

Unaudited Condensed Interim Financial Statements of

SONA NANOTECH Inc.

For the quarters ended April 30, 2022 and 2021

(Expressed in Canadian Dollars)

June 27, 2022

Management's Report

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

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

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

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

Sona Nanotech Inc.
Unaudited Interim Statements of Financial Position
As at April 30, 2022 and October 31, 2021
Expressed in Canadian dollars

	April 30, 2022	October 31, 2021 (audited)
	\$	\$
Assets		
Current assets		
Cash	827,305	1,183,260
Amounts receivable and other (note 4)	143,111	215,990
Marketable securities	9,000	13,000
	<u>979,416</u>	<u>1,412,250</u>
Property and equipment (note 6)	<u>80,224</u>	<u>111,058</u>
Total assets	<u>1,059,640</u>	<u>1,523,308</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	591,122	1,410,605
Current portion of long-term debt (notes 8 and 14)	-	635,310
	<u>591,122</u>	<u>2,045,915</u>
Long term debt (note 8)	<u>752,494</u>	<u>700,761</u>
Total liabilities	<u>1,343,616</u>	<u>2,746,676</u>
Deficiency		
Shareholders' deficiency	<u>(283,976)</u>	<u>(1,223,368)</u>
Total liabilities and deficiency	<u>1,059,640</u>	<u>1,523,308</u>

Basis of presentation and going concern (note 2)
 Commitments and contingencies (note 16)

Approved on behalf of the Board of Directors on June 27, 2022.

"Jim Megann"
 Director

"Michael Gross"
 Director

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

Sona Nanotech Inc.
Unaudited Interim Statements of Loss and Comprehensive Loss
For the three and six-months ended April 30, 2022 and 2021
Expressed in Canadian dollars

	Three-months ended April 30, 2022 \$	Three-months ended April 30, 2021 \$	Six-months ended April 30, 2022 \$	Six-months ended April 30, 2021 \$
Expenses				
Research and development costs	22,833	89,311	45,917	202,795
Salaries and benefits	217,789	351,592	472,502	664,134
Professional and consulting fees (note 13)	89,859	230,988	146,490	325,411
Management services (note 13)	12,000	57,000	54,000	114,000
Sales and marketing	7,500	37,676	30,875	77,745
Securities and regulatory	41,775	58,173	59,922	82,960
Rent and related costs (note 14)	13,006	13,384	25,449	25,683
Foreign exchange gain	561	(25,007)	2,003	(68,926)
Administrative	58,222	36,664	113,912	64,492
Depreciation expense	14,263	16,092	30,834	32,630
Travel	26,607	600	37,829	1,107
Share-based compensation	823,870	2,252,552	1,821,506	5,311,248
Recovery of project expenses (note 5)	-	-	-	(27,318)
	<u>(1,328,335)</u>	<u>(3,119,025)</u>	<u>(2,841,248)</u>	<u>(6,805,961)</u>
Other income (expenses)				
Scientific research and experimental development credits	-	2,846	-	2,846
Accreted interest on repayable government loans (note 8)	(26,327)	-	(51,733)	-
Interest expense	-	(5,279)	(3,519)	(10,292)
Unrealized gain (loss) on available-for-sale securities	(3,000)	5,000	(4,000)	7,500
Gain on debt settlement (note 14)	-	-	410,727	-
	<u>(29,327)</u>	<u>2,567</u>	<u>351,475</u>	<u>54</u>
Net loss and comprehensive loss for the period	<u>(1,357,662)</u>	<u>(3,116,458)</u>	<u>(2,489,773)</u>	<u>(6,805,907)</u>
Loss per share – basic and diluted	<u>(0.02)</u>	<u>(0.05)</u>	<u>(0.04)</u>	<u>(0.11)</u>
Weighted-average number of common shares outstanding - basic and diluted	<u>68,987,904</u>	<u>63,643,329</u>	<u>67,819,088</u>	<u>63,041,375</u>

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

Sona Nanotech Inc.

Unaudited Interim Statements of Changes in Equity

For the six-months ended April 30, 2022 and 2021 and October 31, 2021

Expressed in Canadian dollars

	Number of Common Shares	Common Shares	Warrants	Contributed Surplus	Deficit	Total
		\$	\$	\$	\$	\$
Balance, November 1, 2020	61,271,778	8,847,446	-	3,341,317	(15,624,228)	(3,435,465)
Net loss and comprehensive loss for the period	-	-	-	-	(6,805,907)	(6,805,907)
Units issued pursuant to private placement, net of costs (note 9)	2,259,200	1,672,379	577,306	-	-	2,249,685
Shares issued pursuant to At-The-Market share offering, net of costs (note 9)	621,000	939,177	-	-	-	939,177
Shares issued pursuant to option exercises (note 9)	93,750	80,379	-	(36,629)	-	43,750
Shares issued pursuant to warrant exercises (note 9)	10,000	17,632	(5,132)	-	-	12,500
Share-based compensation expense	-	-	-	5,311,248	-	5,311,248
Balance, April 30, 2021	64,255,728	11,557,013	572,174	8,615,936	(22,430,135)	(1,685,012)
Net loss and comprehensive loss for the period	-	-	-	-	(3,561,312)	(3,561,312)
Shares issued pursuant to At-The-Market share offering, net of costs (note 9)	691,400	1,045,315	-	-	-	1,045,315
Shares issued pursuant to option exercises (note 9)	237,500	79,771	-	(32,271)	-	47,500
Shares issued pursuant to warrant exercises (note 9)	-	-	-	-	-	-
Share-based compensation expense	-	-	-	2,930,141	-	2,930,141
Balance, October 31, 2021	65,184,628	12,682,099	572,174	11,513,806	(25,991,447)	(1,223,368)
Net loss and comprehensive loss for the period	-	-	-	-	(2,489,773)	(2,489,773)
Shares issues pursuant to debt settlement (note 8 and 14)	2,556,276	1,022,510	-	-	-	1,022,510
Shares issued pursuant to At-The-Market share offering, net of costs (note 9)	1,147,000	550,149	-	-	-	550,149
Shares issued pursuant to option exercises (note 9)	100,000	60,574	-	(25,574)	-	35,000
Share-based compensation expense	-	-	-	1,821,506	-	1,821,506
Balance, April 30, 2022	68,987,904	14,315,332	572,174	13,309,738	(28,481,220)	(283,976)

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

Sona Nanotech Inc.
Unaudited Interim Statements of Changes in Cash Flows
For the six-months ended April 30, 2022 and 2021
Expressed in Canadian dollars

	Six-months ended April 30, 2022 \$	Six-months ended April 30, 2021 \$
Operating activities		
Net loss for the period	(2,489,773)	(6,805,907)
Changes to loss not involving cash:		
Depreciation	30,834	32,630
Interest expense	3,519	10,292
Unrealized (gain) loss on available-for-sale securities	4,000	(7,500)
Accreted interest on repayable government loans	51,733	-
Share-based compensation	1,821,506	5,311,248
Recovery of project costs (note 5)	(106,123)	(27,318)
Gain on debt settlement (note 14)	(410,727)	-
	(1,095,032)	(1,476,555)
Decrease (increase) in amounts receivable and other	72,879	(31,543)
Decrease in accounts payable and accrued liabilities	(25,074)	(239,679)
	(1,047,227)	(1,757,777)
Financing activities		
Project funding received (note 5)	106,123	387,919
Proceeds from a related party loan (note 14)	-	100,000
Proceeds received upon private placement financing, net of costs (note 9)	-	2,249,685
Proceeds received from At-The-Market share offering, net of costs (note 9)	550,149	939,177
Proceeds received upon exercise of stock options (note 10)	35,000	43,750
Proceeds received upon exercise of warrants (note 9)	-	12,500
	691,272	3,733,031
Change in cash during the period	(355,955)	1,975,254
Cash, beginning of the period	1,183,260	102,782
Cash, end of the period	827,305	2,078,036

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

Sona Nanotech Inc.
Unaudited Notes to the Interim Financial Statements
For the periods ended April 30, 2022 and 2021
Expressed in Canadian dollars

1. NATURE OF OPERATIONS

Sona Nanotech Inc. (formerly Stockport Exploration Inc.) (“Stockport”), 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” or the “Company”). The boards of directors of Stockport 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 is listed on the Canadian Securities Exchange (“CSE”) and trades under the symbol “SONA”. Effective April 8, 2020, the Company’s common shares were approved for trading on the OTCQB Marketplace under the trading symbol “SNANF”.

2. BASIS OF PRESENTATION AND GOING CONCERN

Basis of presentation

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

Going concern

The Company’s operations have been financed through the sale of common shares, issuance of debt and government funding. The Company has incurred significant operating losses since inception and has an accumulated deficit of \$28,481,220 as at April 30, 2022 (October 31, 2021 – \$25,991,447).

These unaudited condensed interim financial statements have been prepared on a going-concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. For the six-month period ended April 30, 2022, the Company incurred a net loss of \$2,489,773 (year ended October 31, 2021 – net loss of \$10,367,219). The Company has negative cash flow from operations. In addition to its working capital requirements, the Company must secure sufficient funding to further develop its gold nanorod products and to fund its general operating costs. Such circumstances create material uncertainties that may cast significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. Management is evaluating alternatives to secure additional financing so that the Company can continue to operate as a going concern. However, there can be no assurance that these initiatives will be successful or sufficient.

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

Sona Nanotech Inc.
Unaudited Notes to the Interim Financial Statements
For the periods ended April 30, 2022 and 2021
Expressed in Canadian dollars

Covid 19 Pandemic

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Statement of compliance

The unaudited condensed interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The Board of Directors approved these financial statements for issue on June 29, 2022.

These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”), as issued by the IASB. Accordingly, certain information normally included in annual financial statements prepared in accordance with IFRS, as issued by the IASB, have been omitted or condensed. The unaudited condensed interim financial statements should be read in conjunction with the Company’s audited financial statements for the year ended October 31, 2021.

The policies applied in these unaudited condensed interim financial statements are based on the IFRS as of June 29, 2022, the date the Board of Directors approved the financial statements. Any subsequent changes to IFRS that are given effect in the Company’s financial statements for the year ended October 31, 2022 could result in the restatement of these unaudited condensed interim financial statements.

These financial statements have been prepared using the same policies and methods of computation as the audited financial statements of the Company for the year ended October 31, 2021. Refer to note 3, Significant Accounting Policies, of the Company’s audited financial statements for the year ended October 31, 2021 for information on the accounting policies, significant accounting estimates and judgements, and new accounting standards not yet effective.

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

Sona Nanotech Inc.
Unaudited Notes to the Interim Financial Statements
For the periods ended April 30, 2022 and 2021
Expressed in Canadian dollars

4. AMOUNTS RECEIVABLE AND OTHER

	April 30, 2022	October 31, 2021
	\$	\$
Amounts receivable from the government	130,417	132,828
Prepaid expenses and other	12,694	83,162
	143,111	215,990

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. Eligible costs under the NGen program were incurred by the Company until November 15, 2020. During the period ended April 30, 2021, eligible expense recoveries of \$27,318 were incurred.

During the period ended April 30, 2022, the Company also incurred eligible expense recoveries of \$106,123 under the Industrial Research Assistance Program (“IRAP”) of Canada, which has been offset against salaries and benefits on the statement of loss and comprehensive loss (April 30, 2021 - \$49,409).

6. PROPERTY AND EQUIPMENT

	Office Equipment	Laboratory Equipment	Furniture and Fixtures	Total
Cost	\$	\$	\$	\$
As at November 1, 2020	11,633	300,547	13,144	325,324
Additions	-	-	-	-
As at October 31, 2021	11,633	300,547	13,144	325,324
Additions	-	-	-	-
As at April 30, 2022	11,633	300,547	13,144	325,324
Accumulated depreciation				
As at November 1, 2020	7,777	135,385	5,510	148,672
Depreciation charge	2,855	60,110	2,629	65,594
As at October 31, 2021	10,632	195,495	8,139	214,226
Depreciation charge	1,001	28,529	1,034	30,834
As at April 30, 2022	11,633	224,024	9,443	245,100
Carrying amount				
Balance, October 31, 2021	1,001	105,052	5,005	111,058
Balance, April 30, 2022	-	76,523	3,701	80,224

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	April 30, 2022	October 31, 2021
	\$	\$
Trade accounts payable and accrued liabilities	511,019	576,014
Amounts payable to related parties (note 14)	80,103	834,591
	591,122	1,410,605

Sona Nanotech Inc.
Unaudited Notes to the Interim Financial Statements
For the periods ended April 30, 2022 and 2021
Expressed in Canadian dollars

8. LONG-TERM DEBT

	April 30, 2022	October 31, 2021
	\$	\$
Atlantic Canada Opportunities Agency (“ACOA”)	752,494	700,761
Numus Financial Inc. loan (note 14)	-	635,310
Balance – end of period	752,494	1,336,071
Less: current portion	-	(635,310)
Long-term portion	752,494	700,761
Face Value ACOA Loans	978,332	978,332

The Company has two interest free loans with ACOA under the Business development program. There is no fixed term to the loans and repayments are to be made based on 3% and 5% of annual gross product revenue. The carrying amount of the loans is determined by computing the present value of the estimated future cash flows. During the period ended April 30, 2022 the Company recorded \$51,733 of accretion expense (2021 - \$nil), relating to the ACOA loans.

During the year ended October 31, 2020, the Company entered into a loan agreement with Numus Financial Inc. (“Numus”). The loan is for up to \$600,000, has an annual interest rate of prime plus 1% and has a 2% lender fee. The loan is repayable in full, including all interest and lender fees, on demand. For the year ended October 31, 2021 the Company had drawings of \$635,310, including lender fees and accrued interest, on the loan.

On January 5, 2022, the Company arranged a debt settlement of \$1,452,724 in amounts owed to Numus through the issuance of 2,556,276 common shares at a deemed price of \$0.45 per share (note 14). These amounts include settlement of the loan payable with fees and accrued interest of \$638,829.

<i>Debt continuity</i>	Period ended April 30, 2022	Year ended October 31, 2021
	\$	\$
Balance – beginning of period	1,336,071	1,490,793
Repayable government loans fair value adjustment	-	(277,571)
Borrowings from Numus, including a 2% lender fee	-	102,000
Accrued interest, Numus	3,519	20,849
Debt settlement, Numus	(638,829)	-
Accreted interest on repayable government loans	51,733	-
Balance – end of period	752,494	1,336,071

Sona Nanotech Inc.
Unaudited Notes to the Interim Financial Statements
For the periods ended April 30, 2022 and 2021
Expressed in Canadian dollars

9. SHARE CAPITAL

a) Common shares

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

Private Placement Financing

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

The value allocated to the common shares issued was \$1,679,452, and the value allocated to the common share purchase warrants was \$579,748. Total costs associated with the private placement, consisting primarily of professional and regulatory fees, were \$9,515. The Company allocated \$7,073 to the costs of issuing the common shares, for net proceeds to the Company of \$1,672,379. The remaining \$2,442 were allocated to costs of issuing the warrants, for net proceeds to the Company of \$577,306. All securities issued pursuant to the private placement were subject to a four-month hold period in accordance with securities legislation.

At-The-Market Share Offering (the "ATM")

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

During the year ended October 31, 2021, the Company sold 1,312,400 common shares pursuant to the ATM for gross proceeds of \$2,271,427. Costs of the shares sold under the ATM during the period were \$286,935, for net proceeds to the Company of \$1,984,492. Sona intends to use the net proceeds of the ATM for general corporate and working capital requirements and funding ongoing operations including research and development.

During the six-month period ended April 30, 2022 the Company sold 1,147,000 common shares pursuant to the ATM for gross proceeds of \$567,163. Costs of the shares sold under the ATM during this period were \$17,014, for net proceeds to the Company of \$550,149.

Option Exercise

During the six-month period ended April 30, 2022 100,000 options were exercised with an exercise price of \$0.35 per share for proceeds of \$35,000. On the exercise date, the weighted-average share price was \$0.39 per common share.

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

Warrant Exercise

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

Sona Nanotech Inc.
Unaudited Notes to the Interim Financial Statements
For the periods ended April 30, 2022 and 2021
Expressed in Canadian dollars

10. STOCK OPTIONS

The Company has adopted a stock option plan, providing the Board of Directors with the discretion to issue an equivalent number of options of up to 10% of the issued and outstanding share capital of the Company. Stock options are granted with an exercise price of not less than the closing share price the date preceding the date of grant. As at April 30, 2022, 1,185,040 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.

The following are the weighted-average assumptions used in calculating the value of the stock options granted during the six-month period ended April 30, 2022 and year ended October 31, 2021.

	<u>April 30, 2022</u>	<u>October 31, 2021</u>
Risk-free interest rate	1.35%	0.7%
Expected life	5.00	5.00
Expected volatility	150%	150%
Expected dividend per share	0.0%	0.0%
Exercise price	\$0.44	\$1.61

The following table reconciles the stock option activity during the six-month period ended April 30, 2021 and the year ended October 31, 2021:

	<u>Number of options</u>	<u>Weighted-average exercise price</u>
	#	\$
Balance, November 1, 2020	4,337,500	3.35
Issued	585,000	1.61
Exercised	(331,250)	(0.28)
Balance, October 31, 2021	4,591,250	3.35
Issued	1,250,000	0.44
Exercised	(100,000)	(0.35)
Expired / forfeited	(27,500)	0.60
Balance, April 30, 2022	5,713,750	2.80

Sona Nanotech Inc.
Unaudited Notes to the Interim Financial Statements
For the periods ended April 30, 2022 and 2021
Expressed in Canadian dollars

The following table summarizes information relating to outstanding and exercisable stock options as at April 30, 2022:

Expiry date	Weighted-average remaining contractual life (in years)	Number of options outstanding	Number of options exercisable	Weighted-average exercise price	Black-Scholes option value
January 21, 2024	1.7	1,002,500	1,002,500	\$0.35	\$262,779
March 17, 2025	2.9	1,011,250	1,011,250	\$0.60	\$559,939
July 7, 2025	3.2	1,000,000	750,000	\$7.47	\$6,776,537
September 24, 2025	3.4	665,000	498,750	\$6.57	\$3,950,876
October 17, 2025	3.5	200,000	150,000	\$7.91	\$1,435,138
November 2, 2025	3.5	250,000	125,000	\$3.36	\$762,118
September 28, 2026	4.4	335,000	83,750	\$0.30	\$88,127
November 11, 2026	4.5	1,000,000	-	\$0.44	\$400,227
January 4, 2027	4.7	250,000	-	\$0.45	\$90,400
		5,713,750	3,621,250		

11. WARRANTS

The following table reconciles the warrant activity during the period ended April 30, 2022 and year ended October 31, 2021:

	Number of warrants	Weighted-average exercise price
	#	\$
Balance, October 31, 2020	-	-
Issued pursuant to financing	1,129,600	1.25
Exercised	(10,000)	(1.25)
Balance, October 31, 2021	1,119,600	1.25
Exercised	-	-
Balance, April 30, 2022	1,119,600	1.25

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

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

12. INCOME TAXES

Please refer to Note 12 in the Company's annual financial statements for the year ended October 31, 2021 for income tax disclosures.

Sona Nanotech Inc.
Unaudited Notes to the Interim Financial Statements
For the periods ended April 30, 2022 and 2021
Expressed in Canadian dollars

13. KEY MANAGEMENT COMPENSATION

Key management includes the Company’s directors, Chief Executive Officer (“CEO”), Chief Financial Officer (“CFO”), and the Chief Scientific Officer (“CSO”). Compensation awarded to key management for the six months ended April 30, 2022 and 2021 is summarized as follows:

	2022	2021
	\$	\$
Salaries and consulting fees earned	265,768	307,388
Share-based compensation expense	900,794	2,715,209
	1,166,562	3,022,597

14. RELATED PARTY TRANSACTIONS

During the period ended April 30, 2022, the Company incurred costs for service fees from a related party, Numus, a company controlled by significant shareholders, including one director of Sona, in the amount of \$54,000 (April 30, 2021 – \$114,000), controller services of \$15,000 (April 30, 2021 - \$16,250), and incurred rent and administrative costs from Numus in the amount of \$15,300 (April 30, 2021 – \$15,300). Effective January 1, 2022, the monthly service fee was reduced from \$19,000 to \$4,000 per month.

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

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

During the year ended October 31, 2020, the Company entered into a loan agreement with Numus. The loan is for up to \$600,000, has an annual interest rate of prime plus 1% and has a 2% lender fee. The loan is repayable in full, including all interest and lender fees, on demand. The Company has drawn \$612,000 on the loan, including a lender fee of \$12,000, and has accrued interest of \$23,310 as at October 31, 2021. This amount has been settled during the quarter ended January 31, 2022 (see below).

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

During the period ended April 30, 2022 the Company granted 1,250,000 incentive stock options in accordance with the Company’s stock option plan to directors and officers of the Company. 1,000,000 of the options issued have an exercise price of \$0.44 per share and 250,000 have an exercise price of \$0.45. These options vest at the rate of 25% every six months and will expire five years from the date of issuance.

Sona Nanotech Inc.
Unaudited Notes to the Interim Financial Statements
For the periods ended April 30, 2022 and 2021
Expressed in Canadian dollars

During the year ended October 31, 2021, the Company granted 585,000 stock options under the Company's stock option plan. 550,000 of the stock options were issued to directors and officers of Sona. 250,000 of the options issued have an exercise price of \$3.36 per share and 300,000 have an exercise price of \$0.30. These options vest at the rate of 25% every six months and will expire five years from the date of issuance. During the year ended October 31, 2021, officers and directors exercised 237,500 stock options at an exercise price of \$0.20, for gross proceeds of \$47,500. On the exercise date the share prices was \$0.30 per common share.

As at April 30, 2022, the amount owing to Randall Consulting Inc. ("RCI"), a company controlled by an officer of Sona, was \$26,346 (October 31, 2021 - \$37,483). As at April 30, 2022 and October 31, 2021, an amount of \$38,750 was also owing to a director of the Company.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Capital Management

The Company's capital structure consists of share capital, warrants and contributed surplus, which at April 30, 2022 was approximately \$28.2 million (October 31, 2021 - \$24.8 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+.

Sona Nanotech Inc.
Unaudited Notes to the Interim Financial Statements
For the periods ended April 30, 2022 and 2021
Expressed in Canadian dollars

e) Liquidity Risk

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

The Company is currently pursuing financing alternatives and completed a debt settlement of \$1.45 million on January 5, 2022 (note 14). There can be no assurance that additional future financings will be available on acceptable terms or at all. If the Company is unable to obtain additional financing when required, the Company may have to substantially reduce or eliminate planned expenditures.

Accounts payables are paid in the normal course of business generally according to their terms.

In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the remaining contractual maturities of the Company's financial liabilities as at April 30, 2022:

	Within 1 year	2-3 years	4-5 years	Over 5 years	Total
	\$	\$	\$	\$	\$
Accounts payable	591,122	-	-	-	591,122
Long-term debt	-	752,494	-	-	752,494
	591,122	752,494	-	-	1,343,616

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 period ended April 30, 2022, 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 \$1,860 for a 5% increase or decrease in the Canadian dollar.

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.

Sona Nanotech Inc.
Unaudited Notes to the Interim Financial Statements
For the periods ended April 30, 2022 and 2021
Expressed in Canadian dollars

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

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

At April 30, 2022 and October 31, 2021, 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.

16. COMMITMENTS AND CONTINGENCIES

The Company has 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 April 30, 2022, the Company has a Services Agreement with Numus. See note 14 for further details.

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

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

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