

Unaudited Condensed Interim Consolidated Financial Statements of

SONA NANOTECH Inc.

For the quarters ended April 30, 2023 and 2022

(Expressed in Canadian Dollars)

June 28, 2023

Management's Report

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

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

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

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

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

Sona Nanotech Inc.
Unaudited Interim Consolidated Statements of Financial Position
As at April 30, 2023 and October 31, 2022
Expressed in Canadian dollars

	April 30, 2023	October 31, 2022
	\$	\$
Assets		
Current assets		
Cash	700,962	155,420
Amounts receivable and other (note 5)	135,905	305,615
Marketable securities	6,000	9,000
	<u>842,867</u>	470,035
Equipment, net (note 6)	31,119	50,737
Intangible assets, net (note 4)	2,723,000	-
	<u>2,723,000</u>	-
Total assets	<u>3,596,986</u>	520,772
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	510,944	420,161
	<u>510,944</u>	420,161
Long term debt (note 9)	653,280	608,467
	<u>653,280</u>	608,467
	<u>1,164,224</u>	1,028,628
Equity (Deficiency)		
Shareholders' equity (deficiency)	2,432,762	(507,856)
	<u>2,432,762</u>	(507,856)
Total liabilities and equity (deficiency)	<u>3,596,986</u>	520,772

Basis of presentation and going concern (note 2)
 Commitments and contingencies (note 17)
 Subsequent events (note 18)

Approved on behalf of the Board of Directors on June 28, 2023.

"Mark Lievonen"
 Director

"Jim Megann"
 Director

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

Sona Nanotech Inc.

Unaudited Interim Consolidated Statements of Loss and Comprehensive Loss For the three and six-months ended April 30, 2023 and 2022

Expressed in Canadian dollars

	Three-months ended April 30, 2023 \$	Three-months ended April 30, 2022 \$	Six-months ended April 30, 2023 \$	Six-months Ended April 30, 2022 \$
Expenses				
Salaries and benefits (note 14)	238,192	217,789	425,431	578,625
Professional and consulting fees (note 15)	82,760	89,859	144,661	146,490
Administrative	42,152	58,222	80,912	113,921
Securities and regulatory	25,203	41,775	39,676	59,922
Rent and related costs (note 15)	13,139	13,006	26,051	25,449
Management services (note 15)	12,000	12,000	24,000	54,000
Research and development costs	8,605	22,883	20,572	45,917
Depreciation expense (note 5)	8,003	14,263	19,618	30,834
Amortization expense (note 4)	58,000	-	58,000	-
Travel	3,282	26,607	10,355	37,829
Sales and marketing	19,480	7,500	19,480	30,875
Foreign exchange gain (loss)	(669)	561	(985)	2,003
Share-based compensation	41,459	823,870	97,250	1,821,506
Recovery of project expenses (note 7)	(48,950)	-	(88,066)	(106,123)
	(502,656)	(1,328,335)	(876,955)	(2,841,248)
Other income (expenses)				
Accreted interest, repayable government loans (note 9)	(22,773)	(26,327)	(44,813)	(51,733)
Gain on debt settlement (note 15)	-	-	-	410,727
Interest expense	-	-	-	(3,519)
Unrealized loss on available-for-sale securities	(3,000)	(3,000)	(3,000)	(4,000)
	(25,773)	(29,327)	(47,813)	351,475
Net loss and comprehensive loss for the period	(528,429)	(1,357,662)	(924,768)	(2,489,773)
Loss per share – basic and diluted	(0.01)	(0.02)	(0.01)	(0.04)
Weighted-average number of common shares outstanding - basic and diluted	83,765,329	68,987,904	76,254,152	67,819,088

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

Sona Nanotech Inc.
Unaudited Interim Consolidated Statements of Changes in Deficiency
For the six-months ended April 30, 2023 and 2022 and October 31, 2022
Expressed in Canadian dollars

	Number of Common Shares	Common Shares	Warrants	Contributed Surplus	Deficit	Total
		\$	\$	\$	\$	\$
Balance, November 1, 2021	65,184,628	12,682,099	572,174	11,513,806	(25,991,447)	(1,223,368)
Net loss and comprehensive loss for the period	-	-	-	-	(2,489,773)	(2,489,773)
Shares issued pursuant to debt settlement (note 9 and 15)	2,556,276	1,022,510	-	-	-	1,022,510
Shares issued pursuant to At-The-Market share offering, net of costs (note 10)	1,147,000	550,149	-	-	-	550,149
Shares issued pursuant to option exercises (note 10)	100,000	60,574	-	(25,574)	-	35,000
Share-based compensation expense	-	-	-	1,821,506	-	1,821,506
Balance, April 30, 2022	68,987,904	14,315,332	572,174	13,309,738	(28,481,220)	(283,976)
Net loss and comprehensive loss for the period	-	-	-	-	128,369	128,369
Share-based compensation expense	-	-	-	(352,249)	-	(352,249)
Stock option cancellation (note 11)	-	-	-	(8,846,021)	8,846,021	-
Balance, October 31, 2022	68,987,904	14,315,332	572,174	4,111,468	(19,506,830)	(507,856)
Net loss and comprehensive loss for the period	-	-	-	-	(924,768)	(924,768)
Shares issued pursuant to private placement financing (note 10)	11,000,000	1,100,000	-	-	-	1,100,000
Share issuance costs (note 10)	-	(87,464)	-	-	-	(87,464)
Broker warrants (note 10)	-	(102,564)	102,654	-	-	-
Shares issued pursuant to Siva acquisition (note 10)	15,107,457	2,755,600	-	-	-	2,755,600
Share-based compensation expense	-	-	-	97,250	-	97,250
Stock option cancellation (note 11)	-	-	-	(1,759,365)	1,759,365	-
Warrant expiry (note 12)	-	572,174	(572,174)	-	-	-
Balance, April 30, 2023	95,095,361	18,553,078	102,654	2,449,353	(18,672,233)	2,432,762

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

Sona Nanotech Inc.
Unaudited Interim Consolidated Statements of Changes in Cash Flows
For the six-months ended April 30, 2023 and 2022
Expressed in Canadian dollars

	Six-months ended April 30, 2023	Six-months ended April 30, 2022
	\$	\$
Operating activities		
Net loss for the period	(924,768)	(2,489,773)
Changes to loss not involving cash:		
Depreciation (note 6)	19,618	30,834
Amortization (note 4)	58,000	-
Interest expense	-	3,519
Unrealized (gain) loss on available-for-sale securities	3,000	4,000
Accreted interest on repayable government loans (note 9)	44,812	51,733
Share-based compensation	97,250	1,821,506
Recovery of project costs (note 7)	(88,066)	(106,123)
Gain on debt settlement (note 15)	-	(410,727)
	<u>(790,154)</u>	<u>(1,095,032)</u>
Decrease in amounts receivable and other	169,710	72,879
Increase (decrease) in accounts payable and accrued liabilities	<u>50,740</u>	<u>(25,074)</u>
	<u>(569,704)</u>	<u>(1,047,227)</u>
Investing activities		
Cash acquired on acquisition of Siva Therapeutics (note 4)	<u>14,644</u>	-
Financing activities		
Project funding received (note 7)	88,066	106,123
Proceeds received from private placement financing, net of costs (note 10)	1,012,536	-
Proceeds received from At-The-Market share offering, net of costs (note 10)	-	550,149
Proceeds received upon exercise of stock options (note 10)	<u>-</u>	<u>35,000</u>
	<u>1,100,602</u>	<u>691,272</u>
Change in cash during the period	545,542	(355,955)
Cash, beginning of the period	<u>155,420</u>	<u>1,183,260</u>
Cash, end of the period	<u>700,962</u>	<u>827,305</u>

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

Sona Nanotech Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the periods ended April 30, 2023 and 2022

Expressed in Canadian dollars

1. NATURE OF OPERATIONS

Sona Nanotech Inc. (“Sona” and “the Company”) is a company involved in the nanotechnology life sciences industry, The Company’s corporate and registered office is located at Suite 2001, 1969 Upper Water Street, Halifax, Nova Scotia, Canada, B3J 3R7 and its registered office is located at Nova Centre – South Tower 1500 – 1625 Grafton Street, Halifax, N.S., Canada, B3J 0E8. The research and development office is located at 1 Research Drive, Bay 2, Dartmouth, NS, B2Y 4M9.

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

On March 23, 2023, the Company completed a share exchange agreement with Siva Therapeutics, Inc. whereby Sona acquired 100% of the issued and outstanding common shares for Siva (note 4). Siva is a company involved in the development of targeted hyperthermia therapy for cancer treatment. The corporate and registered office of Siva is located at # 21 5401 E Dakota Avenue, Denver, Colorado, USA 80246.

2. BASIS OF PRESENTATION AND GOING CONCERN

Basis of presentation

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

Basis on consolidation

The consolidated financial statements of the Company and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These consolidated financial statements include assets, liabilities and results of operations of the Company, including the following subsidiary:

Subsidiary	Principal Activity	Country of incorporation
Siva Therapeutics, Inc.	Research and development	United States of America

The Company consolidates the wholly owned subsidiary on the basis that it controls the subsidiary through its ability to govern their financial and operating policies. All intercompany transactions and balances have been eliminated on consolidation of the accounts.

Going concern

The Company’s operations have been financed through the sale of common shares, issuance of debt and government funding. The Company has incurred significant operating losses since inception and has an accumulated deficit of \$18,672,233 as at April 30, 2023 (October 31, 2021 – \$19,506,830).

These financial statements have been prepared on a going-concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. For the six-month period ended April 30, 2023, the Company incurred a net loss of \$924,768 (year ended October 31, 2021 - \$2,361,404). The Company has negative cash flow from operations. In addition to its working capital requirements, the Company must secure sufficient funding to further develop its gold nanorod products and to fund its general operating costs. Such circumstances create material uncertainties that may cast significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. Management is evaluating alternatives to secure additional financing so that the Company can continue to operate as a going concern. However, there can be no assurance that these initiatives will be successful or sufficient.

Sona Nanotech Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the periods ended April 30, 2023 and 2022

Expressed in Canadian dollars

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Statement of compliance

The unaudited condensed interim 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 financial statements for issue on June 28, 2023.

These unaudited consolidated condensed interim consolidated 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 consolidated condensed interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended October 31, 2022.

The policies applied in these unaudited condensed interim consolidated financial statements are based on the IFRS as of June 28, 2023, 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, 2023 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, 2022. Refer to note 3, Significant Accounting Policies, of the Company's audited financial statements for the year ended October 31, 2022 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.

During the period ended April 30, 2023, the Company also adopted the following accounting policies;

Intangible assets

Expenditures on research activities undertaken with the prospect of gaining new technical knowledge and understanding is recognized in the consolidated statements of loss and comprehensive loss as an expense as incurred.

The intangible asset consists of value allocated to the targeted hyperthermia therapy ("THT") recognized as a component of the Siva transaction (note 4). The intangible asset is amortized based on the cost of the asset with amortization charged to the consolidated statements of loss and comprehensive loss on a straight-line basis over the four year estimated life of the THT project. The estimated project life and amortization rate are reviewed annually.

Sona Nanotech Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the periods ended April 30, 2023 and 2022 *Expressed in Canadian dollars*

4. ACQUISITION OF SIVA THERAPEUTICS

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

Effective March 23, 2023, the Company closed the Transaction issuing 15,107,457 common shares in the Company to the shareholders of Siva, which were issued at the ten-day volume weighted average price for \$0.1824 per share, or \$2,755,600 (US \$2.0 million) in total.

Allocation of the purchase price is summarized in the table below;

Net Assets Acquired	\$
Cash	14,644
less: Accounts payable and accruals	(40,044)
Net liabilities assumed	(25,400)
 THT project - Intangible assets acquired	 2,781,000
	<u>2,755,600</u>

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

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

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

The following table summarizes information relating to the carrying value of intangible assets which are being amortized over the estimated useful life of the THT project which is currently estimated to be four years.

	April 30,
	2023
	<u>\$</u>
Cost	2,781,000
Accumulated amortization	(58,000)
Carrying Value	<u>2,723,000</u>

Sona Nanotech Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the periods ended April 30, 2023 and 2022

Expressed in Canadian dollars

5. AMOUNTS RECEIVABLE AND OTHER

	April 30, 2023	October 31, 2022
	\$	\$
Amounts receivable from the government	112,154	252,805
Prepaid expenses and other	23,751	52,810
	135,905	305,615

6. EQUIPMENT

	Office Equipment	Laboratory Equipment	Furniture and Fixtures	Total
Cost	\$	\$	\$	\$
As at November 1, 2021	11,633	300,547	13,144	325,324
Additions	-	-	-	-
As at October 31, 2022	11,633	300,547	13,144	325,324
Additions	-	-	-	-
As at April 30, 2023	11,633	300,547	13,144	325,324
Accumulated depreciation				
As at November 1, 2021	10,632	195,495	8,139	214,266
Depreciation charge	1,001	56,692	2,628	60,321
As at October 31, 2022	11,633	252,187	10,767	274,587
Depreciation charge	-	18,314	1,304	19,618
As at April 30, 2023	11,633	270,501	12,071	294,205
Carrying amount				
Balance, October 31, 2022	-	48,360	2,377	50,737
Balance, April 30, 2023	-	30,046	1,073	31,119

7. GOVERNMENT GRANT

During the period ended April 30, 2023, the Company incurred eligible expense recoveries of \$88,066 under the Industrial Research Assistance Program ("IRAP") of Canada (April 30, 2022 - \$106,123).

Sona Nanotech Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the periods ended April 30, 2023 and 2022 *Expressed in Canadian dollars*

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	April 30, 2023	October 31, 2022
	\$	\$
Trade accounts payable and accrued liabilities	397,846	331,720
Amounts payable to related parties (note 16)	113,098	88,441
	510,944	420,161

9. LONG-TERM DEBT

	Period ended April 30, 2023	Year ended October 31, 2022
	\$	\$
Atlantic Canada Opportunities Agency (“ACOA”)		
Long-term portion	653,280	608,467
Face Value ACOA Loans	978,332	978,332

The Company has two interest free loans with ACOA under the Business development program. There is no fixed term to the loans and repayments are to be made based on 3% and 5% of annual gross product revenue. The carrying amount of the loans is determined by computing the present value of the estimated future cash flows. During the period ended April 30, 2023 the Company recorded \$44,813 of accretion expense (2022 - \$51,733), relating to the ACOA loans.

During the year ended October 31, 2020, the Company entered into a loan agreement with Numus Financial Inc. (“Numus”). The loan is for up to \$600,000, has an annual interest rate of prime plus 1% and has a 2% lender fee. The loan is repayable in full, including all interest and lender fees, on demand. On January 5, 2022, the Company arranged a debt settlement of \$1,452,724 in amounts owed to Numus through the issuance of 2,556,276 common shares at a deemed price of \$0.45 per share (note 15). These amounts include settlement of the loan payable with fees and accrued interest of with a fair value of \$638,829.

<i>Debt continuity</i>	Period ended April 30, 2023	Year ended October 31, 2022
	\$	\$
Balance – beginning of period	608,467	1,336,071
Repayable government loans fair value adjustment	-	(173,080)
Accrued interest, Numus	-	3,519
Debt settlement, Numus	-	(638,829)
Accreted interest on repayable government loans	44,813	80,786
Balance – end of period	653,280	608,467

Sona Nanotech Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the periods ended April 30, 2023 and 2022 *Expressed in Canadian dollars*

10. SHARE CAPITAL

a) Common shares

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

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 were 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 were determined at the sole discretion of the Company’s management and in accordance with the terms of the Equity Distribution Agreement. The ATM expired on April 30, 2023.

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

Private Placement Financing

On February 24, 2023, the Company completed a private placement financing for aggregate gross proceeds of \$1,100,000. The Company issued 11,000,000 shares at \$0.10 per share. Sona entered into an agreement with a registered dealer Numus Capital Corp. (note 15) to act as placement agent for the financing. Pursuant to the terms of the agreement Sona agreed to pay a cash fee equal to 8% of proceeds raised from investors introduced by the placement agent and to issue compensation warrants entitling the placement agent to purchase a number of common shares as is equal to eight percent (8.0%) of the common shares sold to investors introduced by the placement agent. As compensation for its services, the Agent received a cash fee of \$82,000 and 820,000 broker warrants, being equal to 8.0% of the units sold, other than to insiders. Each warrant is exercisable to purchase one common share of the Company at a price of \$0.10 per share for a period of 24 months from the closing date of the private placement. The Company has recorded a value of \$102,564 for the broker warrants issued which has been calculated using the Black Scholes option pricing model. Directors and officers of the Company subscribed for 750,000 shares pursuant to the financing.

Total costs associated with the private placement, consisting primarily of commissions, professional and regulatory fees, were \$87,464 and were recorded as share issuance costs. All securities issued pursuant to the private placement were subject to a four-month hold period in accordance with securities legislation.

Siva Acquisition

As described in note 4, on March 23, 2023, the Company issued 15,107,457 common shares in the Company to the shareholders of Siva, which were issued at the ten-day volume weighted average price of \$0.1824 per share, or \$2,755,600 (US \$2.0 million) in total.

Escrowed Shares

As at April 30, 2023, 10,499,803 common shares of the Company are subject to an escrow agreement pursuant to the terms of the Siva transaction. Upon the initial escrow release date, being September 22, 2023, 20% of the escrowed shares will be released with the remaining escrowed shares being released at rate of 20% every six months thereafter.

Option Exercise

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

Sona Nanotech Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the periods ended April 30, 2023 and 2022

Expressed in Canadian dollars

11. 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 April 30, 2023, 4,915,036 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 period ended April 30, 2023, the Company granted 1,225,000 incentive stock options in accordance with the Company's stock option plan. Each option is exercisable into one common share at a price of \$0.17 per share and will vest at the rate of 25% every six months. The options will expire five years from the date of grant. All other terms and conditions of the options are in accordance with the terms of the Company's Stock Option Plan.

The following are the weighted-average assumptions used in calculating the value of the stock options granted during the period ended April 30, 2023 and the year ended October 31, 2022.

	<u>April 30, 2023</u>	<u>October 31, 2022</u>
Risk-free interest rate	3.00%	1.35%
Expected life	5.00	5.00
Expected volatility	150%	150%
Expected dividend per share	0.0%	0.0%
Exercise price	\$0.17	\$0.44
Forfeiture Rate	0.0%	0.0%

The following table reconciles the stock option activity during the year ended October 31, 2022 and the period ended April 30, 2023:

	<u>Number of options</u>	<u>Weighted-average exercise price</u>
	<u>#</u>	<u>\$</u>
Balance, November 1, 2021	4,591,250	3.35
Issued	1,250,000	0.44
Exercised	(100,000)	(0.35)
Expired / forfeited	(43,500)	3.13
Cancelled	<u>(1,740,000)</u>	6.32
Balance, October 31, 2022	3,957,750	1.20
Issued	1,225,000	0.17
Cancelled / Expired	<u>(588,250)</u>	3.33
Balance, April 30, 2023	4,594,500	0.65

During the period ended April 30, 2023, certain stock options were cancelled. As a result of these cancellations, the Company reclassified stock-based compensation expense for cancelled and expired options, which was previously recorded as contributed surplus, to deficit.

Sona Nanotech Inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements For the periods ended April 30, 2023 and 2022

Expressed in Canadian dollars

The following table summarizes information relating to outstanding and exercisable stock options as at April 30, 2023:

Expiry date	Weighted-average remaining contractual life (in years)	Number of options outstanding	Number of options exercisable	Weighted-average exercise price	Black-Scholes option value of options outstanding
		#	#	\$	\$
January 21, 2024	1.0	702,500	702,500	0.35	186,055
March 17, 2025	2.1	955,000	955,000	0.60	529,285
July 7, 2025	2.4	52,000	52,000	7.47	352,380
September 24, 2025	2.6	25,000	25,000	6.57	148,529
November 2, 2025	2.8	250,000	250,000	3.36	762,118
September 28, 2026	3.7	335,000	251,250	0.30	88,127
November 11, 2026	3.8	800,000	400,000	0.44	320,182
January 4, 2027	3.9	250,000	125,000	0.45	90,400
March 28, 2028	4.9	1,225,000	-	0.17	190,192
		4,594,500	2,760,750		

12. WARRANTS

The following table reconciles the warrant activity during the year ended October 31, 2022 and the period ended April 30, 2023:

	Number of warrants	Weighted-average exercise price
	#	\$
Balance, October 31, 2021	1,119,600	1.25
Exercised	-	-
Balance, October 31, 2022	1,119,600	1.25
Expired	(1,119,600)	(1.25)
Issued	820,000	0.10
Balance, April 30, 2023	820,000	0.10

During the period ended April 30, 2023, the remaining outstanding warrants issued pursuant to the private placement completed on December 15, 2020, expired unexercised. The Company has reclassified amounts, which had been previously allocated to warrants to share capital.

During the period ended April 30, 2023, The Company issued 820,000 broker warrants pursuant to the private placement completed on February 24, 2023. The warrants are exercisable at \$0.10 and expire on February 24, 2025. 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 April 30, 2023 are as follows:

	April 30, 2023
Risk-free interest rate	4.20%
Expected life	2.00
Expected volatility	150%
Expected dividend per share	0.0%
Exercise price	\$0.10

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13. INCOME TAXES

Please refer to Note 12 in the Company's annual financial statements for the year ended October 31, 2022, for income tax disclosures.

14. KEY MANAGEMENT COMPENSATION

Key management includes the Company's directors, Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), and the Chief Scientific Officer ("CSO"). Compensation awarded to key management for the six months ended April 30, 2023 and 2022 is summarized as follows:

	<u>2023</u>	<u>2022</u>
	\$	\$
Salaries and consulting fees earned	252,775	265,768
Share-based compensation expense	95,726	900,794
	<u>348,501</u>	<u>1,166,562</u>

15. RELATED PARTY TRANSACTIONS

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

During the period ended April 30, 2023, the Company incurred costs for service fees from a related party, Numus, a company controlled by significant shareholders, including one director of Sona, in the amount of \$24,000 (quarter ended April 30, 2022 – \$54,000), controller services of \$15,000 (quarter ended April 30, 2022 - \$15,000), digital media services of \$8,000 (quarter ended April 30, 2022 - \$nil) and incurred rent and administrative costs from Numus in the amount of \$22,950 (quarter ended April 30, 2022 – \$15,300). Effective January 1, 2022, the monthly service fee was reduced from \$19,000 to \$4,000 per month. As at April 30, 2023, the amount owing to Numus, related to accounts payable and was \$42,022 (October 31, 2022 - \$24,415).

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

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

Numus Capital Corp. is a non-arm's length party and acted as an agent for the February 24, 2023 financing. As compensation for its services, the Agent received a cash fee of \$82,000 and 820,000 broker warrants, being equal to 8.0% of the units sold, other than to insiders. Each warrant is exercisable to purchase one common share of the Company at a price of \$0.10 per share for a period of 24 months from the closing date of the private placement.

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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. This amount was settled during the quarter ended January 31, 2022. On January 5, 2022, the Company arranged a debt settlement of \$1,452,724 in amounts owed to Numus through the issuance of 2,556,276 common shares at a deemed price of \$0.45 per share. These amounts include accounts payable to Numus of \$813,895 pursuant to its services agreement with the Company and a loan payable (with fees and accrued interest) of \$638,829. Numus will forgive \$282,913 and the remaining debts as part of an agreement that includes amendments to the Services Agreement to reduce service fees. On the date of settlement, the Company's share price was \$0.40 per common share, resulting in an additional gain on debt settlement of \$127,814.

During the period ended April 30, 2023 the Company granted 1,175,000 incentive stock options in accordance with the Company's stock option plan to directors and officers of the Company. The options issued have an exercise price of \$0.17 per share, vest at the rate of 25% every six months and will expire five years from the date of issuance.

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

As at April 30, 2023, the amount owing to Randall Consulting Inc. ("RCI"), a company controlled by an officer of Sona, was \$29,325 (October 31, 2022 - \$24,276). As at April 30, 2023 and October 31, 2022, an amount of \$38,750 was also owing to a director of the Company. These amounts are non-interest bearing and are payable on demand.

16. 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 April 30, 2023 was approximately \$21.1 million (October 31, 2022 - \$18.9 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.

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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 the bank, 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 debt settlement of \$1.45 million on January 5, 2022 (note 15). There can be no assurance that additional future financings will be available on acceptable terms or at all. If the Company is unable to obtain additional financing when required, the Company may have to substantially reduce or eliminate planned expenditures. Accounts payables are paid in the normal course of business generally according to their terms.

In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the remaining contractual maturities of the Company's financial liabilities as at April 30, 2023:

	Within 1 year	2-3 years	4-5 years	Over 5 years	Total
	\$	\$	\$	\$	\$
Accounts payable	510,944	-	-	-	510,944
Long-term debt	-	653,280	-	-	653,280
	510,944	653,280	-	-	1,164,224

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 exposed to currency risk on its cash balances, intercompany balances and accounts payable and accrued liabilities that are held in currencies that are not in the transacting entity's functional currencies.

For the period ended April 30, 2023, the sensitivity of the Company's net loss and comprehensive loss due to changes in the exchange rate between the Canadian dollar and foreign currencies (primarily the United States dollar) would have impact net loss and comprehensive loss by \$13,607 for a 5% increase or decrease in the Canadian dollar.

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g) Interest Rate Risk

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

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

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

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

At April 30, 2023 and October 31, 2022, 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.

17. COMMITMENTS AND CONTINGENCIES

The Company has employment agreements with the CEO, CSO and the Head of Diagnostics 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 Head of Diagnostics will receive a lump sum payment of 24 months of his then current base salary as of the date of the change of control. The CSO will receive a lump sum payment of 12 months of his then current base salary as of the date of the change of control.

As at April 30, 2023, the Company has a Services Agreement with Numus. See note 15 for further details.

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

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

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

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18. SUBSEQUENT EVENT LEGACY CRESCENT LAKE LITHIUM PROPERTY INTEREST SOLD

Subsequent to April 30, 2023, the Company entered into an agreement (“Midex Agreement” or “Transaction”) for the sale of its non-core interest in the Crescent Lake lithium property located in Ontario, Canada (“Property”) to an arm’s length party.

The Property was acquired by Antler Gold Inc. (“Antler”) from Sona in May 2019 pursuant to a property acquisition agreement (“2019 Agreement”). Under the 2019 Agreement, Sona is entitled to receive 50% of the consideration received by Antler for the Property, net of Antler’s aggregate expenses related to the marketing, selling, upkeep and maintenance of the Property (“Antler’s Expenses”) incurred between the disposition of the Property to Antler and the date of the sale of the Property, to a maximum of \$3,000,000.

Under the Midex Agreement, Antler has agreed to sell the Property to Midex in consideration of C\$125,000 in cash (the “Cash Consideration”) and the issuance of common shares of Midex (“Midex Shares”) representing 12% of the issued and outstanding capital of Midex, subject to certain adjustments (the “Share Consideration”).

Accordingly, Sona is entitled to 50% of the Cash Consideration less Antler’s Expenses and Midex will register 50% of the Share Consideration in the name of Sona. Each of Antler and Sona entered into an investor rights agreement with Midex in relation to the Midex Shares. The Midex Shares will be subject to certain resale restrictions and escrow conditions.