equity	2,171,554	724,629

Basis of presentation and going concern (note 2)

Commitments and contingencies (note 15)

Approved on behalf of the Board of Directors on September 27, 2021.

"Daniel Whittaker"
Director

"Robert McKay"
Director

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

Sona Nanotech Inc.
Unaudited Condensed Interim Statements of Loss and Comprehensive Loss
For the three and nine-months ended July 31, 2021 and 2020
Expressed in Canadian dollars

	Three-months ended July 31, 2021 \$	Three-months ended July 31, 2020 \$	Nine-months ended July 31, 2021 \$	Nine-months ended July 31, 2020 \$
Expenses				
Research and development costs (recovery)	(78,426)	2,155,357	124,369	2,522,940
Salaries and benefits	302,965	271,076	967,099	555,978
Professional and consulting fees (note 13)	47,743	446,650	373,154	594,589
Management services (note 13)	57,000	57,000	171,000	171,000
Sales and marketing	30,900	48,999	108,645	95,314
Securities and regulatory	36,815	16,078	119,775	82,263
Rent and related costs (note 13)	12,123	14,485	37,806	36,739
Foreign exchange loss (gain)	20,351	(15,536)	(48,575)	(15,540)
Administrative	63,437	23,945	127,929	50,350
Depreciation expense	16,634	16,693	49,264	49,674
Travel	678	224	1,785	10,066
Share-based compensation	1,667,099	836,293	6,978,347	978,196
Recovery of project expenses (note 5)	-	(2,148,840)	(27,318)	(2,572,960)
	<u>(2,177,319)</u>	<u>(1,722,424)</u>	<u>(8,983,280)</u>	<u>(2,558,609)</u>
Other income (expenses)				
Repayable government loans fair value adjustment	-	-	-	(295,807)
Scientific research and experimental development credits	-	-	2,846	-
Accreted interest on repayable government loans (note 8)	-	-	-	(15,706)
Interest expense	(5,278)	-	(15,570)	(7,395)
Unrealized gain (loss) on available-for-sale securities	(4,500)	4,000	3,000	3,500
	<u>(9,778)</u>	<u>4,000</u>	<u>(9,724)</u>	<u>(315,408)</u>
Net loss and comprehensive loss for the period	<u>(2,187,097)</u>	<u>(1,718,424)</u>	<u>(8,993,004)</u>	<u>(2,874,017)</u>
Loss per share – basic and diluted	<u>(0.03)</u>	<u>(0.03)</u>	<u>(0.14)</u>	<u>(0.05)</u>
Weighted-average number of common shares outstanding - basic and diluted	<u>64,908,370</u>	<u>60,885,351</u>	<u>63,670,546</u>	<u>59,823,042</u>

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

Sona Nanotech Inc.

Unaudited Condensed Interim Statements of Changes in Equity

For the nine-months ended July 31, 2021 and 2020 and October 31, 2020

Expressed in Canadian dollars

	Number of Common Shares	Common Shares	Equity Portion of Convertible Debt	Warrants	Contributed Surplus	Deficit	Total
		\$	\$	\$	\$	\$	\$
Balance, November 1, 2019	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	-	-	-	-	-	(2,874,017)	(2,874,017)
Shares issued upon note conversion, net of costs (note 9)	2,520,270	543,775	(42,000)	-	-	-	501,775
Shares issued pursuant to option exercises (note 9)	365,000	153,426	-	-	(63,176)	-	90,250
Shares issued pursuant to warrant exercise (note 9)	596,250	275,517	-	(126,455)	-	-	149,062
Share-based compensation expense	-	-	-	-	978,196	-	978,196
Balance, July 31, 2020	61,211,778	8,800,802	-	-	1,248,243	(12,226,222)	(2,177,177)
Net loss and comprehensive loss for the period	-	-	-	-	-	(3,398,006)	(3,398,006)
Shares issued pursuant to option exercises (note 9)	60,000	46,644	-	-	(21,269)	-	25,375
Share-based compensation expense	-	-	-	-	2,114,343	-	2,114,343
Balance, October 31, 2020	61,271,778	8,847,446	-	-	3,341,317	(15,624,228)	(3,435,465)
Net loss and comprehensive loss for the period	-	-	-	-	-	(8,993,004)	(8,993,004)
Units issued pursuant to private placement, net of costs (note 9)	2,259,200	1,672,379	-	577,306	-	-	2,249,685
Shares issued pursuant to At-The-Market share offering, net of costs (note 9)	1,312,400	1,912,280	-	-	-	-	1,912,280
Shares issued pursuant to option exercises (note 9)	331,250	160,150	-	-	(68,900)	-	91,250
Shares issued pursuant to warrant exercises (note 9)	10,000	17,632	-	(5,132)	-	-	12,500
Share-based compensation expense	-	-	-	-	6,978,347	-	6,978,347
Balance, July 31, 2021	65,184,628	12,609,887	-	572,174	10,250,764	(24,617,232)	(1,184,407)

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

Sona Nanotech Inc.
Unaudited Condensed Interim Statements of Cash Flows
For the nine-months ended July 31, 2021 and 2020
Expressed in Canadian dollars

	Nine-months ended July 31, 2021 \$	Nine-months ended July 31, 2020 \$
Operating activities		
Net loss for the period	(8,993,004)	(2,874,017)
Changes to loss not involving cash:		
Depreciation	49,264	49,674
Interest expense	15,570	7,395
Repayable government loans fair value adjustment	-	295,807
Unrealized loss (gain) on available-for-sale securities	(3,000)	(3,500)
Accreted interest on repayable government loans	-	15,706
Share-based compensation	6,978,347	978,196
Recovery of project costs (note 5)	(27,318)	(2,572,960)
	(1,980,141)	(4,103,699)
Increase in amounts receivable and other	(68,587)	(30,251)
Increase (decrease) in accounts payable and accrued liabilities	(919,703)	980,506
	(2,968,431)	(3,153,444)
Financing activities		
Project funding received (note 5)	387,919	3,508,376
Proceeds from a related party loan (note 13)	100,000	-
Proceeds received upon private placement financing, net of costs (note 9)	2,249,685	-
Proceeds received from At-The-Market share offering, net of costs (note 9)	1,912,280	-
Proceeds received upon exercise of stock options (note 9)	91,250	90,250
Proceeds received upon exercise of warrants (note 9)	12,500	149,062
Share issuance costs associated with note conversion (note 9)	-	(2,279)
	4,753,634	3,745,409
Investing activities		
Additions to property and equipment	-	(589,652)
	-	(589,652)
Increase in cash during the period	1,785,203	2,313
Cash, beginning of the period	102,782	580,656
Cash, end of the period	1,887,985	582,969

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Sona Nanotech Inc.
Notes to the Unaudited Condensed Interim Financial Statements
For the period ended July 31, 2021
Expressed in Canadian dollars

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. (“Sona”). The boards of directors of the Company and Sona Nanotech each unanimously approved the terms of the Amalgamation (the “Transaction”). The Company’s corporate and registered office is located at Suite 2001, 1969 Upper Water Street, Halifax, Nova Scotia, Canada, B3J 3R7. The research and development office is located at 1 Research Drive, Bay 2, Dartmouth, NS, B2Y 4M9.

The Company’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. Effective April 8, 2020, the Company’s common shares were approved for trading on the OTCQB Marketplace under the trading symbol “SNANF”.

2. BASIS OF PRESENTATION AND GOING CONCERN

Basis of presentation

These unaudited condensed interim financial statements have been prepared on a historical cost basis except for certain financial instruments recorded at fair value. All amounts are expressed in Canadian dollars unless otherwise noted.

Going concern

The Company’s operations have been financed through the sale of common shares, issuance of debt, government funding, and funds received from the Transaction. The Company has incurred significant operating losses since inception and has an accumulated deficit of \$24,617,232 as at July 31, 2021 (October 31, 2020 – \$15,624,228).

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 nine-month period ended July 31, 2021, the Company incurred a net loss of \$8,993,004 (year ended October 31, 2020 – net loss of \$6,272,023). The Company has negative cash flow from operations. In addition to its working capital requirements, the Company must secure sufficient funding to further develop its gold nanorod products and to fund its general operating costs. Such circumstances create material uncertainties that may cast significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. Management is evaluating alternatives to secure additional financing so that the Company can continue to operate as a going concern. However, there can be no assurance that these initiatives will be successful or sufficient.

The Company’s ability to continue as a going concern is dependent upon its ability to fund its working capital and operating requirements and eventually to generate positive cash flows from operations. These 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.

Sona Nanotech Inc.
Notes to the Unaudited Condensed Interim Financial Statements
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Covid 19 Pandemic

Since very early in 2020 and continuing through 2021, the outbreak of the novel strain of coronavirus, specifically identified as “Covid-19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the Covid-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and conditions of the Company in future periods.

3. 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 September 27, 2021.

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, 2020.

The policies applied in these unaudited condensed interim financial statements are based on the IFRS as of September 27, 2021, 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, 2021 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, 2020. Refer to note 3, *Significant Accounting Policies*, of the Company’s audited financial statements for the year ended October 31, 2020 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.

Sona Nanotech Inc.
Notes to the Unaudited Condensed Interim Financial Statements
For the period ended July 31, 2021
Expressed in Canadian dollars

4. AMOUNTS RECEIVABLE AND OTHER

	July 31, 2021	October 31, 2020
	\$	\$
Amounts receivable, including amounts receivable from the government	36,170	61,780
Prepaid expenses and other	109,011	14,814
	145,181	76,594

5. GOVERNMENT GRANT RECEIVABLE

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 has been used to accelerate the development of a prototype. The Supercluster funding is pursuant to an 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. The Company received \$3,508,376 of the NGen grant during the year ended October 31, 2020 and received \$387,919 during the nine-month period ended July 31, 2021. The change in the NGen funding during the period ended July 31, 2021 and the year ended October 31, 2020 was as follows:

	NGen Funding
	\$
Balance of government grant, November 1, 2019	-
NGen cash funding received	(3,508,376)
Recovery of eligible capital equipment costs	692,165
Recovery of eligible research and development expenditures	3,176,812
	360,601
Balance of government grant receivable, October 31, 2020	27,318
Recovery of eligible research and development expenditures	(387,919)
NGen cash funding received	-
Balance of government grant receivable, July 31, 2021	-

Eligible costs under the Ngen program were incurred by the Company until November 15, 2020. During the year ended October 31, 2020, eligible expense recoveries of \$3,868,977 were incurred. During the nine-month period ended July 31, 2021, eligible expense recoveries of \$27,318 were incurred.

During the nine-month period ended July 31, 2021, the Company also incurred eligible expense recoveries of \$60,070 under Industrial Research Assistance Program (“IRAP”) of Canada, which has been offset against salaries and benefits on the statement of loss and comprehensive loss (July 31, 2020 - \$nil).

Sona Nanotech Inc.
Notes to the Unaudited Condensed Interim Financial Statements
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6. PROPERTY AND EQUIPMENT

	Office Equipment	Laboratory Equipment	Furniture and Fixtures	Software	Total
Cost	\$	\$	\$	\$	\$
As at November 1, 2019	11,633	298,697	13,144	-	323,474
Additions	9,519	367,119	-	317,377	694,015
Cost recovery	(9,519)	(365,269)	-	(317,377)	(692,165)
As at October 31, 2020	11,633	300,547	13,144	-	325,324
Additions	-	-	-	-	-
Cost recovery	-	-	-	-	-
As at July 31, 2021	11,633	300,547	13,144	-	325,324
Accumulated depreciation					
As at November 1, 2019	4,277	75,154	2,874	-	82,305
Depreciation charge	3,500	60,231	2,636	-	66,367
As at October 31, 2020	7,777	135,385	5,510	-	148,672
Depreciation charge	2,339	44,959	1,966	-	49,264
As at July 31, 2021	10,116	180,344	7,476	-	197,936
Carrying amount					
Balance, October 31, 2020	3,856	165,162	7,634	-	176,652
Balance, July 31, 2021	1,517	120,203	5,668	-	127,388

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	July 31, 2021	October 31, 2020
	\$	\$
Trade accounts payable and accrued liabilities	966,747	2,067,374
Amounts payable to related parties (note 13)	780,851	601,927
	1,747,598	2,669,301

8. LONG-TERM DEBT

	July 31, 2021	October 31, 2020
	\$	\$
Atlantic Canada Opportunities Agency (“ACOA”) under the Business Development Program interest-free loan. Annual repayments are calculated between 3% - 5% of gross product revenue. The amount drawn on the loans was \$978,332.	978,332	978,332
Numus Financial Inc. (“Numus”) loan, with an annual interest rate of prime plus 1% and a 2% lender fee, repayable on demand (note 13).	630,031	512,461
Less: current portion	(1,608,363)	(1,490,793)
Long-term portion	-	-

Sona Nanotech Inc.
Notes to the Unaudited Condensed Interim Financial Statements
For the period ended July 31, 2021
Expressed in Canadian dollars

<i>Long-term debt continuity</i>	July 31, 2021	October 31, 2020
	<u>\$</u>	<u>\$</u>
Balance – beginning of period	1,490,793	666,819
Repayable government loan fair value adjustment	-	295,807
Borrowings from Numus, including a 2% lender fee	102,000	510,000
Accreted interest on repayable government loans	-	15,706
Accrued interest	15,570	2,461
Balance – end of period	<u>1,608,363</u>	<u>1,490,793</u>

9. 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 July 31, 2021, 3,081,156 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.

Private Placement Financing

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

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

At-The-Market Share Offering (the “ATM”)

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

During the period ended July 31, 2021, the Company sold 1,312,400 common shares pursuant to the ATM for gross proceeds of \$2,271,427. Costs of the shares sold under the ATM during the period were \$359,147, for net proceeds to the Company of \$1,912,280. Sona intends to use the net proceeds of the ATM for general corporate and working capital requirements and funding ongoing operations (including research and development).

Sona Nanotech Inc.
Notes to the Unaudited Condensed Interim Financial Statements
For the period ended July 31, 2021
Expressed in Canadian dollars

Option Exercise

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

During the year ended October 31, 2020, consultants and employees exercised 425,000 options with a weighted-average exercise price of \$0.27 per share for proceeds of \$115,625. On the exercise dates, the weighted-average share price was \$4.30 per common share.

Warrant Exercise

During the nine-month period ended July 31, 2021, 10,000 warrants were exercised with an exercise price of \$1.25 per share for proceeds of \$12,500. On the exercise date, the share price was \$1.80 per common share.

During the year ended October 31, 2020, 596,250 warrants were exercised with an exercise price of \$0.25 per share for proceeds of \$149,062. On the exercise dates, the weighted-average share price was \$6.35 per common share.

Note Conversion

During the year ended October 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 Notes and accrued interest of \$504,054 as at the date of conversion. Costs associated with the conversion included legal fees of \$2,279. On the conversion date, the share price was \$0.125 per common share. 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. \$42,000 of the Equity Portion of Convertible Debt was reclassified to Share Capital as of the date of the Note conversion.

10. STOCK OPTIONS

The Company has adopted a stock option plan, providing the Board of Directors with the discretion to issue an equivalent number of options of up to 10% of the issued and outstanding share capital of the Company. Stock options are granted with an exercise price of not less than the closing share price the date preceding the date of grant. As at July 31, 2021, 2,262,213 options 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.

During the nine-month period ended July 31, 2021, the Company granted 250,000 incentive stock options in accordance with the Company's stock option plan to a director of the Company. The options are exercisable at a price of \$3.36 per share, will vest at the rate of 25% every six months and will expire five years from the date of grant.

Sona Nanotech Inc.
Notes to the Unaudited Condensed Interim Financial Statements
For the period ended July 31, 2021
Expressed in Canadian dollars

The following are the weighted-average assumptions used in calculating the value of the stock options granted during the nine-month period ended July 31, 2021 and the year ended October 31, 2020:

	July 31, 2021	October 31, 2020
Risk-free interest rate	0.3%	0.5%
Expected life	5.0 years	5.0 years
Expected volatility	150%	150%
Expected dividend per share	0.0%	0.0%
Exercise price	\$3.36	\$4.75

The following table reconciles the stock option activity during the nine-month period ended July 31, 2021 and the year ended October 31, 2020:

	Number of options	Weighted-average exercise price
	#	\$
Balance, November 1, 2019	1,897,500	0.31
Issued	2,965,000	4.75
Exercised	(425,000)	(0.27)
Expired / forfeited	(100,000)	(0.35)
Balance, October 31, 2020	4,337,500	3.35
Issued	250,000	3.36
Exercised	(331,250)	(0.28)
Balance, July 31, 2021	4,256,250	3.59

The following table summarizes information relating to outstanding and exercisable stock options as at July 31, 2021:

Expiry date	Weighted-average remaining contractual life (in years)	Number of options outstanding	Number of options exercisable	Weighted-average exercise price
January 21, 2024	2.5	1,102,500	1,102,500	\$0.35
March 17, 2025	3.6	1,038,750	488,750	\$0.60
July 7, 2025	3.9	1,000,000	500,000	\$7.47
September 24, 2025	4.2	665,000	116,250	\$6.57
October 17, 2025	4.2	200,000	50,000	\$7.91
November 2, 2025	4.4	250,000	62,500	\$3.36

11. WARRANTS

The following table reconciles the warrant activity during the nine-month period ended July 31, 2021 and the year ended October 31, 2020:

	Number of warrants	Weighted-average exercise price
	#	\$
Balance, November 1, 2019	596,250	0.25
Exercised	(596,250)	(0.25)
Balance, October 31, 2020	-	-
Issued pursuant to financing	1,129,600	1.25
Exercised	(10,000)	(1.25)
Balance, July 31, 2021	1,119,600	1.25

Sona Nanotech Inc.
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Expressed in Canadian dollars

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

	<u>July 31, 2021</u>
Risk-free interest rate	0.25%
Expected life	2.0 years
Expected volatility	150%
Expected dividend per share	0.0%
Weighted-average exercise price	\$1.25

10,000 warrants were exercised during the nine-month period ended July 31, 2021 at an exercise price of \$1.25 per share for gross proceeds of \$12,500. On the exercise date, the share price was \$1.80 per common share.

596,250 warrants were exercised during the year ended October 31, 2020 at an exercise price of \$0.25 per share for gross proceeds of \$149,062. On the exercise dates, the weighted-average share price was \$6.35 per common share.

12. INCOME TAXES

Please refer to Note 13 in the Company's annual financial statements for the year ended October 31, 2020 for income tax disclosures.

13. RELATED PARTY TRANSACTIONS

During the nine-month period ended July 31, 2021, 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 \$171,000 (July 31, 2020 - \$171,000), controller services of \$23,750 (July 31, 2020 - \$32,500), and incurred rent and administrative costs from Numus in the amount of \$22,950 (July 31, 2020 - \$22,950).

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.

During the year ended October 31, 2020, the Company entered into a loan agreement with Numus. The loan is for up to \$600,000, has an annual interest rate of prime plus 1% and has a 2% lender fee. The loan is repayable in full, including all interest and lender fees, on demand. The Company has drawn \$612,000 on the loan, including a lender fee of \$12,000, and has accrued interest of \$18,031 as at July 31, 2021 (October 31, 2020 - \$512,461, including a lender fee of 10,000 and accrued interest of \$2,461).

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.

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As at July 31, 2021, the amount owing to Numus, including accounts payable, the loan balance and accrued interest, was \$1,304,907 (October 31, 2020 – \$944,344).

During the nine-month period ended July 31, 2021, the Company granted 250,000 stock options under the Company’s stock option plan to a director of the Company. The 250,000 options are exercisable into one common share of the Company at a price of \$3.36 per share, vest at the rate of 25% every six months and will expire on November 2, 2025. During the period ended July 31, 2021, officers and directors exercised 237,500 stock options at an exercise price of \$0.20, for gross proceeds of \$47,500.

During the year ended October 31, 2020, the Company granted 2,965,000 stock options under the Company’s stock option plan. 1,740,000 of the stock options were issued to directors and officers of Sona. 840,000 of the options issued to related parties are exercisable into one common share at a price of \$0.60 per share, vest at the rate of 25% every six months and will expire on March 17, 2025. 900,000 of the options issued to related parties are exercisable into one common share at a price of \$7.47 per share, vest at the rate of 25% every six months and will expire on July 7, 2025.

As at July 31, 2021, the amount owing to Randall Consulting Inc. (“RCI”), a company controlled by an officer of Sona, was \$67,225 (October 31, 2020 - \$131,294). As at July 31, 2021 and October 31, 2020, an amount of \$38,750 was also owing to a director of the Company.

As a result of the Transaction described in note 1, 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, 2020, the Company accrued related party interest of \$4,888 on the Notes. The Notes and all accrued interest were converted through the issuance of common shares effective December 31, 2019 (note 9). 1,665,942 common shares with a value of \$333,188 were issued to related parties pursuant to the Note conversion.

Key Management Compensation

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

	July 31, 2021	July 31, 2020
	\$	\$
Salaries and consulting fees earned	437,076	206,712
Share-based compensation expense	3,574,836	809,304
	4,011,912	1,016,016

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14. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Capital Management

The Company's capital structure consists of share capital, warrants and contributed surplus, which at July 31, 2021 was approximately \$23.4 million (October 31, 2020 - \$12.2 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 a private placement financing and an ATM Share Offering during the nine-month period ended July 31, 2021 (note 9). 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.

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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 July 31, 2021:

	Within 1 year	2-3 years	4-5 years	Over 5 years	Total
	\$	\$	\$	\$	\$
Accounts payable	1,190,040	-	-	-	1,190,040
Current portion of long-term debt	1,608,363	-	-	-	1,608,363
	2,798,403	-	-	-	2,798,403

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.

A portion of the Company's transactions occur in foreign currencies; accordingly, the related financial assets and liabilities are subject to fluctuations in the respective exchange rates. For the nine-month period ended July 31, 2021, the sensitivity of the Company's net loss due to changes in the exchange rate between the Canadian dollar and foreign currencies would have impacted net loss by \$11,264 for a 5% increase or decrease in the Canadian dollar (October 31, 2020 -\$61,170).

The Company is not exposed to material currency risk on its cash, accounts receivable, and 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 July 31, 2021 and October 31, 2020, 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.

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15. COMMITMENTS AND CONTINGENCIES

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

At July 31, 2021, the Company has a Services Agreement with Numus. See note 13 for further details.

On December 17, 2020, a putative shareholder class action lawsuit was filed in the United States District Court for the Central District of California. The complaint asserts claims under Sections 10(b) and 20 of the Securities Exchange Act of 1934 on behalf of a putative class of investors who purchased or otherwise acquired stock of the Company in US transactions between March 18, 2020 and February 28, 2021 (the “US action”). The suit alleges that the Company made material misstatements regarding its rapid detection Covid-19 antigen test. The case is in its early stages.

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

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