

Unaudited Condensed Interim Financial Statements of

SONA NANOTECH INC.

April 30, 2020

(Expressed in Canadian Dollars)

June 29, 2020

Management's Report

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

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

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

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

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

Sona Nanotech Inc.
Unaudited Interim Statements of Financial Position
As at April 30, 2020 and October 31, 2019

Expressed in Canadian dollars

	April 30, 2020 \$	October 31, 2019 \$
Assets		
Current assets		
Cash	62,230	580,656
Restricted cash (note 4)	1,380,398	-
Amounts receivable and other (note 5)	103,329	32,886
Marketable securities	4,000	4,500
	<u>1,549,957</u>	<u>618,042</u>
Property and equipment (note 6)	<u>210,038</u>	<u>241,169</u>
Total assets	<u>1,759,995</u>	<u>859,211</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	966,131	718,176
Deferred government grant (note 4)	1,224,390	-
Current portion of long-term debt (note 8)	978,332	-
Convertible notes and accrued interest (note 9)	-	496,659
	<u>3,168,853</u>	<u>1,214,835</u>
Long-term debt (note 8)	<u>-</u>	<u>666,819</u>
Total liabilities	<u>3,168,853</u>	<u>1,881,654</u>
Equity		
Shareholders' deficiency	<u>(1,408,858)</u>	<u>(1,022,443)</u>
Total liabilities and equity	<u>1,759,995</u>	<u>859,211</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 June 29, 2020.

"Daniel Whittaker"
 Director

"Robert McKay"
 Director

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

Sona Nanotech Inc.

Unaudited Interim Statements of Loss and Comprehensive Loss For the three and six-months ended April 30, 2020 and 2019

Expressed in Canadian dollars

	Three-months ended April 30, 2020 \$	Three-months ended April 30, 2019 \$	Six-months ended April 30, 2020 \$	Six-months ended April 30, 2019 \$
Expenses				
Salaries and employee benefits	167,342	137,248	284,902	272,257
Professional and consulting fees (note 14)	106,353	90,171	147,939	193,791
Management services (note 15)	57,000	57,000	114,000	114,000
Research and development costs	376,581	26,048	367,583	29,538
Travel costs	306	12,252	9,842	24,859
Sales and marketing costs	36,308	12,705	46,315	13,312
Share based compensation	109,548	93,907	141,903	104,005
Administrative costs	14,302	6,620	26,401	19,695
Depreciation expense	16,330	12,149	32,981	22,280
Securities and regulatory	57,580	9,394	66,185	19,332
Rent and related costs (note 15)	11,127	11,683	22,254	24,906
Recovery of project costs (note 4)	(424,120)	-	(424,120)	-
	(528,657)	(469,177)	(836,185)	(837,974)
Other income (expenses)				
Repayable government loans fair value adjustment	(295,807)	50,419	(295,807)	104,308
Scientific research and experimental development tax credits	-	18,000	-	25,000
Accreted interest on convertible notes (note 9)	-	(9,000)	-	(18,000)
Unrealized gain (loss) on available-for-sale securities	(1,500)	500	(500)	1,500
Interest expense	-	(13,790)	(7,395)	(27,943)
Accreted interest on repayable government loans (note 8)	-	(17,656)	(15,706)	(32,910)
	(297,307)	28,473	(319,408)	51,955
Net loss and comprehensive loss for the period	(825,964)	(440,704)	(1,155,593)	(786,019)
 Loss per share – basic and diluted	 (0.01)	 (0.01)	 (0.02)	 (0.01)
 Weighted-average number of common shares outstanding - basic and diluted	 60,344,361	 53,456,519	 59,286,051	 53,456,519

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

Sona Nanotech Inc.
Unaudited Interim Statements of Changes in Equity
For the six-months ended April 30, 2020 and 2019 and October 31, 2019

Expressed in Canadian dollars

	Number of Common Shares	Common Shares	Equity Portion of Convertible Debt	Warrants	Contributed Surplus	Deficit	Total
		\$	\$	\$	\$	\$	\$
Balance, November 1, 2018	53,456,519	6,740,527	52,800	126,455	109,788	(6,830,496)	199,074
Net loss and comprehensive loss for the period	-	-	-	-	-	(786,019)	(786,019)
Share-based compensation expense	-	-	-	-	104,004	-	104,004
Balance, April 30, 2019	53,456,519	6,740,527	52,800	126,455	213,792	(7,616,515)	(482,941)
Net loss and comprehensive loss for the period	-	-	-	-	-	(1,735,690)	(1,735,690)
Shares issued pursuant to debt settlement (note 10)	4,067,489	1,027,847	(10,800)	-	-	-	1,017,047
Shares issued pursuant to option exercises (note 10)	206,250	59,710	-	-	(18,460)	-	41,250
Share-based compensation expense	-	-	-	-	137,891	-	137,891
Balance, October 31, 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	-	-	-	-	-	(1,155,593)	(1,155,593)
Shares issued pursuant to Note conversion, net of share issuance costs (note 9)	2,520,270	543,775	(42,000)	-	-	-	501,775
Shares issued pursuant to option exercises (note 10)	127,500	42,620	-	-	(17,120)	-	25,500
Shares issued pursuant to warrant exercise (note 12)	400,000	184,833	-	(84,833)	-	-	100,000
Share-based compensation expense	-	-	-	-	141,903	-	141,903
Balance, April 30, 2020	60,778,028	8,599,312	-	41,622	458,006	(10,507,798)	(1,408,858)

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

Sona Nanotech Inc.
Unaudited Interim Statements of Cash Flows
For the six-months ended April 30, 2020 and 2019

Expressed in Canadian dollars

	Six-months ended April 30, 2020 \$	Six-months ended April 30, 2019 \$
Operating activities		
Net loss for the period	(1,155,593)	(786,019)
Changes to loss not involving cash:		
Depreciation	32,981	22,280
Unrealized loss (gain) on available-for-sale securities	500	(1,500)
Repayable government loans fair value adjustment	295,807	(104,308)
Share-based compensation	141,903	104,004
Interest expense	7,395	27,943
Accreted interest on repayable government loans	15,706	32,910
Accreted interest on convertible notes	-	18,000
Recovery of project costs (note 4)	(424,120)	-
	(1,085,421)	(686,690)
Increase in amounts receivable and other	(70,443)	(158,447)
Increase (decrease) in accounts payable and accrued liabilities	247,955	(197,549)
	(907,909)	(1,042,686)
Financing activities		
Proceeds from long-term debt	-	229,071
Project funding received (note 4)	1,825,000	-
Proceeds received upon exercise of stock options	25,500	-
Proceeds received upon exercise of warrants	100,000	-
Share issuance costs associated with note conversion (note 9)	(2,279)	-
	1,948,221	229,071
Investing activities		
Additions to property and equipment	(178,340)	(80,377)
Additions to resource properties	-	(2,400)
	(178,340)	(82,777)
Increase (decrease) in cash during the period	861,972	(896,392)
Cash, beginning of the period	580,656	1,803,549
Cash, end of the period	1,442,628	907,157
Cash	62,230	907,157
Restricted cash	1,380,398	-
	1,442,628	907,157

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

Sona Nanotech Inc.

Notes to the Unaudited Condensed Interim financial Statements

For the period ended April 30, 2020

1. NATURE OF OPERATIONS

Sona Nanotech Inc. (formerly Stockport Exploration Inc.), (the “Company”) and Sona Nanotech Ltd. (“Sona Nanotech”), a private company involved in the nanotechnology life sciences industry, entered into a definitive agreement dated March 22, 2018 to amalgamate the two companies to form Sona Nanotech Inc. The boards of directors of the Company and Sona Nanotech each unanimously approved the terms of the Amalgamation (the “Transaction”). Refer to note 3 of the audited financial statements for the year ended October 31, 2019 for further details on the Transaction. The Company’s corporate office is located at Suite 2001, 1969 Upper Water Street, Halifax, Nova Scotia, Canada, B3J 3R7. The research and development office is 1 Research Drive, Bay 2, Dartmouth, NS, B2Y 4M9. The registered office of Sona is located at Suite 1750, 1185 West Georgia Street, Vancouver, BC, Canada, V6E 4E6.

The Company’s Board of Directors, upon approval by written consents of a majority of the minority shareholders of the Company, made the decision to voluntarily delist from the TSX Venture Exchange (“TSXV”) and list on the Canadian Securities Exchange (“CSE”). The Company received conditional listing approval from the CSE on July 27, 2018. The CSE listing was subject to the completion of the transaction with Sona and approval of the CSE for listing. The Company’s common shares were voluntarily delisted from the TSXV on August 7, 2018. The transaction with shareholder approval was completed on August 8, 2018. The Company submitted its listing application to the CSE on September 28, 2018 and commenced trading on October 4, 2018. 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 include the accounts of the Company and its wholly owned subsidiaries, 6321593 Canada Inc. and Minera Zapoteca, S.A. de C.V. up to the date the subsidiaries were transferred to Antler Gold Inc. during the year ended October 31, 2019 (see note 16). All amounts are expressed in Canadian dollars, unless otherwise noted.

Basis of measurement

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

Going concern

The Company’s operations have been financed through the sale of common shares, issuance of debt, government funding and funds received from the Transaction (refer to note 3 of the audited financial statements for the year ended October 31, 2019). The Company has incurred significant operating losses since inception and has an accumulated deficit of \$10,507,798 as at April 30, 2020 (October 31, 2019 – \$9,349,205).

These unaudited condensed interim financial statements have been prepared on a going-concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. For the six-month period ended April 30, 2020, the Company incurred a net loss of \$1,155,593 (year ended October 31, 2019 – net loss of \$2,520,709). The Company has negative cash flow from operations. In addition to its working capital requirements, the Company must secure sufficient funding to further develop its gold nanorod products and to fund its general operating costs. Such circumstances create material uncertainties that may cast significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. Management is evaluating alternatives to secure additional financing so that the Company can continue to operate as a going concern. However, there can be no assurance that these initiatives will be successful or sufficient.

Sona Nanotech Inc.
Notes to the Unaudited Condensed Interim financial Statements
For the period ended April 30, 2020

2. BASIS OF PRESENTATION AND GOING CONCERN (continued)

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

Covid 19 Pandemic

Since very early in 2020, 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 June 29, 2020.

These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"), as issued by the IASB. Accordingly, certain information normally included in annual financial statements prepared in accordance with IFRS, as issued by the IASB, have been omitted or condensed. The unaudited condensed interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended October 31, 2019.

The policies applied in these unaudited condensed interim financial statements are based on the IFRS as of June 29, 2020, the date the Board of Directors approved the financial statements. Any subsequent changes to IFRS that are given effect in the Company's financial statements for the year ended October 31, 2020 could result in the restatement of these unaudited condensed interim financial statements.

These financial statements have been prepared using the same policies and methods of computation as the audited financial statements of the Company for the year ended October 31, 2019. Refer to note 5, *Significant Accounting Policies*, of the Company's audited financial statements for the year ended October 31, 2019 for information on the accounting policies, significant accounting estimates and judgements, and new accounting standards not yet effective.

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

Sona Nanotech Inc.
Notes to the Unaudited Condensed Interim financial Statements
For the period ended April 30, 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

b) New accounting standards adopted during the period

IFRS 16, Leases ("IFRS 16")

IFRS 16 was issued on January 13, 2016 and replaces the current guidance in IAS 17, Leases ("IAS 17"). IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. Management has assessed the impact of the adoption of IFRS 16 on the unaudited condensed interim financial statements of the Company and determined that the adoption of IFRS 16 did not have a significant impact on the Company's financial statements.

4. NGEN PROJECT FUNDING

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 is being used to accelerate the development of a prototype and scale manufacturing capabilities with a view to submitting this Covid-19 virus-detecting, point-of-care test to the U.S. Food and Drug Administration ("FDA") and the Department of Health ("Health Canada"). 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 \$1,825,000 of the NGen grant during the period ended April 30, 2020 and \$1,683,376 of the grant since the end of the period. The change in the NGen funding during the six-month period ended April 30, 2020 was as follows:

	<u>NGen Funding</u>
	\$
Balance of deferred government grant, November 1, 2019	-
NGen cash funding received	1,825,000
Recovery of eligible capital equipment costs	(176,490)
Recovery of eligible research and development expenditures	(424,120)
	<u>1,224,390</u>
Balance of deferred government grant, April 30, 2020	

During the period ended April 30, 2020, eligible expense recoveries of \$600,610 were incurred. Of that amount, \$444,602 was paid in cash and \$156,008 is included in accounts payable as of April 30, 2020. The balance of restricted cash is \$1,380,398.

5. AMOUNTS RECEIVABLE AND OTHER

	<u>April 30, 2020</u>	<u>October 31, 2019</u>
	\$	\$
Amounts receivable, including amounts receivable from the government	92,829	15,956
Prepaid expenses and other	10,500	16,930
	<u>103,329</u>	<u>32,886</u>

Sona Nanotech Inc.
Notes to the Unaudited Condensed Interim financial Statements
For the period ended April 30, 2020

6. PROPERTY AND EQUIPMENT

	Office Equipment	Laboratory Equipment	Furniture and fixtures	Total
Cost	\$	\$	\$	\$
As at November 1, 2018	5,859	149,595	13,144	168,598
Additions	6,425	149,102	-	155,527
Adjustments	(651)	-	-	(651)
As at October 31, 2019	11,633	298,697	13,144	323,474
Additions	4,455	173,885	-	178,340
Cost recovery	(4,455)	(172,035)	-	(176,490)
As at April 30, 2020	11,633	300,547	13,144	325,324
Accumulated depreciation				
As at November 1, 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
Depreciation charge	1,740	29,930	1,311	32,981
As at April 30, 2020	6,017	105,084	4,185	115,286
Carrying amount				
Balance, October 31, 2019	7,356	223,543	10,270	241,169
Balance, April 30, 2020	5,616	195,463	8,959	210,038

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	April 30, 2020	October 31, 2019
	\$	\$
Trade accounts payable and accrued liabilities	618,656	417,230
Amounts payable to related parties (note 15)	347,475	300,946
	966,131	718,176

8. LONG-TERM DEBT

	April 30, 2020	October 31, 2019
	\$	\$
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. The amount drawn on the loans was \$978,332.	978,332	666,819
Less: current portion	(978,332)	-
Long-term portion	-	666,819

Sona Nanotech Inc.
Notes to the Unaudited Condensed Interim financial Statements
For the period ended April 30, 2020

8. LONG-TERM DEBT (continued)

<i>Long-term debt continuity</i>	April 30, 2020	October 31, 2019
	\$	\$
Balance – beginning of period	666,819	672,277
Borrowings, net of \$295,807 allocated to other expense (year-ended October 31, 2019 - \$194,078 allocated to other income)	295,807	63,305
Loan repayment	-	(137,093)
Accreted interest on repayable government loans	15,706	60,330
Accrued interest	-	8,000
Balance – end of period	978,332	666,819

9. CONVERTIBLE NOTES

The convertible notes were acquired as part of the Transaction (see note 3 of the audited financial statements for the year ended October 31, 2019 for details). On February 25, 2015, the Company completed a \$295,000 bridge loan financing from various directors and other private investors of the Company by the issuance of unsecured convertible promissory notes (the “Notes”). The Notes bear an interest rate of 15% per annum, payable quarterly. The maturity date of the Notes was extended to September 27, 2019 without revaluation.

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

Effective December 31, 2019, 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. Of the common shares issued, 1,665,942 common shares were issued to related parties of the Company with a value of \$333,188. Costs associated with the conversion included legal fees of \$2,279.

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

Sona Nanotech Inc.
Notes to the Unaudited Condensed Interim financial Statements
For the period ended April 30, 2020

9. CONVERTIBLE NOTES (continued)

<i>Convertible note continuity</i>	\$
Net additions as a result of the Transaction – principal balance	295,000
Net additions as a result of the Transaction – accrued interest balance	146,255
Equity component of convertible notes	(42,000)
Recorded value of the Notes, August 8, 2018	399,255
Accreted interest	9,000
Interest expense	11,154
Recorded value of the Notes, October 31, 2018	419,409
Accreted interest	33,000
Interest expense	44,250
Recorded value of the Notes, October 31, 2019	496,659
Interest expense	7,395
Conversion of Notes	(504,054)
Recorded value of the Notes at December 31, 2019	-

10. 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 April 30, 2020, 9,243,260 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.

Option Exercise

During the six-month period ended April 30, 2020, consultants exercised 127,500 options with an exercise price of \$0.20 per share for proceeds of \$25,500. On the exercise date, the share price was \$2.01 per common share.

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.

Warrant Exercise

During the six-month period ended April 30, 2020, 400,000 warrants were exercised with an exercise price of \$0.25 per share for proceeds of \$100,000. On the exercise date, the share price was \$2.01 per common share.

Sona Nanotech Inc.

Notes to the Unaudited Condensed Interim financial Statements

For the period ended April 30, 2020

10. SHARE CAPITAL (continued)

Debt Settlement

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

Note Conversion

Effective December 31, 2019, the Company repaid its Notes and the accrued interest on the Notes through the issuance of 2,520,270 common shares. The shares were issued at the Conversion Price of \$0.20 per share to repay the total Convertible Notes and accrued interest of \$504,054 as at the date of conversion. On the conversion date, the share price was \$0.125 per common share. 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.

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, 2020, 3,307,803 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 six-month period ended April 30, 2020, the Company granted 1,100,000 incentive stock options in accordance with the Company's stock option plan, of which 540,000 were issued to related parties. Each option is exercisable into one common share of the Company at a price of \$0.60 per share and will vest at the rate of 25% every six months. The options will expire five years from the date of grant.

The following are the weighted-average assumptions used in calculating the value of the stock options granted during the six-month period ended April 30, 2020 and the year ended October 31, 2019:

	April 30, 2020	October 31, 2019
Risk-free interest rate	0.8%	1.8%
Expected life	5.00	5.00
Expected volatility	231%	142%
Expected dividend per share	0.0%	0.0%
Exercise price	\$0.60	\$0.35

Sona Nanotech Inc.

Notes to the Unaudited Condensed Interim financial Statements For the period ended April 30, 2020

11. STOCK OPTIONS (continued)

During the six-month period ended April 30, 2020, 127,500 options were exercised with an exercise price of \$0.20 per share and 100,000 stock options with an exercise price of \$0.35 were cancelled. The following table reconciles the stock option activity during the six-month period ended April 30, 2020 and the year ended October 31, 2019:

	Number of options	Weighted-average exercise price
	#	\$
Balance, November 1, 2018	900,000	0.21
Issued	1,410,000	0.35
Exercised	(206,250)	(0.20)
Expired	(206,250)	(0.24)
Balance, October 31, 2019	1,897,500	0.31
Granted	1,100,000	0.60
Exercised	(127,500)	0.20
Expired	(100,000)	0.35
Balance, April 30, 2020	2,770,000	0.43

The following table summarizes information relating to outstanding and exercisable stock options as at April 30, 2020:

Expiry date	Weighted-average remaining contractual life (in years)	Number of options outstanding	Number of options exercisable	Weighted-average exercise price
July 11, 2021	1.2	360,000	360,000	\$0.20
January 21, 2024	3.7	1,310,000	655,000	\$0.35
March 17, 2025	4.9	1,100,000	-	\$0.60

12. WARRANTS

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

	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

There were no warrants issued during the six-month period ended April 30, 2020 or the year ended October 31, 2019. 400,000 warrants were exercised during the period ended April 30, 2020 at an exercise price of \$0.25 per share for gross proceeds of \$100,000. On the exercise date, the share price was \$2.01 per common share. As at April 30, 2020, 196,250 broker warrants are outstanding, exercisable at \$0.25 per share into common shares of the Company and expire on September 28, 2020.

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13. INCOME TAXES

Please refer to Note 15 in the Company's annual financial statements for the year ended October 31, 2019 for income tax disclosures.

14. KEY MANAGEMENT COMPENSATION

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

	April 30, 2020	April 30, 2019
	\$	\$
Salaries and consulting fees earned	119,582	105,275
Share-based compensation expense	85,613	70,074
	205,195	175,349

15. RELATED PARTY TRANSACTIONS

During the six-month periods ended April 30, 2020 and 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 \$114,000 (April 30, 2019 – \$114,000), controller services in the amount of \$17,500 (April 30, 2019 - \$15,000), and incurred rent and administrative costs from Numus in the amount of \$15,300 (April 30, 2019 – \$15,300). As at April 30, 2020, the amount owing to Numus was \$261,188 (as at April 30, 2019 – \$417,073).

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

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

As a result of the Transaction, the Company acquired convertible notes (the "Notes") of \$295,000 with accrued interest of \$146,255. Certain directors and significant shareholders of the Company contributed \$195,000 towards the Notes financing. During the period ended April 30, 2020, the Company accrued related party interest of \$4,888 on the Notes (year ended October 31, 2019 - \$29,250). The Notes and all accrued interest were converted through the issuance of common shares effective December 31, 2019 (see note 9). 1,665,942 common shares with a value of \$333,188 were issued to related parties pursuant to the Note conversion.

During the period ended April 30, 2020, the Company granted 1,100,000 stock options under the Company's stock option plan. 540,000 of the stock options were issued to directors and officers of Sona. The options are exercisable into one common share at a price of \$0.60 per share and will vest at the rate of 25% every six month. The options expire on March 17, 2025.

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15. RELATED PARTY TRANSACTIONS (continued)

During the year ended October 31, 2019, the Company had amounts owing to Brigus Capital Inc. (“Brigus”), a company controlled by a significant shareholder and former director of Sona. On July 16, 2019, \$268,203 of the outstanding amount owing to Brigus was settled through the issuance of shares (note 10).

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 10). As at April 30, 2020, the amount owing to RCI was \$47,537 (October 31, 2019 - \$43,646).

As at April 30, 2020, an amount of \$38,750 was also owing to a director of the Company.

16. TRANSACTION WITH ANTLER GOLD INC.

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

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

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

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

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17. RESOURCE PROPERTIES

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

KM61

The Company sold its 100% interest in the KM61 property as part of the Purchase Agreement with Antler (note 16). KM61 is a molybdenum-copper-silver prospect, located in northwestern Ontario, contiguous with the Seymour Lake project. The purchase price was nominal. As a result, the carrying value of the resource properties was written off as a loss on disposal during the year ended October 31, 2019. The loss on disposal was offset by a \$34,663 write-off of the accrued liabilities in the subsidiaries disposed of as part of the Purchase Agreement and \$75,888 in historical costs related to former operations.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Capital Management

The Company's capital structure consists of share capital, the equity portion of convertible debt, warrants and contributed surplus, which at April 30, 2020 was approximately \$9.1 million (October 31, 2019 - \$8.3 million). The Company's objective when managing capital is to maintain adequate levels of funding to support the research and development of its nanorod technology products and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing and government funding. Future financings are dependent on market conditions, and there can be no assurance the Company will be able to raise funds in the future. There were no changes to the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements.

b) Fair Values of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The carrying amounts reported in the statement of financial position for cash, amounts receivable, marketable securities, accounts payable, and long-term debt and accrued interest approximate their fair values based on the immediate or short-term maturities of these financial instruments.

c) Financial Risk Management Objectives

The Company examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, currency risk and interest rate risk. Where material, these risks are reviewed and monitored.

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

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. 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, 2020:

	Within 1 year	2-3 years	4-5 years	Over 5 years	Total
	\$	\$	\$	\$	\$
Accounts payable	734,513	-	-	-	734,513
Current portion of long-term debt	978,332	-	-	-	978,332
	1,712,845	-	-	-	1,712,845

f) Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk exposure arises from the Company entering into transactions which are denominated in currencies other than its functional currency.

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

g) Interest Rate Risk

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

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

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 April 30, 2020 and October 31, 2019, the Company's marketable securities were measured and recognized on the unaudited condensed interim statement of financial position at fair value. The fair value was based on level 1 inputs. There were no transfers between levels during the period.

19. COMMITMENTS AND CONTINGENCIES

The Company has employment agreements with the Chief Executive Officer ("CEO") which provide that, should a change in control event occur, as defined in the employment agreements, the CEO will receive lump sum payments equal to six months of his then current base salary during the first two years of employment and 12 months of his then current base salary following the two year anniversary of the agreement.

At April 30, 2020, the Company has a Services Agreement with Numus. See note 15 for further details.

20. COMPARATIVE FIGURES

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

21. SUBSEQUENT EVENT

Subsequent to the end of the period, 67,500 stock options were exercised at an average exercise price of \$0.27, for gross proceeds of \$18,000. The average share price on the date of the option exercises was \$2.93 per common share.