

SONA NANOTECH INC.

(Formerly "Stockport Exploration Inc.")

Unaudited Condensed Interim Consolidated Financial Statements

July 31, 2018

September 28, 2018

Management's Responsibility for Financial Reporting

The accompanying unaudited condensed interim consolidated financial statements of **Sona Nanotech Inc. (formerly "Stockport Exploration 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) "*Darren Rowles*"
President and Chief Executive Officer
Halifax, Nova Scotia

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

SONA NANOTECH INC. (Formerly "Stockport Exploration Inc.")
Unaudited Condensed Interim Consolidated Statements of Financial Position
As at July 31, 2018 and October 31, 2017

(expressed in Canadian dollars)

	July 31, 2018	October 31, 2017
	\$	\$
ASSETS		
Current assets		
Cash	644,781	428,917
Sales taxes recoverable	8,938	4,267
Marketable securities	7,500	355,584
Prepaid expenses and deposits	2,775	10,971
	<u>663,994</u>	<u>799,739</u>
Resource properties (note 7)	<u>939,299</u>	<u>935,699</u>
	<u><u>1,603,293</u></u>	<u><u>1,735,438</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	1,543,300	1,300,227
Convertible debentures (note 11)	<u>125,705</u>	<u>125,705</u>
	1,669,005	1,425,932
Convertible notes (note 12)	<u>295,000</u>	<u>285,000</u>
	1,964,005	1,710,932
SHAREHOLDERS' EQUITY	<u>(360,712)</u>	<u>24,506</u>
	<u><u>1,603,293</u></u>	<u><u>1,735,438</u></u>

Nature of operations (note 1)

Basis of presentation and going concern (note 2)

Contingency (note 15)

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

Approved on behalf of the Board of Directors,

(s) James Megann
James Megann

(s) Robert McKay
Robert McKay

SONA NANOTECH INC. (Formerly "Stockport Exploration Inc.")
Unaudited Condensed Interim Consolidated Statements of Comprehensive Loss
For the three and nine-month periods ended July 31, 2018 and 2017

(expressed in Canadian dollars)

	For the Three-Months Ended July 31		For the Nine-Months Ended July 31	
	2018	2017	2018	2017
	\$	\$	\$	\$
EXPENSES				
Amortization	-	139	-	414
Banking fees	391	609	1,725	2,340
General and administrative	9,060	8,857	28,469	25,804
Investor relations and marketing	362	180	797	640
Listing and regulatory costs	25,403	10,138	54,991	21,439
Management salaries and fees	23,106	23,000	72,247	69,000
Management services (note 14)	9,000	9,000	27,000	27,000
Professional services	76,500	31,583	225,777	114,284
Share-based compensation	1,486	4,656	5,205	12,092
Travel	839	479	5,094	1,831
Recovery of resource properties (note 7)	-	(121,939)	-	(121,939)
	(146,147)	33,298	(421,305)	(152,905)
OTHER INCOME (EXPENSES)				
Accretion expense (note 12)	-	(7,500)	(10,000)	(22,500)
Change in fair value of convertible debenture liability (note 11)	-	50,282	-	50,282
Foreign exchange gain / (loss)	777	34,007	(95)	28,504
Gain (loss) on sale of marketable securities	(12,146)	-	(7,036)	278,661
Gain on sale of equipment (note 7)	-	164,318	-	164,318
Interest income (note 7)	-	190,145	-	198,675
Interest expense	(11,153)	(11,153)	(33,167)	(34,459)
NET INCOME (LOSS) FOR THE PERIOD	(168,669)	453,397	(471,603)	510,576
<i>Items that will be subsequently reclassified to the statement of loss</i>				
Realized loss (gain) on available-for-sale securities reclassified to net gain	12,146	-	7,036	(278,661)
Unrealized gain (loss) on available-for-sale securities	(4,818)	(35,094)	74,144	(21,637)
COMPREHENSIVE LOSS FOR THE PERIOD	(161,341)	418,303	(390,423)	210,278
EARNINGS (LOSS) PER SHARE - BASIC AND DILUTED	<u>\$ (0.002)</u>	<u>\$ 0.005</u>	<u>\$ (0.005)</u>	<u>\$ 0.006</u>
Weighted Average Number of Common Shares Outstanding	<u>88,653,128</u>	<u>88,653,128</u>	<u>88,653,128</u>	<u>88,653,128</u>

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

SONA NANOTECH INC. (Formerly "Stockport Exploration Inc.")
Unaudited Condensed Interim Consolidated Statements of Changes in Equity

For the periods ended July 31, 2018 and 2017 and October 31, 2017

(expressed in Canadian dollars)

	Number of Shares	Share Capital	Equity portion of convertible debt	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total
		\$	\$	\$	\$	\$	\$	\$
Balance at November 1, 2016	88,653,128	22,597,563	90,000	75,349	4,681,964	299,354	(25,067,155)	2,677,075
Net income (loss) and other comprehensive income (loss)	-	-	-	-	-	(300,298)	510,576	210,278
Share-based compensation	-	-	-	-	12,092	-	-	12,092
Balance at July 31, 2017	88,653,128	22,597,563	90,000	75,349	4,694,056	(944)	(24,556,579)	2,899,445
Net loss and other comprehensive loss	-	-	-	-	-	(84,736)	(2,792,798)	(2,877,534)
Expiry of warrants during the period	-	-	-	(45,349)	45,349	-	-	-
Share-based compensation	-	-	-	-	2,595	-	-	2,595
Balance at October 31, 2017	88,653,128	22,597,563	90,000	30,000	4,742,000	(85,680)	(27,349,377)	24,506
Net income (loss) and other comprehensive income (loss)	-	-	-	-	-	81,180	(471,603)	(390,423)
Share-based compensation	-	-	-	-	5,205	-	-	5,205
Balance at July 31, 2018	88,653,128	22,597,563	90,000	30,000	4,747,205	(4,500)	(27,820,980)	(360,712)

Other comprehensive income (loss) for the period comprises the net unrealized gain (loss) on available-for-sale securities.

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

SONA NANOTECH INC. (Formerly "Stockport Exploration Inc.")
Unaudited Condensed Interim Consolidated Statements of Cash Flows
For the nine-month periods ended July 31, 2018 and 2017

(expressed in Canadian dollars)

	For the Nine-Months Ended July 31	
	2018	2017
	\$	\$
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net income (loss) for the period	(471,603)	510,576
Adjustments to income not involving cash		
Amortization	-	414
Share-based compensation	5,205	12,092
Accretion expense	10,000	22,500
Change in fair value of convertible debenture liability	-	(50,282)
Recovery of resource properties	-	(121,939)
Loss (gain) on sale of marketable securities	7,036	(278,661)
Interest income (note 7)	-	(198,675)
	<u>(449,362)</u>	<u>(103,975)</u>
Net change in non-cash working capital balances related to operations		
Increase in sales taxes recoverable	(4,775)	(1,347)
Decrease (increase) in prepaid expenses and deposits	8,196	(10)
Increase in accounts payable and accrued liabilities	<u>243,977</u>	<u>123,621</u>
	<u>(201,964)</u>	<u>18,289</u>
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Cash paid on line of credit	-	(211,468)
	<u>-</u>	<u>(211,468)</u>
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Resource property interests and options	(4,504)	(119,511)
Cash received pursuant to option agreements (note 7)	-	325,000
Sales taxes recoverable related to resource property interests	104	832
Proceeds on sale of marketable securities	<u>422,228</u>	<u>471,336</u>
	<u>417,828</u>	<u>677,657</u>
NET CHANGE IN CASH DURING THE PERIOD	215,864	484,478
CASH, beginning of period	<u>428,917</u>	<u>18,989</u>
CASH, end of period	<u><u>644,781</u></u>	<u><u>503,467</u></u>

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

SONA NANOTECH INC. (Formerly “Stockport Exploration Inc.”)
Notes to the Unaudited Condensed Interim Consolidated Financial Statements
For the periods ended July 31, 2018 and 2017

1. Nature of operations

These unaudited condensed interim consolidated financial statements include the accounts of Sona Nanotech Inc. (formerly “Stockport Exploration Inc.”) (the “Company”) and its wholly-owned subsidiaries, 6321593 Canada Inc. and Minera Zapoteca, S.A. de C.V.

The Company is in the process of exploring its resource properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. To date, the Company has not earned significant revenues. The recoverability of the amounts shown for resource properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, obtaining necessary financing and permitting to complete the development, and future profitable production or proceeds from the disposition thereof. The Company is incorporated and domiciled in Canada, and its head office is located at 1969 Upper Water Street, Suite 2001, Halifax, Nova Scotia.

During the period ended July 31, 2018, the Company entered into a definitive agreement related to the proposed acquisition of Sona Nanotech Ltd. (“Sona”), a private corporation involved in the nanotechnology life sciences industry. The transaction closed subsequent to the end of the period (note 16).

2. Basis of Presentation and Going Concern

Going Concern

These unaudited condensed interim consolidated financial statements have been prepared using International Financial Reporting Standards (“IFRS”) applicable to a going concern, which contemplate the realization of assets and settlement of liabilities in the normal course of business as they come due.

For the nine-month period ended July 31, 2018, the Company had a net loss of approximately \$0.5 million (year ended October 31, 2017 - net loss of \$2.3 million) and had an accumulated deficit of approximately \$27.8 million as at July 31, 2018 (October 31, 2017 - \$27.3 million). The Company has no income or cash flow from operations and had a negative working capital balance of approximately \$1.0 million at July 31, 2018 (October 31, 2017 - negative working capital balance of \$0.9 million). In addition to its working capital requirements, the Company must secure sufficient funding to maintain legal title to its resource properties, to fund any exploration and development activities and to fund its general and administrative costs. Such material uncertainties 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. Nevertheless, there is no assurance that these initiatives will be successful or sufficient.

The Company’s ability to continue as a going concern is dependent upon its ability to fund its working capital and exploration requirements and, eventually, to generate positive cash flows, either from operations or the sale of properties. These unaudited interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and

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For the periods ended July 31, 2018 and 2017

balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

Statement of Compliance

The Company prepares its unaudited condensed interim consolidated financial statements in accordance with Canadian generally accepted accounting principles (“GAAP”) as set out in the Handbook of Chartered Professional Accountants of Canada – Part 1 (“CPA Canada Handbook”), which incorporates IFRS as issued by the International Accounting Standards Board (“IASB”).

These unaudited 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 condensed interim consolidated financial statements should be read in conjunction with the Company’s annual audited consolidated financial statements for the year ended October 31, 2017.

The policies applied in these unaudited condensed interim consolidated financial statements are based on the IFRS as of September 28, 2018, the date the Board of Directors approved the financial statements. Any subsequent changes to IFRS that are given effect in the Company’s annual consolidated financial statements for the year ended October 31, 2018 could result in the restatement of these unaudited condensed interim consolidated financial statements.

Basis of Presentation

The condensed interim consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments recorded at fair value. Items included in the financial statements of each of the Company’s subsidiaries are measured using the currency of the primary economic environment in which the entity operates (“functional currency”). The Company’s functional currency is the Canadian dollar, which is also the presentation currency of the Company.

Use of Estimates and Judgments

The preparation of financial statements under IFRS requires the Company to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and further periods if the review affects both current and future periods.

3. Significant Accounting Policies

These financial statements have been prepared using the same policies and methods of computation as the annual consolidated financial statements of the Company for the year ended October 31, 2017. Refer to note 3, *Significant Accounting Policies*, of the Company’s annual consolidated financial statements for the year ended October 31, 2017 for information on the accounting policies as well as new accounting standards not yet effective.

4. Financial Instruments

The Company recognizes financial instruments based on their classification. Depending on the financial instruments’ classification, changes in subsequent measurements are recognized in net income (loss) or comprehensive income (loss).

If a financial instrument is measured at fair value, changes in its fair value shall usually be recognized in net income (loss) in the period in which the change occurs, with some exceptions, such as for cash flow hedges and available-for-sale investments. For investments designated as being available-for-sale, changes in the fair value shall be recorded directly in Shareholders’ Equity in a separate account called “*Accumulated Other Comprehensive Income (Loss)*” until the asset is disposed of or becomes impaired. At that time, the gains and losses are transferred to net income (loss).

The Company has implemented the following classifications:

- Cash is classified as “*Loans and Receivables*”. After their initial fair value measurement, they are measured at amortized cost using the effective interest method.
- Marketable securities are classified as “*Available-for-Sale*”. Financial assets classified as Available-for-Sale are recognized initially at fair values plus transaction costs and are subsequently carried at fair value, with changes in the fair value recorded in other comprehensive income. The fair value measurements are based on quoted prices in active markets for identical instruments (Level 1).
- Accounts payable and accrued liabilities are classified as “*Other Financial Liabilities*”. After their initial fair value measurement, they are measured at amortized cost using the effective interest method.
- Convertible debentures are classified as “*Financial Assets or Financial Liabilities at Fair Value through Profit or Loss*”. The convertible debentures issued on October 31, 2013 included certain embedded derivatives, which are included in convertible debentures on the statement of financial position (note 11). After initial recognition at fair value, the convertible debentures are remeasured each period at fair value, with changes in fair value recognized in non-operating income in the consolidated statement of income (loss) and comprehensive income (loss). The fair value measurements are based on significant unobservable inputs (Level 3).

a) Fair value

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective

in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying values of cash, accounts payable, convertible notes, and convertible debentures approximate their fair value.

b) Foreign currency rate risk

A portion of the Company’s transactions occur in foreign currencies; accordingly, the related financial assets are subject to fluctuations in the respective exchange rates.

For the period ended July 31, 2018, the sensitivity of the Company’s net income due to changes in the exchange rate between the Canadian dollar and foreign currencies (primarily the United States dollar) would have impacted net income by \$1,153 for a 5% increase or decrease in the Canadian dollar.

c) Concentration of credit risk

Management does not believe it is exposed to any significant concentration of credit risk except that a significant portion of its cash is on deposit with a major Canadian bank.

d) Liquidity risk

The Company’s approach to managing liquidity risk is to continue to maintain sufficient liquidity to be able to meet the funding of its liabilities when required (note 2).

e) Interest rate risk

The Company has cash; accordingly, the Company’s interest income is susceptible to fluctuations in interest rates.

5. Capital Management

The Company’s capital structure consists of share capital, the equity portion of convertible notes, warrants, and contributed surplus, which at July 31, 2018 was \$27.5 million (October 31, 2017 - \$27.5 million). The Company’s objective when managing capital is to maintain adequate levels of funding to support the acquisition and exploration of resource properties and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing. 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.

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6. Property and equipment

	Office equipment	Exploration equipment	Total
	\$	\$	\$
<i>Cost</i>			
Balance at November 1, 2016	11,845	32,629	44,474
Write-down of capital assets	(11,845)	(32,629)	(44,474)
Balance at October 31, 2017 and July 31, 2018	-	-	-
<i>Accumulated amortization</i>			
Balance at November 1, 2016	9,998	29,216	39,214
Depreciation	414	768	1,182
Write-down of capital assets	(10,412)	(29,984)	(40,396)
Balance at October 31, 2017 and July 31, 2018	-	-	-
<i>Carrying amounts</i>			
As at October 31, 2017 and July 31, 2018	-	-	-

7. Resource properties

The Company’s resource properties consist of the following:

	Kenya	Canada		
	Nyanza	KM61	Seymour Lake	Total
	\$	\$	\$	\$
Balance at November 1, 2016	2,947,820	928,960	376,325	4,253,105
Net additions during the period	35,165	6,739	-	41,904
Recovery of resource properties	-	-	121,939	121,939
Disposal upon sale of subsidiaries	(2,982,985)	-	-	(2,982,985)
Option payments received	-	-	(498,264)	(498,264)
Balance at October 31, 2017	-	935,699	-	935,699
Net additions during the period	-	3,600	-	3,600
Balance at July 31, 2018	-	939,299	-	939,299

Kenya

i) Sale of Kenyan Subsidiaries

On August 1, 2017, Stockport Exploration Inc. and 6321593 Canada Inc. disposed of their two Kenya subsidiaries, Stockport Exploration of Kenya Limited and Stockport Mining Kenya Limited, to an arms-length third party. The sale included all assets and liabilities of each subsidiary, with no proceeds received

on the sale. At the time of the sale, the balance of the Company’s resource property expenses in Kenya was \$2,982,985. As a result of the disposal, the Company recorded a loss on sale of subsidiaries of \$2,601,932 on its consolidated statement of comprehensive loss for the year ended October 31, 2017. This consisted of the disposal of \$2,982,985 of resource property assets, net of the assets and liabilities of the Kenyan subsidiaries sold. With the sale of the subsidiaries, the Company has no further operations in Kenya.

During the year ended October 31, 2017, the Company had received proceeds of USD\$120,000 (CAD\$164,318) for the sale of certain Nyanza property equipment. The sale was recorded as a gain on sale of equipment on the consolidated statement of comprehensive loss for the year ended October 31, 2017.

Canada

i) KM61

The Company holds a 100% interest in the KM61 property, which is a molybdenum-copper-silver prospect, located in northwestern Ontario, contiguous with the Seymour Lake project. The majority of the KM61 property, including the mineralized zone, is subject to a 0.5% net smelter royalty (“NSR”). Of the remaining claims on the KM61 property, certain portions are subject to a 3% NSR and the balance are not subject to any royalties. The Company can repurchase 50% of the 0.5% NSR for \$250,000 and/or 50% of the 3% NSR for \$1.0 million.

As at July 31, 2018, the Company determined that there were no indicators of impairment or impairment reversals on the KM61 property.

ii) Seymour Lake

The Seymour Lake property is a tantalum-lithium-beryllium prospect located in northwestern Ontario, in the Crescent Lake area of the Thunder Bay Mining District. Certain portions of the Seymour Lake property are subject to a 3% NSR, of which 1.5% can be purchased by the Company for \$1.0 million on or before January 24, 2024.

On January 5, 2016, the Company entered into a cash and share option agreement with Ardiden Limited (“Ardiden”) of Australia to acquire 100% of the Company’s Seymour Lake concessions for gross proceeds of \$1.0 million. During the year ended October 31, 2016, the Company received a total of \$175,000 in cash and \$250,000 of Ardiden shares pursuant to the terms of the option agreement.

During the year ended October 31, 2017, Ardiden completed the option agreement with the Company. Pursuant to the agreement, the Company received further cash from Ardiden of \$325,000 and received Ardiden shares with a fair value of \$371,939. Total payments received from Ardiden pursuant to the option agreement, in cash and shares, totalled \$1.1 million.

During the year ended October 31, 2015, the Company wrote-down the value of its Seymour Lake property to \$775,000, which was the net present value of the future cash flows associated with the Ardiden cash and share option agreement to acquire the property, using a discount rate of 20%. The fair

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value of the Ardiden shares received upon completion of the agreement was greater than the \$250,000 of shares pursuant to the original agreement, therefore a reversal of the Seymour Lake impairment of \$121,939 was recorded as a recovery of resource property during the year ended October 31, 2017.

All amounts received from Ardiden pursuant to the option agreement were recorded against resource property expenditures at their net present value, with the difference between the amounts received and the net present value recorded as interest income. The total amount recorded as interest income during the year ended October 31, 2017 was \$198,675, and \$498,264 was recorded as against resource properties.

8. Accounts payable and accrued liabilities

	July 31, 2018	October 31, 2017
	\$	\$
Trade accounts payable and accrued liabilities	500,019	364,118
Amounts payable to related parties (note 15)	1,043,281	936,109
	<u>1,543,300</u>	<u>1,300,227</u>

9. Capital Stock

a) Authorized

The Company has authorized an unlimited number of common shares without par value.

b) Issued and outstanding

As at July 31, 2018 and October 31, 2017, the Company has 88,653,128 common shares issued and outstanding with a value of \$22,597,563. There were no shares issued by the Company during the nine-month period ended July 31, 2018 or the year ended October 31, 2017.

10. Stock options

The Company has a stock option plan (the “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 closing share price of the day preceding the date of grant.

The estimated fair value of options recognized has been estimated at the grant date using the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions, including the expected volatility. Changes in the assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable estimate of the fair value of the Company’s stock options. During the nine-month period ended July 31, 2018 and the year ended October 31, 2017, the Company did not grant any stock options. 1,325,000 stock options expired during the nine-month period ended July 31, 2018 (year ended October 31, 2017 – 1,300,000 stock options expired).

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Changes in stock options during the nine-month period ended July 31, 2018 and the year ended October 31, 2017 are summarized as follows:

	Nine-months ended July 31, 2018		Year ended October 31, 2017	
	Number	Weighted average exercise price (\$)	Number	Weighted average exercise price (\$)
Outstanding - beginning of period	4,975,000	0.07	6,275,000	0.09
Forfeited or expired	(1,325,000)	0.10	(1,300,000)	0.17
Outstanding - end of period	<u>3,650,000</u>	0.05	<u>4,975,000</u>	0.07

As at July 31, 2018, the Company had outstanding stock options entitling the holders to acquire additional common shares as follows:

Weighted average exercise price per share (\$)	Number of options outstanding	Expiry date	Weighted average remaining contractual life (years)	Number of options exercisable
0.05	50,000	August 20, 2018	0.05	50,000
0.05	1,200,000	June 5, 2019	0.85	1,200,000
0.05	200,000	February 16, 2021	2.55	200,000
0.05	1,750,000	July 11, 2021	2.95	1,750,000
0.07	250,000	July 4, 2019	0.93	250,000
0.07	<u>200,000</u>	September 11, 2019	1.12	<u>200,000</u>
0.05	<u>3,650,000</u>		1.96	<u>3,650,000</u>

As at July 31, 2018, 5,215,313 options were available for granting under the Plan (October 31, 2017 – 3,890,313). The estimated value of options earned during the nine-month period ended July 31, 2018 was \$5,205 (year ended October 31, 2017 - \$14,687).

11. Convertible Debentures

On October 31, 2013, the Company completed a private placement of 1,196 units at a price of \$1,001 per unit, for aggregate gross proceeds of \$1,197,196. The proceeds of the financing were used to fund expenditures, including a two-phased exploration and potential surface gold recovery program at the Company’s Nyanza Project in Kenya.

During the year ended October 31, 2014, the Company elected to proceed with the second phase of the project. As a result, the convertible debenture holders were entitled to receive:

- a repayment of the convertible debenture in the amount of 100% of the investment (\$1,000 per unit) based on 75% of free cash flow generated from the surface gold recovery project;
- a preferred share in Stockport Mining Kenya Limited (“SMK”). \$1 per unit was allocated to the cost of the preferred share. The preferred share will pay a premium entitlement of 110% of the

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original investment (\$1,100 per unit) from 75% of free cash flow generated from the gold recovery project and is then redeemed by SMK; and

- if the amount of the debenture plus the 110% premium entitlement is not paid within the five year maturity date of October 31, 2018, then the amount of debt and premium entitlement, less any repayments to that date, will be converted into common shares of the Company at a conversion price of \$0.50 per share.

Under the terms of this financing, the Company also issued 1,000 warrants with each unit. The 1,196,000 warrants were exercisable at the commencement of the second phase of the project at a price of \$0.10 per share and expire on October 31, 2018. An initial value of \$30,000 was assigned as the fair value of the warrants.

Details of the amounts repayable related to the convertible debenture are as follows:

	July 31, 2018	October 31, 2017
	\$	\$
Phase I	299,299	299,299
Phase II	897,897	897,897
Total financing proceeds after Phase I and Phase II	1,197,196	1,197,196
Premium entitlement (110%)	1,316,916	1,316,916
Total amount to be repaid by October 31, 2018	2,514,112	2,514,112
Estimated fair value of amount to be repaid	125,705	125,705

As at July 31, 2018, the Company has estimated the fair value of its convertible debenture liability based upon its full settlement obligation to issue 5,028,223 common shares at the maturity date of October 31, 2018. It is the Company’s intention to settle the convertible debenture liability at maturity through the issuance of common shares. The Company estimated the fair value of its obligation to issue these shares at \$125,705 based on the market trading price of \$0.025 per share as at July 31, 2018 and as at October 31, 2017. If the share price was \$0.01 per share higher or lower, the fair value of the convertible debenture liability would increase or decrease by \$50,000.

12. Convertible Notes

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 were issued at an interest rate of 12% per annum, payable quarterly, and were initially repayable by the Company on or before the maturity date of March 27, 2018. Effective October 20, 2015, the interest rate on the Notes was amended to 15% per annum. During the period ended July 31, 2018, the Company extended the maturity date of the Notes by 18 months to September 27, 2019.

The principal amount of the Notes is convertible into common shares of the Company at the election of the holder at the rate of \$0.05 of principal converted per share (the “Conversion Price”). If the Notes are

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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 \$0.05 per share or a five-day volume weighted-average price (“VWAP”) preceding the date of conversion, whichever is higher. The holders of the Notes have not yet elected to convert any unpaid accrued interest to common shares of the Company.

The Company has assessed the respective value of the Notes and the conversion component. The Notes have been initially recorded at a value of \$205,000 and the equity component of the Notes has been valued at \$90,000. The initial recorded value of the Notes, in the amount of \$205,000, has been accreted to the face value of the Notes over the term of three years. During the nine-month period ended July 31, 2018 and the year ended October 31, 2017, the change in the recorded value of the Notes was as follows:

Recorded value of the Notes, November 1, 2016	\$ 255,000
Accretion expense for the year ended October 31, 2017	<u>30,000</u>
Recorded value of the Notes, October 31, 2017	\$ 285,000
Accretion expense for the period ended July 31, 2018	<u>10,000</u>
Recorded value of the Notes, July 31, 2018	<u>\$ 295,000</u>

In preparing the allocation of value between the Notes and the equity component of the Notes, the Company estimated an interest rate of 25% for a similar debt instrument with no conversion option. If the Company had used an interest rate of 20%, the recorded value of the equity component of the Notes would have been \$30,000 lower. If the Company had used an interest rate of 30%, the recorded value of the equity component of the Notes would have been \$40,000 higher.

13. Warrants

Warrant activity during the nine-month period ended July 31, 2018 and the year ended October 31, 2017 was as follows:

	Nine-months ended July 31, 2018			Year ended October 31, 2017		
		Weighted - average exercise price per warrant (\$)	Amount (\$)		Weighted - average exercise price per warrant (\$)	Amount (\$)
	Number			Number		
Outstanding - beginning of period	1,196,000	0.10	30,000	9,039,750	0.07	75,349
Warrants expired	-	-	-	(7,843,750)	0.06	(45,349)
Outstanding - end of period	<u>1,196,000</u>	0.10	<u>30,000</u>	<u>1,196,000</u>	0.10	<u>30,000</u>

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During the year ended October 31, 2017, 7,843,750 warrants expired unexercised. As at July 31, 2018, the Company had the following common share purchase warrants outstanding:

Expiry date	Number of warrants outstanding	Exercise price (\$)	Number of warrants exercisable
October 31, 2018	<u>1,196,000</u>	0.10	<u>1,196,000</u>

14. Related Party Transactions

During the nine-month period ended July 31, 2018, the Company incurred management service fees of \$27,000 and rent and office costs of \$17,369 to a company owned by certain key management (year ended October 31, 2017 – management service fees of \$36,000 and rent and office costs of \$21,540). The management service fees were incurred on a cost recovery basis and include general and administration charges such as utilities, accounting services and investor relations services of the Company.

During the year ended October 31, 2015, the Company received proceeds from an operating line of credit of \$250,000 by a company owned by certain key management of the Company. Interest on the operating line of credit was payable monthly at prime plus 1%. As at October 31, 2016, the Company had an outstanding line of credit amount of \$211,468 and accrued interest payable of \$1,307 on the line of credit balance outstanding. During the year ended October 31, 2017, the Company paid off the line of credit in full, including all accrued interest.

On February 25, 2015, the Company completed a \$295,000 bridge loan financing by the issuance of unsecured convertible promissory notes. Certain directors of the Company contributed \$195,000 towards the Notes financing. As at July 31, 2018, accrued interest on the Notes in the amount of \$96,677 was payable to related parties (October 31, 2017 - \$74,801).

As at July 31, 2018, total amounts payable to officers, directors and companies owned thereby were \$1,238,281 (October 31, 2017 - \$1,131,109), including \$195,000 of the principal amounts received from related parties pursuant to the convertible note financing, which have a carrying value of \$195,000 (October 31, 2017 – carrying value of \$188,390).

15. Contingency and Commitment

a) Contingency

The Company has an employment arrangement with the President and Chief Executive Officer of the Company which provides that, should a change in control event occur, the President may elect to terminate his employment with the Company, in which event the Company is required to pay the President a lump sum payment equal to 2.5 times his annual salary. The Company also has an arrangement with a Technical Consultant to the Company which provides that, should a change in control event occur, the Technical Consultant may elect to terminate his arrangement with the Company, in which event the Company is required to pay the Technical Consultant a lump sum payment equal to 2.0 times his annual remuneration. The payment of this change in control settlement would be subject to the

Company maintaining an average market capitalization in excess of CDN \$25 million, based on any 10-day volume weighted trading price within the three-month period following the effective date of the change in control.

b) Commitments

At July 31, 2018, the Company has a management services agreement with a company owned by certain key management of the Company for the provision of management services, rent and other office costs, at a fee of \$57,540 per year, continuing until both parties mutually agree to terminate.

16. Subsequent Events

Amalgamation

On March 22, 2018, Stockport Exploration Inc. entered into a definitive agreement relating to the acquisition of Sona Nanotech Ltd., a private corporation existing under the laws of Nova Scotia. Sona is a nanotechnology life sciences corporation that has developed two proprietary methods for manufacturing gold nanoparticles.

Pursuant to the definitive agreement with Sona, Stockport Exploration Inc. will complete an amalgamation with Sona to form Sona Nanotech Inc. (“Amalco”) and thereafter complete the issuance to Stockport shareholders of one common share of Amalco for every four common shares of Stockport held. Shareholders of Sona will be issued one common share of Amalco in exchange for every 1.5802 common shares of Sona held. Subject to the acceptance of the appropriate exchange, the amalgamation would result in the issuance of approximately 22,163,282 common shares of Amalco to the securityholders of Stockport. This will represent approximately 50% of the issued and outstanding common shares of Amalco after completion of the transaction. The transaction was subject to regulatory and shareholder approvals prior to completion. Subsequent to the end of the period, the proposed transaction was approved by shareholders, received regulatory approval, and was completed on August 8, 2018. Upon completion of the transaction with Sona, the Company changed its name to Sona Nanotech Inc.

In addition, the Company’s Board of Directors, upon approval by written consents of a majority of the minority shareholders of Stockport, made the decision to voluntarily delist from the 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 is 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 Company submitted its listing application to the CSE on September 28, 2018.

Financing

On September 28, 2018, the Company completed a private placement financing at \$0.25 per common share to raise gross proceeds of \$2.0 million, by the issuance of 8,000,000 common shares (the “Offering”). In connection with the Offering, the Company paid \$150,000 in finder’s fees and issued finder’s share purchase warrants to a private company controlled by a director and a consultant to Sona. The share purchase warrants give the right to purchase up to 600,000 common shares at an exercise price of \$0.25 per share until September 27, 2020.