

Financial Statements of

SONA NANOTECH INC.

For the years ended October 31, 2020 and 2019

(Expressed in Canadian Dollars)

February 26, 2021

Management's Report

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

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of Sona Nanotech Inc.

Opinion

We have audited the financial statements of Sona Nanotech Inc. (the "Company") which comprise the statements of financial position as at October 31, 2020 and 2019, and the statements of comprehensive loss, changes in deficiency and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information (collectively referred to as the "financial statements").

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 of the accompanying financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the

preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, Canada
February 26, 2021

Sona Nanotech Inc.
Statements of Financial Position
As at October 31, 2020 and 2019
Expressed in Canadian dollars

	October 31, 2020 \$	October 31, 2019 \$
Assets		
Current assets		
Cash	102,782	580,656
Amounts receivable and other (note 4)	76,594	32,886
Government grant receivable (note 5)	360,601	-
Marketable securities	8,000	4,500
	<u>547,977</u>	618,042
Property and equipment (note 6)	<u>176,652</u>	241,169
Total assets	<u>724,629</u>	859,211
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	2,669,301	718,176
Current portion of long-term debt (note 8)	1,490,793	-
Convertible notes and accrued interest (note 9)	-	496,659
	<u>4,160,094</u>	1,214,835
Long-term debt (note 8)	<u>-</u>	666,819
Total liabilities	4,160,094	1,881,654
Deficiency		
Shareholders' deficiency	<u>(3,435,465)</u>	(1,022,443)
Total liabilities and deficiency	<u>724,629</u>	859,211

Basis of presentation and going concern (note 2)
Commitments and contingencies (note 19)
Subsequent events (note 21)

Approved on behalf of the Board of Directors on February 26, 2021.

"Daniel Whittaker"
Director

"Robert McKay"
Director

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

Sona Nanotech Inc.
Statements of Loss and Comprehensive Loss
For the years ended October 31, 2020 and 2019
Expressed in Canadian dollars

	2020 \$	2019 \$
Expenses		
Research and development costs	3,606,036	51,896
Professional and consulting fees (notes 14 and 15)	940,638	376,503
Salaries and benefits	904,879	528,901
Management services (note 15)	228,000	228,000
Sales and marketing	136,471	39,260
Securities and regulatory	98,959	48,080
Depreciation	66,367	51,104
Administrative	53,325	42,959
Rent and related costs (note 15)	47,961	52,248
Travel	10,791	77,037
Share-based compensation	3,092,539	241,896
Recovery of project expenses (note 5)	(3,176,812)	-
	<u>(6,009,154)</u>	<u>(1,737,884)</u>
Other income (expenses)		
Repayable government loans fair value adjustment (note 8)	(295,807)	194,078
Scientific research and experimental development tax credits	55,000	81,826
Interest expense on long-term debt (note 8)	(2,461)	(8,000)
Accreted interest on repayable government loans (note 8)	(15,706)	(60,330)
Interest expense on convertible notes (note 9)	(7,395)	(44,250)
Unrealized gain (loss) on available-for-sale securities	3,500	(1,000)
Accreted interest on convertible notes (note 9)	-	(33,000)
Loss on debt settlement (note 10)	-	(80,000)
Loss on disposal of resource properties (note 17)	-	(833,149)
	<u>(262,869)</u>	<u>(783,825)</u>
Net loss and comprehensive loss for the year	<u>(6,272,023)</u>	<u>(2,521,709)</u>
 Loss per share – basic and diluted	 <u>(0.10)</u>	 <u>(0.05)</u>
 Weighted-average number of common shares outstanding - basic and diluted	 <u>60,182,339</u>	 <u>54,744,245</u>

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

Sona Nanotech Inc.
Statements of Changes in Deficiency
For the years ended October 31, 2020 and 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 year	-	-	-	-	-	(2,521,709)	(2,521,709)
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 11)	206,250	59,710	-	-	(18,460)	-	41,250
Share-based compensation expense	-	-	-	-	241,895	-	241,895
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 year	-	-	-	-	-	(6,272,023)	(6,272,023)
Shares issued upon note conversion, net of costs (note 9)	2,520,270	543,775	(42,000)	-	-	-	501,775
Shares issued pursuant to option exercises (note 11)	425,000	200,070	-	-	(84,445)	-	115,625
Shares issued pursuant to warrant exercises (note 12)	596,250	275,517	-	(126,455)	-	-	149,062
Share-based compensation expense	-	-	-	-	3,092,539	-	3,092,539
Balance, October 31, 2020	61,271,778	8,847,446	-	-	3,341,317	(15,624,228)	(3,435,465)

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

Sona Nanotech Inc.
Statements of Changes in Cash Flows
For the years ended October 31, 2020 and 2019
Expressed in Canadian dollars

	2020	2019
	\$	\$
Operating activities		
Net loss for the year	(6,272,023)	(2,521,709)
Changes to loss not involving cash:		
Depreciation	66,367	51,104
Interest expense	9,856	52,250
Repayable government loans fair value adjustment (note 8)	295,807	(194,078)
Accreted interest on repayable government loans (note 8)	15,706	60,330
Accreted interest on convertible notes (note 9)	-	33,000
Unrealized loss (gain) on available-for-sale securities	(3,500)	1,000
Share-based compensation	3,092,539	241,895
Recovery of project costs (note 5)	(3,176,812)	-
Loss on disposal of resource properties (note 17)	-	833,149
Loss on debt settlement (note 10)	-	80,000
	(5,972,060)	(1,287,171)
Decrease (increase) in amounts receivable and other	(43,708)	258,151
Increase (decrease) in accounts payable and accrued liabilities	1,961,125	(257,891)
	(4,054,643)	(1,362,799)
Financing activities		
Project funding received (note 5)	3,508,376	-
Gross proceeds from long-term debt (note 8)	500,000	257,383
Share issuance costs associated with note conversion (note 9)	(2,279)	-
Proceeds received from the exercise of stock options (note 11)	115,625	41,250
Proceeds received from the exercise of warrants (note 12)	149,062	-
	4,270,784	298,633
Investing activities		
Additions to property and equipment (note 6)	(694,015)	(155,527)
Additions to resource properties (note 17)	-	(3,200)
	(694,015)	(158,727)
Change in cash during the year	(477,874)	(1,222,893)
Cash, beginning of the year	580,656	1,803,549
Cash, end of the year	102,782	580,656

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

Sona Nanotech Inc.
Notes to the Financial Statements
Years ended October 31, 2020 and 2019
Expressed in Canadian dollars

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

The Company’s Board of Directors, upon approval by written consents of a majority of the minority shareholders of the Company, made the decision to voluntarily delist from the TSX Venture Exchange (“TSXV”) and list on the Canadian Securities Exchange (“CSE”). The Company received conditional listing approval from the CSE on July 27, 2018. The CSE listing was subject to the completion of the Transaction with Sona and approval of the CSE for listing. The Company’s common shares were voluntarily delisted from the TSXV on August 7, 2018. The transaction with shareholder approval was completed on August 8, 2018. The Company submitted its listing application to the CSE on September 28, 2018 and commenced trading on October 4, 2018. Effective April 8, 2020, the Company’s common shares were approved for trading on the OTCQB Marketplace under the trading symbol “SNANF”.

2. BASIS OF PRESENTATION AND GOING CONCERN

Basis of presentation

These 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 (note 16). All amounts are expressed in Canadian dollars, unless otherwise noted.

Basis of measurement

These 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. The Company has incurred significant operating losses since inception and has an accumulated deficit of \$15,624,228 as at October 31, 2020 (October 31, 2019 – \$9,352,205).

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 year ended October 31, 2020, the Company incurred a net loss of \$6,272,023 (October 31, 2019 - \$2,521,709). 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 Financial Statements
Years ended October 31, 2020 and 2019
Expressed in Canadian dollars

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Statement of compliance

The 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 February 26, 2021.

b) Critical accounting judgments and estimates

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

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

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

Sona Nanotech Inc.
Notes to the Financial Statements
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Critical accounting judgments and estimates (continued)

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

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

If the weighted average discount rate used in determining the initial fair value and the carrying value at each reporting date of all ACOA loans, with repayment terms based on future revenue, had been determined to be higher by 10% (resulting in a discount rates ranging from 8.9% to 16.5%), or lower by 10% (resulting in a discount rates ranging from 7.3% to 13.5%), the carrying value of the long-term debt at October 31, 2020 would be unchanged (October 31, 2019 - an estimated \$25,000 lower or \$27,000 higher, respectively). If the total forecasted revenue was reduced by 10% or increased by 10%, the carrying value of the long-term debt at October 31, 2020 would be unchanged (October 31, 2019 - an estimated \$8,000 lower or \$8,000 higher, respectively).

Share-based payments

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

Deferred income taxes

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

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

Sona Nanotech Inc.
Notes to the Financial Statements
Years ended October 31, 2020 and 2019
Expressed in Canadian dollars

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Financial Instruments

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

The Company's financial instruments are classified and subsequently measured as follows:

Financial instrument	IFRS 9
Cash	Amortized cost
Amounts receivable	Amortized cost
Marketable securities	FVTPL
Accounts payable	Amortized cost
Long-term debt	Amortized cost
Convertible notes and interest	Amortized cost

Financial Assets

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

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

Impairment of financial assets at amortized cost

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

Financial Liabilities

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

Offsetting financial instruments

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

Sona Nanotech Inc.
Notes to the Financial Statements
Years ended October 31, 2020 and 2019
Expressed in Canadian dollars

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Cash

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

e) Property and equipment

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

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

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

Office equipment	30% per annum
Laboratory equipment	20% per annum
Furniture and fixtures	20% per annum

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

f) Government assistance

Non-repayable government assistance is recorded in the period earned as other income or netted against expenses. During the year ended October 31, 2020, the Company recorded \$3,176,812 (year ended October 31, 2019 – \$nil) of non-repayable government grants as a recovery of project expenses on the statement of loss and comprehensive loss and \$692,165 as a cost recovery of property and equipment (note 6).

Repayable government loans are recorded initially at fair value, with the difference between book value and fair value recorded as other income or other expense. During year ended October 31, 2020, the Company recorded \$295,807 as other expense (year ended October 31, 2019 – \$194,078 as other income). At October 31, 2020, \$360,601 is included as a government grant receivable (note 5).

g) Research and development tax credits

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

Sona Nanotech Inc.
Notes to the Financial Statements
Years ended October 31, 2020 and 2019
Expressed in Canadian dollars

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Share-based payments

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

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

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

i) Income taxes

Current income taxes

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

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

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

Deferred income taxes

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

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

Sona Nanotech Inc.
Notes to the Financial Statements
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Income taxes (continued)

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

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

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

j) Loss per share

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

k) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material. There were no material provisions recorded within the financial statements as at October 31, 2020.

l) Foreign currency translation

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

m) Related party transactions

Unless otherwise disclosed herein, all transactions with related parties are in the normal course of business and are measured at the exchange amount (note 15).

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n) New accounting standards adopted during the year

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 financial statements of the Company and determined the adoption of IFRS 16 did not have a significant impact on the Company’s financial statements, as the Company does not have long-term leases.

4. AMOUNTS RECEIVABLE AND OTHER

	2020	2019
	\$	\$
Amounts receivable from the government	61,780	15,956
Prepaid expenses and other	14,814	16,930
	76,594	32,886

5. GOVERNMENT GRANT RECEIVABLE

On March 31, 2020, Sona announced that it has been awarded a \$4.1 million grant from Canada’s Next Generation Manufacturing (“NGen”), Canada’s Advanced Manufacturing Supercluster, to develop and commercialize its Covid-19 rapid-response antigen test. This non-repayable grant has been used to accelerate the development of a prototype. The Supercluster funding is pursuant to an initiative led by NGen to support companies as they prepare to produce critically needed technologies, equipment, and medical products to aid in the fight against Covid-19. The Company received \$3,508,376 of the NGen grant during the year ended October 31, 2020. The change in the NGen funding during the year ended October 31, 2020 was as follows:

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

During the year ended October 31, 2020, eligible expense recoveries of \$3,868,977 were incurred. Of that amount, \$3,798,061 was paid in cash and \$70,916 is included in accounts payable as of October 31, 2020.

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6. PROPERTY AND EQUIPMENT

	Office Equipment	Laboratory Equipment	Furniture and Fixtures	Software	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	9,519	367,119	-	317,377	694,015
Cost recovery	(9,519)	(365,269)	-	(317,377)	(692,165)
As at October 31, 2020	11,633	300,547	13,144	-	325,324
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	3,500	60,231	2,636	-	66,367
As at October 31, 2020	7,777	135,385	5,510	-	148,672
Carrying amount					
Balance, October 31, 2019	7,356	223,543	10,270	-	241,169
Balance, October 31, 2020	3,856	165,162	7,634	-	176,652

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2020	2019
	\$	\$
Trade accounts payable and accrued liabilities	2,067,374	417,230
Amounts payable to related parties (note 15)	601,927	300,946
	2,669,301	718,176

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8. LONG-TERM DEBT

	2020	2019
	\$	\$
Atlantic Canada Opportunities Agency (“ACOA”) under the Business Development Program interest-free loan. Annual repayments are calculated between 3% - 5% of gross product revenue. As at October 31, 2020 and 2019, the amount drawn down on the loans was \$978,332.	978,332	666,819
Numus Financial Inc. (“Numus”) loan with an annual interest rate of prime plus 1% and a 2% lender fee, repayable on demand (note 15).	512,461	-
Balance – end of year	1,490,793	666,819
Less: current portion	(1,490,793)	-
Long-term portion	-	666,819

Debt continuity

	2020	2019
	\$	\$
Balance – beginning of year	666,819	672,277
Borrowings from ACOA	-	257,383
Repayable government loans fair value adjustment	295,807	(194,078)
Borrowings from Numus, including a 2% lender fee	510,000	-
Debt settlement through share issuance	-	(137,093)
Accreted interest on repayable government loans	15,706	60,330
Accrued interest	2,461	8,000
Balance – end of year	1,490,793	666,819

During the year ended October 31, 2019, a loan from an arm’s length creditor was converted into common shares of the Company at a deemed value of \$0.158 per share for all outstanding principal and interest at the creditor’s discretion. The outstanding balance of the loan and accrued interest, \$137,093, was settled on July 16, 2019. Refer to note 10 for details.

9. CONVERTIBLE NOTES

The convertible notes were acquired as part of the Transaction, described in note 1, during the year ended October 31, 2018. 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 bore 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 were 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 were not repaid within three days of the maturity date, they would be automatically converted into common shares of the Company at the Conversion Price. If interest was not paid each quarter, any accrued interest could 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.

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9. CONVERTIBLE NOTES (continued)

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, has been accreted to the face value of the Notes over the remaining term. During the years ended October 31, 2019 and 2020, the change in the recorded value of the Notes was as follows:

<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 the December 31, 2019 settlement date	-

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.

Escrowed Shares

As at October 31, 2020, 6,162,227 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 year ended October 31, 2020, consultants and employees exercised 425,000 options with a weighted-average exercise price of \$0.27 per share for proceeds of \$115,625. On the exercise dates, the weighted-average share price was \$4.30 per common share.

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10. SHARE CAPITAL SHARE CAPITAL (continued)

a) Common shares (continued)

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

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.

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 October 31, 2020, 1,789,678 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.

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11. STOCK OPTIONS (continued)

The following are the weighted-average assumptions used in calculating the value of the stock options granted during the years ended October 31, 2020 and October 31, 2019:

	October 31, 2020	October 31, 2019
Risk-free interest rate	0.5%	1.8%
Expected life	5.00	5.00
Expected volatility	150%	142%
Expected dividend per share	0.0%	0.0%
Exercise price	\$4.75	\$0.35

The following table reconciles the stock option activity during the years ended October 31, 2020 and 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 / forfeited	(206,250)	(0.24)
Balance, October 31, 2019	1,897,500	0.31
Issued	2,965,000	4.75
Exercised	(425,000)	(0.27)
Expired / forfeited	(100,000)	(0.35)
Balance, October 31, 2020	4,337,500	3.35

The following table summarizes information relating to outstanding and exercisable stock options as at October 31, 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	0.7	237,500	237,500	\$0.20
January 21, 2024	3.2	1,152,500	825,000	\$0.35
March 17, 2025	4.4	1,082,500	257,500	\$0.60
July 7, 2025	4.7	1,000,000	-	\$7.47
September 24, 2025	4.9	665,000	-	\$6.57
October 17, 2025	5.0	200,000	-	\$7.91

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12. WARRANTS

The following table reconciles the warrant activity during the years ended October 31, 2020 and 2019:

	Number of warrants	Weighted-average exercise price
	#	\$
Balance, November 1, 2018 and October 31, 2019	596,250	0.25
Exercised	(596,250)	(0.25)
Balance, October 31, 2020	<u>-</u>	<u>-</u>

There were no warrants issued during the year ended October 31, 2020 or the year ended October 31, 2019. 596,250 warrants were exercised during the year ended October 31, 2020 at an exercise price of \$0.25 per share for gross proceeds of \$149,062. On the exercise dates, the weighted-average share price was \$6.35 per common share. As at October 31, 2020, there are no warrants outstanding.

13. INCOME TAXES

The provision for income taxes reported differs from the amounts computed by applying the applicable income tax rates to the net loss before tax provision due to the following:

	2020	2019
	\$	\$
Loss before income taxes	6,272,023	2,521,709
Statutory rate	29.0%	31.0%
Tax recovery at statutory rate	1,818,887	781,730
Decrease (increase) of losses and deductible temporary differences not recognized in current and prior years	(672,672)	5,447,197
Permanent differences and other	(1,146,215)	(6,228,927)
Income tax recovery	<u>-</u>	<u>-</u>

	2020	2019
	\$	\$
Deferred income tax assets		
Losses carried forward	1,872,407	1,202,541
Capital assets	11,810	1,611
Share issuance costs	28,874	36,267
	1,913,091	1,240,419
Deferred income tax liabilities	-	-
	1,913,091	1,240,419
Unrecognized deferred income tax assets	(1,913,091)	(1,240,419)
Net deferred income tax assets	<u>-</u>	<u>-</u>

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13. INCOME TAXES (continued)

Non-capital losses

As at October 31, 2020, the Company had approximately \$6.5 million in losses available to reduce future taxable income for Canadian income tax purposes. The benefit of these losses has not been recorded in the accounts as realization is not considered probable. These losses may be claimed no later than:

		\$
During the year ended	2033	450
	2034	25,485
	2035	533,456
	2036	388,884
	2037	463,779
	2038	854,053
	2039	1,276,295
	2040	2,914,173
		<u>6,456,575</u>

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 is summarized as follows:

	2020	2019
	\$	\$
Salaries and consulting fees earned	353,410	191,529
Share-based compensation expense	2,336,374	148,310
	<u>2,689,784</u>	<u>339,839</u>

15. RELATED PARTY TRANSACTIONS

During the year ended October 31, 2020, the Company incurred costs for service fees from a related party, Numus Financial Inc. ("Numus"), a company controlled by significant shareholders, including one director of Sona, in the amount of \$228,000 (year ended October 31, 2019 – \$228,000), controller services of \$47,500 (year ended October 31, 2019 - \$30,000), and incurred rent and administrative costs from Numus in the amount of \$30,600 (year ended October 31, 2019 – \$30,603). On July 16, 2019, \$153,000 of the outstanding amounts owing to Numus were settled through the issuance of shares of the Company (note 10).

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

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15. RELATED PARTY TRANSACTIONS (continued)

During the year ended October 31, 2020, the Company entered into a loan agreement with Numus. The loan is for up to \$600,000, has an annual interest rate of prime plus 1% and has a 2% lender fee. The loan is repayable in full, including all interest and lender fees, on demand. The Company has drawn \$510,000 on the loan, including lender fees, during the year ended October 31, 2020 and has accrued interest of \$2,461 as at October 31, 2020. Subsequent to October 31, 2020, the Company drew the remaining \$100,000 of the loan from 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.

As at October 31, 2020, the amount owing to Numus, including accounts payable, the loan balance and accrued interest, was \$944,344 (October 31, 2019 – \$218,550).

As a result of the Transaction described in note 1, the Company acquired convertible notes (the “Notes”) of \$295,000 with accrued interest of \$146,255. Certain directors and significant shareholders of the Company contributed \$195,000 towards the Notes financing. During the year ended October 31, 2020, the Company accrued related party interest of \$4,888 on the Notes (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 (note 10). 1,665,942 common shares with a value of \$333,188 were issued to related parties pursuant to the Note conversion.

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

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 common shares (note 10). As at October 31, 2020, the amount owing to RCI was \$131,294 (October 31, 2019 - \$43,646).

As at October 31, 2020, an amount of \$38,750 was also owing to a director of the Company.

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 common shares (note 10).

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”).

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16. TRANSACTION WITH ANTLER GOLD INC. (continued)

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

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

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

17. RESOURCE PROPERTIES

	Canada KM61
	<u>\$</u>
Balance, November 1, 2017	-
Net additions as a result of the Transaction	939,299
Net additions during the year	<u>1,201</u>
Balance, October 31, 2018	940,500
Net additions during the year	3,200
Loss on disposal of resource properties	<u>(943,700)</u>
Balance, October 31, 2019	<u>-</u>

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17. RESOURCE PROPERTIES (continued)

KM61

The Company sold its 100% interest in the KM61 property as part of the Purchase Agreement with Antler. As described in 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. 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 notes, warrants and contributed surplus, which at October 31, 2020 was approximately \$12.2 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.

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+.

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

e) Liquidity Risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they become due. The Company has a planning and budgeting process to monitor operating cash requirements, including amounts projected for capital expenditures, which are adjusted as input variables change. These variables include, but are not limited to, the ability of the Company to generate revenue from current and prospective customers, general and administrative requirements of the Company and the availability of capital markets. As these variables change, liquidity risks may necessitate the need for the Company to issue equity or obtain debt financing. Refer to note 2 for further details related to the ability of the Company to continue as a going concern.

The Company is currently pursuing financing alternatives and completed a private placement financing of \$2.3 million subsequent to the end of the year (note 21). 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 October 31, 2020:

	Within 1 year	2-3 years	4-5 years	Over 5 years	Total
	\$	\$	\$	\$	\$
Accounts payable	2,669,301	-	-	-	2,669,301
Long-term debt	1,490,793	-	-	-	1,490,793
	4,160,094	-	-	-	4,160,094

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.

For the year ended October 31, 2020, 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 \$61,170 for a 5% increase or decrease in the Canadian dollar.

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

g) Interest Rate Risk

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

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

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

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

At October 31, 2020 and October 31, 2019, 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.

19. COMMITMENTS AND CONTINGENCIES

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

As at October 31, 2020, 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. The complaint asserts claims under Sections 10(b) and 20 of the Securities Exchange Act of 1934 on behalf of a putative class of investors who purchased or otherwise acquired stock of the Company in US transactions between 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. The case is in its early stages.

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

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

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20. COMPARATIVE FIGURES

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

21. SUBSEQUENT EVENTS

Subsequent to October 31, 2020, 56,250 stock options were exercised at a weighted-average exercise price of \$0.43, for gross proceeds of \$24,375. The weighted-average share price on the date of the option exercise was \$2.20 per common share.

Subsequent to October 31, 2020, the Company granted 250,000 incentive stock options in accordance with the Company's stock option plan to a director of the Company. The options are exercisable into common shares of the company at a price of \$3.36 per share and will expire five years from the date of grant.

On December 16, 2020, the Company closed a non-brokered private placement financing with the issuance of 2,259,200 units at \$1.00 per unit, for gross proceeds of \$2,259,200. Officers and directors of the Company subscribed for 250,000 units pursuant to the financing. Each unit consists of one common share and one-half of a common share purchase warrant. Each whole warrant is exercisable to purchase one common share of the Company at a price of \$1.25 per share for a period of 24 months from the closing date of the financing.