SERNOVA CORP.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
OCTOBER 31, 2016 AND 2015

(Expressed in Canadian Dollars)

700 Collip Circle
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London, ON N6G 4X8
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Sernova Corp.

We have audited the accompanying consolidated financial statements of Sernova Corp., which comprise the consolidated statements of financial position as at October 31, 2016 and 2015 and the consolidated statements of loss and comprehensive loss, cash flows and changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Sernova Corp. as at October 31, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

A member of Nexia International

Chartered Professional Accountants

February 6, 2017

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SERNOVA CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT OCTOBER 31
(Expressed in Canadian Dollars)

	Note	2016	2015
ASSETS			
Current assets			
Cash and cash equivalents		$ 5,199,451	$ 211,938
Marketable securities		700,000	2,669,025
Amounts receivable	4	231,351	219,315
Prepaid expenses		67,792	23,832
Total current assets		6,198,594	3,124,110
Non-current assets			
Property and equipment, net	5	26,650	29,189
Total non-current assets		26,650	29,189
Total assets		$ 6,225,244	$ 3,153,299
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	6	$ 190,950	$ 199,850
Deferred grants	7	655,324	–
Total current liabilities		846,274	199,850
EQUITY			
Common shares	8	32,902,583	28,588,449
Warrants	8	993,360	935,157
Contributed surplus		3,635,753	3,082,947
Deficit		(32,152,726)	(29,653,104)
Total equity		5,378,970	2,953,449
Total liabilities and equity		$ 6,225,244	$ 3,153,299

Nature and continuance of operations (Note 1)
Commitments and contingencies (Note 11)
Events after the reporting period (Note 15)

Approved and authorized by the Board of Directors on January 27, 2017:

"Frank Holler"	Director	*"Dr. Philip Toleikis"*	Director
Frank Holler		Dr. Philip Toleikis	

See accompanying notes to the consolidated financial statements.

SERNOVA CORP.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED OCTOBER 31,
(Expressed in Canadian Dollars)

	Note	2016	2015
EXPENSES			
Research and development	10	$ 1,199,346	$ 1,793,218
General and administrative	10	1,302,222	1,092,470
Total operating expenses		2,501,568	2,885,688
OTHER ITEMS			
Finance income		(30,113)	(31,995)
Finance costs		9,693	3,351
Foreign exchange loss		18,474	2,433
Net income		(1,946)	(26,211)
Loss and comprehensive loss for the year		$ 2,499,622	$ 2,859,477
Weighted average number of common shares outstanding for the year		147,959,563	136,119,817
Basic and diluted loss per common share		$ 0.02	$ 0.02

See accompanying notes to the consolidated financial statements.

SERNOVA CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED OCTOBER 31,
(Expressed in Canadian Dollars)

	2016	2015
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Loss for the year	$ (2,499,622)	$ (2,859,477)
Adjustments for items not affecting cash:		
Depreciation of property and equipment	7,564	4,987
Patent licence and intellectual property amortization	–	492,075
Share-based compensation	670,193	281,314
Interest accrued on cash and marketable securities	17,955	34,947
Contributions	(698,672)	–
Changes in non-cash working capital balances:		
Amounts receivable	(12,036)	(104,592)
Prepaid expenses	(43,960)	17,976
Accounts payable and accrued liabilities	5,523	(32,020)
Net cash used in operating activities	(2,553,055)	(2,164,790)
INVESTING ACTIVITIES		
Marketable securities, net	1,951,070	248,930
Acquisition of property and equipment	(19,448)	(4,962)
Acquisition of patent rights	–	(81,675)
Net cash provided by investing activities	1,931,622	162,293
FINANCING ACTIVITIES		
Issue of units under private placement	4,200,000	1,600,000
Share issue costs	(200,121)	(75,873)
Issue of common shares on exercise of warrants	39,458	–
Issue of common shares on exercise of stock options	215,613	226,500
Deferred grants	1,353,996	–
Net cash provided by financing activities	5,608,946	1,750,627
Change in cash and cash equivalents during the year	4,987,513	(251,870)
Cash and cash equivalents, beginning of year	211,938	463,808
Cash and cash equivalents, end of year	$ 5,199,451	$ 211,938

Supplementary cash flow information:		
Finder's warrants issued	$ 58,203	$ 11,294
Property and equipment acquired through accounts payable and accrued liabilities	$ –	$ 14,423

See accompanying notes to the consolidated financial statements.

SERNOVA CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED OCTOBER 31, 2016 AND 2015
(Expressed in Canadian Dollars)

	Common Shares	(Note 8)	Warrants	(Note 8)			
	Number	Amount	Number	Amount	Contributed Surplus	Deficit	Total
Balance, October 31, 2015	141,821,720	$ 28,588,449	19,026,040	$ 935,157	$ 3,082,947	$ (29,653,104)	$ 2,953,449
Loss and comprehensive loss for the year	–	–	–	–	–	(2,499,622)	(2,499,622)
Transactions with owners of the Company, recognized directly in equity							
Issue of units under private placement	16,800,000	4,200,000	16,800,000	–	–	–	4,200,000
Share issue costs	–	(258,324)	–	–	–	–	(258,324)
Finder's warrants issued	–	–	521,850	58,203	–	–	58,203
Exercise of stock options	1,398,750	333,000	–	–	(117,387)	–	215,613
Exercise of warrants	131,528	39,458	(131,528)	–	–	–	39,458
Warrants expired unexercised	–	–	(10,000,000)	–	–	–	–
Escrow shares cancelled	(3,472,500)	–	–	–	–	–	–
Share-based compensation	–	–	–	–	670,193	–	670,193
Balance, October 31, 2016	156,679,498	$ 32,902,583	26,216,362	$ 993,360	$ 3,635,753	$ (32,152,726)	$ 5,378,970
Balance, October 31, 2014	131,477,831	$ 26,701,016	31,053,263	$ 923,863	$ 2,949,733	$ (26,793,627)	$ 3,780,985
Loss and comprehensive loss for the year	–	–	–	–	–	(2,859,477)	(2,859,477)
Transactions with owners of the Company, recognized directly in equity							
Issue of units under private placement	8,888,889	1,600,000	8,888,889	–	–	–	1,600,000
Share issue costs	–	(87,167)	–	–	–	–	(87,167)
Finder's warrants issued	–	–	137,151	11,294	–	–	11,294
Warrants expired unexercised	–	–	(21,053,263)	–	–	–	–
Exercise of stock options	1,455,000	374,600	–	–	(148,100)	–	226,500
Share-based compensation	–	–	–	–	281,314	–	281,314
Balance, October 31, 2015	141,821,720	$ 28,588,449	19,026,040	$ 935,157	$ 3,082,947	$ (29,653,104)	$ 2,953,449

See accompanying notes to the consolidated financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

Sernova Corp. (the "Company") was incorporated under the Company Act (British Columbia) on August 19, 1998. Effective May 29, 2001, the Company was continued under the Canada Business Corporations Act.

The Company's head office is located at 700 Collip Circle, Suite 114, London, Ontario, N6G 4X8. The Company's registered address is Suite 1500 – 1055 West Georgia Street, Vancouver, British Columbia, V6E 2N7. The Company is listed on the TSX Venture Exchange under the symbol SVA and is also listed on the OTCQB Venture Market under the symbol SEOVF.

Sernova Corp. is a regenerative medicine company engaged in the research and development of its proprietary Cell Pouch™ and associated technologies including immune-protected therapeutic cells. The Company is focused on developing a commercially-viable treatment for insulin-dependent human diabetes and other metabolic, blood and neurological diseases with therapeutic cells placed into its implanted, prevascularized and scalable medical device (the Cell Pouch™), protected from immune system attack.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") that are applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business for the foreseeable future. The Company has experienced operating losses and cash outflows from operations since its inception, and accordingly, it will require ongoing financing in order to continue its research and development activities. The ability of the Company to continue as a going concern in the long-term depends upon its ability to develop profitable operations and to continue to raise adequate financing. The Company will seek new funding from additional equity financings and/or licensing agreements and collaborations with development partners. Management believes that the Company has sufficient working capital to maintain its operations for at least the next twelve months.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

The policies applied in these consolidated financial statements are based on IFRS issued and in effect as of January 27, 2017, the date the Board of Directors approved these statements.

(b) Basis of measurement:

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value though profit or loss, which are stated at their fair value.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its wholly-owned and controlled subsidiaries.

2. BASIS OF PRESENTATION (cont'd…)

(d) Use of estimates and judgements

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets, liabilities and expenses, as well as the Company's ability to continue as a going concern. The estimates and assumptions made are continually evaluated and have been based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Such estimates and assumptions are inherently uncertain. Actual results could differ materially from these estimates and assumptions. Revisions to estimates are recognized in the period in which the estimate is revised and may impact future periods.

Management has applied significant estimates and assumptions to the following:

Valuation of share-based compensation
The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected: option life, volatility, risk-free interest rate, forfeiture rates, stock option exercise behaviours, dividend yield and corporate performance. Changes in these assumptions affect the fair value estimate for share-based compensation.

3. SIGNIFICANT ACCOUNTING POLICIES

The Company's principal accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

These consolidated financial statements include the accounts of Sernova Corp. as well as Sertocell Biotechnology (US) Corp. and Sertonex Inc., its wholly-owned and controlled subsidiaries. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries, including entities which the Company controls, are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All significant intercompany transactions and balances have been eliminated.

(b) Foreign currency translation

Foreign currency transactions are translated into Canadian dollars as follows: monetary assets and liabilities at the closing rate at the date of the statement of financial position, non-monetary assets at historical rates, and income and expenses at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of loss and comprehensive loss.

(c) Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

(c) Property and Equipment (cont'd…)

The estimated useful lives and the methods of depreciation are reviewed annually and have been calculated as follows:

- Office Equipment – 20% declining balance
- Computer equipment – 30% declining balance
- Laboratory equipment – 20% declining balance

(d) Impairment

Financial assets
A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment test is performed, on an individual basis, for each material financial asset. Other individually non-material financial assets are tested as groups of financial assets with similar risk characteristics. Impairment losses are recognized in profit or loss.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against the respective financial asset. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss

Non-financial assets
The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount is estimated.

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows of other assets or cash-generating units. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount. Impairment losses for intangible assets are recognized in research and development expenses.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

(e) Provisions

Provisions are recognized when a present legal, statutory or constructive obligation exists as a result of past events where it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the consolidated statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, if the effect is material, its carrying amount is the present value of those cash flows.

(f) Government assistance

Government assistance is recognized where there is reasonable assurance that the assistance will be received and any attached conditions will be complied with. When the assistance relates to an expense item, it is recognized as income over the period necessary to match the amount to the costs that it is intended to compensate. When the assistance relates to an asset, it is recognized as deferred government assistance and released to income over the expected useful life of the related asset.

Non-repayable government assistance relating to research and development is recorded as a reduction of expenditures when directly related to such expenditures. Assistance in excess of expenditures are deferred to future periods, to be offset against any future expenditure to be incurred or credited to development costs if they exceed future expenditures on that project.

(g) Research and development costs

Expenditures on research and development activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures will be expensed as incurred. No development costs have been capitalized to date.

Research and development expenses include all direct and indirect operating expenses supporting the products in development.

(h) Share-based compensation

The Company may grant stock options to its directors, officers, employees and consultants and deferred share units ("DSU's") to its directors and officers. The Company records share-based compensation related to stock options using the fair value method using the Black-Scholes option pricing model. The Company records share-based compensation related to DSU's using the fair value of the Company's common shares on the date of grant of the DSU.

The grant-date fair value of the stock options and DSU's are recognized, together with a corresponding increase in contributed surplus, over the period that the performance and/or service conditions are fulfilled. The amount recognized as an expense at each reporting date is adjusted to reflect the number of awards for which the related service and non-market conditions are expected to be met at the vesting date.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

(h) Share-based compensation (cont'd…)

For equity-settled share-based payment transactions, the Company measures the goods and services received, and the corresponding increase in contributed surplus, directly, at the fair value of goods and services received, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or services received, it measures their value by reference to the fair value of the equity instrument granted.

(i) Income taxes

Income tax expense comprises current and deferred taxes which are recognized in profit and loss, except to the extent that they relate to items recognized directly in other comprehensive income or in equity.

Income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities and any adjustment to tax payable in respect of previous years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted, at the reporting date in the countries where the company operates and generates taxable income. Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of loss and comprehensive loss.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Investment tax credits related to research and development expenditures are recorded as government assistance when there is reasonable assurance they will be collected. Investment tax credits can be subject to government audits, so the amount received by the Company may differ from the amounts recorded.

(j) Loss per share

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similar to basic loss per share, except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options, DSU's and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options, DSU's and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. The inclusion of the Company's stock options, DSU's and warrants in the computation of diluted loss per share has an anti-dilutive effect on the loss per share and therefore have been excluded from the calculation of diluted loss per share.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

(k) Financial instruments

Financial assets

A financial asset is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein are recognized in profit or loss.

Cash and cash equivalents and marketable securities

Marketable securities are comprised of short-term debt instruments with an original maturity of more than 90 days and not more than one year on purchase. The Company has classified its cash and cash equivalents and marketable securities as fair value through profit and loss (FVTPL).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value plus transaction costs and subsequently measured at amortized cost using the effective interest rate method less any impairment losses. The Company has classified its amounts receivable as loans and receivables.

Derecognition

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or when the Company has transferred its rights to receive cash flows from the asset.

Financial liabilities

Financial liabilities are recognized initially at fair value plus any directly attributable transaction costs, and subsequently at amortized cost using the effective interest method. The Company has classified its accounts payable, accrued liabilities and deferred grants as financial liabilities.

Derecognition

A financial liability is derecognized when its contractual obligations are discharged, cancelled or expired.

Equity

Common shares, stock options, DSU's and warrants are classified as equity. Incremental costs directly attributable to the issue of common shares and warrants are recognized as a deduction from equity, net of any tax effects. The Company may issue units, comprised of common shares and common share purchase warrants in connection with equity financings. The warrants are valued whereby any premium paid in excess of the market value on the common shares at the time of issue is allocated to the warrants. The value attributed to warrants remain in warrant reserves on expiry.

(l) New standards and interpretations not yet effective

IFRS 9 *Financial Instruments*

In October 2010, the IASB published amendments to IFRS 9 *Financial Instruments* ("IFRS 9") which provides added guidance on the classification and measurement of financial liabilities. In July 2014, the IASB issued its final version of IFRS 9, which completes the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The final standard is mandatorily effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company has not yet assessed the impact of this standard on the consolidated financial statements.

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

(l) New standards and interpretations not yet effective (cont'd…)

IFRS 15 *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"), which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In September 2015, the IASB issued an amendment to IFRS 15 reflecting a one-year deferral of the effective date of the standard to January 1, 2018. The Company has not yet assessed the impact of this standard on the consolidated financial statements.

IFRS 16 *Leases*

In January 2016, the IASB issued IFRS 16 *Leases* ("IFRS 16"), its new lease standard that requires lessees to recognize assets and liabilities for most leases on the statement of financial position. Lessees applying IFRS 16 will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The new standard will be effective from January 1, 2019 with limited early application permitted. The Company has not yet assessed the impact of this standard on the consolidated financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued, but have future effective dates, are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

4. AMOUNTS RECEIVABLE

As at October 31,	2016	2015
Government programs receivable	$ 166,142	$ 164,633
Sales tax credits receivable	65,209	54,682
	$ 231,351	$ 219,315

5. PROPERTY AND EQUIPMENT

	Computer and Office Equipment	Laboratory Equipment	Total
Cost			
Balance, October 31, 2014	$ 21,058	$ 12,579	$ 33,637
Additions	4,962	14,423	19,385
Balance, October 31, 2015	26,020	27,002	53,022
Additions	-	5,025	5,025
Balance, October 31, 2016	$ 26,020	$ 32,027	$ 58,047
Accumulated depreciation			
Balance, October 31, 2014	$ 15,825	$ 3,021	$ 18,846
Depreciation	2,595	2,392	4,987
Balance, October 31, 2015	18,420	5,413	23,833
Depreciation	2,241	5,323	7,564
Balance, October 31, 2016	$ 20,661	$ 10,736	$ 31,397
Net carrying amounts			
October 31, 2015	$ 7,600	$ 21,589	$ 29,189
October 31, 2016	$ 5,359	$ 21,291	$ 26,650

(Expressed in Canadian Dollars)

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at October 31,		2016		2015
Accounts payable	$	116,003	$	53,880
Accrued liabilities		71,383		143,849
Due to related parties (Note 9)		3,564		2,121
	$	190,950	$	199,850

7. DEFERRED GRANTS

In December 2015, the Company was awarded a €5.6 million (approximately $8.5 million) non-dilutive grant by the European Commission's Horizon 2020 program, as part of a consortium. The Company expects to receive total funding in the amount of €944,178 (approximately $1.4 million), representing its portion of the grant, based upon the terms of the grant agreement.

In January 2016, the Company received an initial funding payment related to the grant in the amount of €566,607 ($873,213). Expenditures incurred by the Company related to the grant to October 31, 2016 amounted to $217,889 leaving $655,324 of the grant accrued as deferred grants, which will be recognized against future expenditures covered by the grant. Amounts claimed by the Company against the grant will be subject to an audit by the European Commission.

8. COMMON SHARES, WARRANTS AND OPTIONS

(a) Authorized

Unlimited number of common shares, without par value.

(b) Share capital transactions – years ended October 31, 2016 and 2015

In June 2016, the Company completed a non-brokered private placement for gross cash proceeds of $4,200,000. The offering consisted of 16,800,000 units sold at a price of $0.25 per unit. Each unit consisted of one common share and one common share purchase warrant, with each warrant entitling the holder to purchase one common share of the Company for a period of 24 months at a price of $0.35 per share, subject to abridgement of the exercise period with 30 days' notice to holders in the event that the twenty-day volume weighted price of the Company's common shares exceeds $0.50. The warrants were ascribed a value of $nil representing the difference between the issue price of the units and the fair market value of the shares received as part of the offering.

Costs associated with the private placement totaled $258,324, including cash fees of $200,121 and the issue of 521,850 finder's warrants valued at $58,203, which have been deducted from the gross proceeds. Each finder's warrant entitles the holder to purchase one common share of the Company for a period of 24 months at a price of $0.35 per share, subject to the same hold and abridgement conditions as the warrants included in each unit of the offering.

The Company used the Black-Scholes pricing model to determine the fair value of the finder's warrants granted. The fair values have been estimated with the following assumptions:

(Expressed in Canadian Dollars)

8. COMMON SHARES, WARRANTS AND OPTIONS (cont'd…)

Year ended October 31,	2016	2015
Dividend yield	0.0%	0.0%
Expected volatility	89.1%	110.2%
Risk free interest rate	0.5%	1.5%
Expected life of options	2.0 years	2.0 years

For the year ended October 31, 2016, 1,398,750 stock options were exercised for cash proceeds of $215,613 and 131,528 warrants were exercised for cash proceeds of $39,458.

In May 2015, the Company completed a non-brokered private placement for gross cash proceeds of $1,600,000. The offering consisted of 8,888,889 units sold at a price of $0.18 per unit. Each unit consisted of one common share and one common share purchase warrant, with each warrant entitling the holder to purchase one common share of the Company for a period of 24 months at a price of $0.30 per share, subject to abridgement of the exercise period with 30 days' notice to holders in the event that the twenty-day volume weighted price of the Company's common shares exceeds $0.50. The warrants were ascribed a value of $nil representing the difference between the issue price of the units and the fair market value of the shares received as part of the offering.

Costs associated with the private placement totaled $87,167, including cash fees of $75,873 and the issue of 137,151 finder's warrants valued at $11,294, which have been deducted from the gross proceeds. Each finder's warrant entitles the holder to purchase one common share of the Company for a period of 24 months at a price of $0.30 per share, subject to the same hold and abridgement conditions as the warrants included in each unit of the offering.

For the year ended October 31, 2015, 1,455,000 stock options were exercised for cash proceeds of $226,500.

(c) Performance escrow shares

Included in issued common shares and representing escrow shares as at October 31, 2015 were 3,472,500 shares, subject to performance-based release terms as follows:

a) 1,736,250 common shares on the date the Company receives approval from authorities for the initiation of human trials for a licensed product involving Sertolin™;
b) 1,736,250 common shares on the date the Company enrolls the first patient in a Phase 3 human clinical efficacy trial for a licensed product involving Sertolin™.

In August 2016, all of the 3,472,500 issued and outstanding performance escrow shares were cancelled and returned to treasury. The performance escrow shares had an original value of $nil.

(d) Warrants

The following table summarizes warrants outstanding as at October 31, 2016:

Number of Warrants	Exercise Price	Expiry Date
5,793,464	$ 0.30	May 8, 2017
3,101,048	0.30	May 14, 2017
8,299,250	0.35	June 27, 2018
9,022,600	0.35	June 30, 2018
26,216,362		

(Expressed in Canadian Dollars)

8. COMMON SHARES, WARRANTS AND OPTIONS (cont'd…)

All warrants are exercisable on issuance. Changes in the number of warrants outstanding during the years ended October 31, 2016 and 2015 were as follows:

	2016		2015	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance outstanding, beginning of year	19,026,040	$ 0.35	31,053,263	$ 0.35
Warrants issued in private placement	17,321,850	0.35	9,026,040	0.30
Warrants – scheduled exercise price increase	–	–	(10,000,000)	0.35
Warrants – scheduled exercise price increase	–	–	10,000,000	0.40
Exercised	(131,528)	0.30	–	–
Expired	(10,000,000)	0.40	(21,053,263)	0.34
Balance outstanding, end of year	26,216,362	$ 0.33	19,026,040	$ 0.35

In February 2015, the exercise price of 10,000,000 warrants that were issued related to the Company's February 2013 non-brokered private placement was increased from $0.35 per share to $0.40 per share, based upon the terms of those warrants at the time they were issued. Those warrants expired unexercised in February 2016.

2015 Incentive Plan

Under the 2015 Incentive Plan (the "Plan"), most recently approved by the Company's shareholders on April 29, 2016, the Board of Directors may grant stock options to directors, officers, employees or consultants of the Company and deferred share units ("DSU's") to directors and officers of the Company up to an aggregate of 10% of the Company's issued and outstanding common shares. The number of common shares reserved for issuance as DSU's under the Plan is fixed at a maximum of 1,314,778.

Options granted under the Plan have lives of up to ten years from the date of grant. The vesting schedule of all granted options is determined at the discretion of the Board. According to the terms of the Plan, the exercise price of any options granted must be in accordance with the policies of the TSX Venture Exchange.

The following table summarizes options outstanding as at October 31, 2016:

Number of Options	Exercise Price	Expiry Date
390,000	$ 0.140	March 6, 2017
270,000	0.180	March 6, 2017
1,890,000	0.180	April 18, 2017
500,000	0.180	April 19, 2017
313,600	0.350	July 4, 2018
1,815,000	0.150	January 27, 2019
150,000	0.150	February 11, 2019
2,182,500	0.260	June 25, 2025
2,925,000	0.225	March 14, 2026
10,436,100		

(Expressed in Canadian Dollars)

8. COMMON SHARES, WARRANTS AND OPTIONS (cont'd…)

As at October 31, 2016 there were 10,436,100 options outstanding, representing 6.7% of the Company's issued and outstanding common shares (October 31, 2015 – 8,873,750 options outstanding representing 6.3%).

Changes in the number of options outstanding during the year ended October 31, 2016 and 2015, were as follows:

	2016		2015	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance outstanding, beginning of year	8,873,750	$ 0.19	7,988,750	$ 0.16
Granted	3,393,600	0.24	2,460,000	0.26
Expired	–	–	(120,000)	0.15
Cancelled/Forfeited	(432,500)	0.25	–	–
Exercised	(1,398,750)	0.15	(1,455,000)	0.16
Balance outstanding, end of year	10,436,100	$ 0.21	8,873,750	$ 0.19
Options exercisable, end of year	6,631,438	$ 0.19	6,628,125	$ 0.17

For the year ended October 31, 2016, the Company granted 3,393,600 stock options to officers, employees and consultants at exercise prices of $0.225 or $0.35 per share with expiry dates in July 2018 or March 2026. For the year ended October 31, 2015, the Company granted 2,460,000 stock options to officers, employees and consultants at an exercise price of $0.26 per share with expiry dates in June 2025.

The weighted average grant-date fair value of the stock options granted during the year ended October 31, 2016 and 2015 was $0.18 and $0.23, respectively.

The following table reflects details of the stock options outstanding by range of exercise prices as at October 31, 2016:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.14 to $ 0.18	5,015,000	1.2	$ 0.17	5,015,000	$ 0.17
$ 0.22 to $ 0.26	5,107,500	9.1	0.24	1,302,838	0.25
$ 0.35	313,600	1.7	0.35	313,600	0.35
$ 0.14 to $ 0.35	10,436,100	5.0	$ 0.21	6,631,438	$ 0.19

The Black-Scholes option pricing model used to calculate option values was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differs from the Company's stock options awards. This model also requires highly subjective assumptions, including the expected: option life, volatility, risk-free interest rate, forfeiture rates, stock option exercise behaviours, dividend yield and corporate performance. Changes in these assumptions affect the fair value estimate for share-based compensation.

(Expressed in Canadian Dollars)

8. COMMON SHARES, WARRANTS AND OPTIONS (cont'd…)

The expected risk-free interest rate is based on the implicit yield on a Canadian Government zero-coupon issued with a remaining term equal to the expected term of the option. The expected volatility is based solely on historical volatility for a period equivalent to the expected life of the option. The expected option life is estimated considering the vesting period at the grant date, the contractual life of the option and the average length of time similar grants have remained outstanding in the past. The forfeiture rate has been assigned a zero rate and is an estimate based on the history of the Company's stock option grants. The dividend yield has been assigned a zero value since it is the policy of the Company to not pay dividends on its common shares for the foreseeable future.

The share-based compensation expense was determined based on the fair value of all options at the date of measurement using the Black-Scholes option pricing model with the following weighted-average assumptions:

Year ended October 31,	2016	2015
Dividend yield	0.0%	0.0%
Expected volatility	111.0%	122.6%
Risk free interest rate	1.4%	1.5%
Expected life of options	5.6 years	6.0 years

The Company's Plan allows for the issuance of DSU's to Directors and Officers of the Company in the form of a cash payment or issuance of shares at the time the DSU holder leaves the Company. Since the method of settlement of the DSU's is at the discretion of the Company under the plan, it has been accounted for as an equity settled plan. On June 25, 2015 and March 14, 2016, the Company issued 625,000 and 450,000 DSU's to directors, respectively. The DSU's vest over a three year period after the date of grant. Up to October 31, 2016, 258,203 DSU's had vested.

9. RELATED PARTY TRANSACTIONS

The key management personnel of the Company are the Directors, the President and Chief Executive Officer and the Chief Financial Officer.

Amounts due to related parties, including amounts due to key management personnel, at the period-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. Included in accounts payable and accrued liabilities at October 31, 2016 was $3,564 due to key management personnel (October 31, 2015 – $2,121).

Compensation for key management personnel for the years ended October 31, 2016 and 2015 was as follows:

	2016	2015
Salaries, benefits and fees	$ 523,808	$ 391,637
Director fees and benefits	100,766	115,895
DSU's issued for director compensation	130,459	38,284
Share-based compensation	223,632	81,750
Total related party transactions	$ 978,665	$ 627,566

(Expressed in Canadian Dollars)

10. STATEMENT OF LOSS AND COMPREHENSIVE LOSS SUPPLEMENTARY INFORMATION

Components of the research and development expenses for the years ended October 31, 2016 and 2015 were as follows:

	2016	2015
Salaries, supplies and contract payments	$ 1,477,661	$ 1,062,739
Patent fees and costs	211,706	295,536
Depreciation of property and equipment (Note 5)	7,104	4,756
Amortization of intangible assets	–	492,075
Share-based compensation (Note 8)	299,124	102,745
Contributions and tax credits (Note 7 and 11)	(796,249)	(164,633)
Total research and development expenses	$ 1,199,346	$ 1,793,218

Components of the general and administrative expenses for the years ended October 31, 2016 and 2015 were as follows:

	2016	2015
Salaries, benefits and consulting fees	$ 397,824	$ 320,236
Professional fees	79,382	116,058
Director fees and benefits	101,749	115,895
Investor relations	198,563	212,869
Travel and other costs	153,175	148,612
Depreciation of property and equipment (Note 5)	460	231
DSU's issued for director compensation (Note 8)	130,459	38,284
Share-based compensation (Note 8)	240,610	140,285
Total general and administrative expenses	$ 1,302,222	$ 1,092,470

11. COMMITMENTS AND CONTINGENCIES

In July 2016, the Company was awarded a US$2.45 million (approximately $3.2 million) grant under an agreement with JDRF Therapeutics Fund, LLC ("JDRF"). The grant supports a human clinical trial of Sernova's Cell Pouch™ for treatment of patients with severe type 1 diabetes at a major transplantation center in the United States. In August 2016, the Company received an initial funding payment from JDRF in the amount of US$367,768 ($480,783) as per the terms under the agreement. Pursuant to the agreement with JDRF, the Company has committed to perform certain clinical trial activities and to use commercially reasonable efforts to introduce a diabetes product into a major market. Further, the agreement creates an obligation for the Company to pay royalties to JDRF on any future net sales received by the Company from a diabetes product or in certain future license or disposition transactions limited to a certain percentage of funds received over time up to a prescribed limit related to the amount of the grant funding.

By participating in the HemAcure consortium and accepting grant funding, the Company has committed to perform certain product development activities, as outlined in the grant agreement with the European Commission's Horizon 2020 program (Note 7).

The Company expects to pay certain future costs related to its pre-clinical and clinical trials. Such payments are expected to include the cost of clinical staff and overhead thereon, trial insurance, and may include travel and a portion of drug or procedure–related expenses or transplantation expenses not covered by insurance. The total expected future payments will be impacted by such factors as the rate of enrollment, the location in which the patient resides and the specifics of patient insurance.

(Expressed in Canadian Dollars)

11. COMMITMENTS AND CONTINGENCIES (cont'd…)

The Company entered into a lease commitment beginning on August 1, 2015, with remaining gross payments required under the lease of approximately $51,000 related to the rental of laboratory space payable in the 2017 fiscal year. The lease also includes options for the Company to extend the lease for two additional one year periods.

12. INCOME TAXES

Income taxes have not been recognized in profit and loss, as the Company has been incurring losses since inception, and it is not probable that future taxable profits will be available against which the accumulated tax losses can be utilized.

(a) Unrecognized deferred tax assets

As at October 31, 2016 and 2015, deferred tax assets have not been recognized with respect to the following items:

	2016	2015
Non-capital losses carried forward	$ 4,366,000	$ 4,093,000
Tax credits carried forward	1,080,000	912,000
		-
Tax basis of property, equipment and intangible assets great than accounting basis	428,000	513,000
Scientific research and experimental development expenditures carried forward	1,375,000	1,217,000
Share issue costs and other	62,000	36,000
Total	$ 7,311,000	$ 6,771,000

As at October 31, 2016 and 2015, the Company had available research and development expenditures of approximately $5,288,000 and $4,594,000, respectively, which may be carried forward indefinitely to reduce future years' taxable income. As at October 31, 2016 and 2015, the Company also had available unclaimed research and development tax credits of approximately $1,377,000 and $1,173,000, respectively, which are available to reduce future taxes payable, with expiries from 2020 through 2036. As at October 31, 2016 and 2015, the Company has other available future tax deductions related to assets and share issuance costs of approximately $1,656,000 and $1,793,000, respectively. The benefit of these expenditures and deductions has not been reflected in the Company's accounts.

(b) Non-capital losses

The Company's Canadian non-capital tax losses expire as follows:

Years ended October 31,	Amount
2027	$ 599,000
2028	581,000
2029	353,000
2030	682,000
2031	599,000
2032	993,000
2033	902,000
2034	926,000

(Expressed in Canadian Dollars)

2035	1,423,000
2036	1,200,000
Total	$ 8,258,000

12. INCOME TAXES (cont'd…)

As at October 31, 2016 and 2015, the Company also had non-capital income tax losses available to offset future taxable income in the United States of approximately $6,525,754 (US$4,920,419) and $6,263,000 (US$4,787,000) respectively. The United States non-capital income tax losses will expire in the years 2026 to 2036.

(c) Reconciliation of expected and actual income taxes

Reconciliations of the expected income tax recovery at statutory rates, as applied to the net loss for the year, to the actual income tax recovery for the years ended October 31, 2016 and 2015, were as follows:

	2016	2015
Loss for the year before income tax	$ (2,499,622)	$ (2,859,477)
Expected income tax recovery at statutory rates	$ (650,000)	$ (758,000)
Change in statutory, foreign tax and foreign exchange rates	(8,000)	(465,000)
Permanent differences	176,000	77,000
Share issue costs	(52,000)	–
Impact of tax credits and other	-	74,000
Change in unrecognized deductible temporary differences	534,000	1,072,000
Income tax recovery	$ –	$ –

13. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the development and commercialization of its technologies. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development and commercialization of the business. The Company defines capital that it manages as shareholders' equity.

The intellectual property in which the Company currently has an interest are in the development stage; as such the Company has historically relied on the equity markets to fund its activities. The Company will continue to assess sources of financing available and to assess the potential for collaboration with interested partners with a view to managing its current financial resources, in the interest of sustaining the long-term viability of the Company's research and development programs.

Management reviews its capital management approach on an on-going basis and believes that this approach, given thestage of the Company, is reasonable.

The Company's overall strategy with respect to capital risk management remains unchanged for the year ended October 31, 2016.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value
IFRS 13 *Fair Value Measurement* provides a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs are those which reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions with respect to how market participants would price an asset or liability. These two inputs used to measure fair value fall into the following

three different levels of the fair value hierarchy:

Level 1 Quoted prices in active markets for identical instruments that are observable.
Level 2 Quoted prices in active markets for similar instruments; inputs other than quoted prices that are observable and derived from or corroborated by observable market data.
Level 3 Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

The hierarchy requires the use of observable market data when available.

The Company has classified its cash and cash equivalents and marketable securities as Level 1.

Cash and cash equivalents, marketable securities, amounts receivable, accounts payable and accrued liabilities, due within one year, are all short-term in nature and, as such, their carrying values approximate fair values.

Financial risk factors
The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

(a) Credit risk

Credit risk is the risk of loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and marketable securities and there is additional risk since those financial instruments are primarily held by a single counterparty. Management believes the risk of the counterparty, a Canadian Schedule A bank, failing to meet its obligations related to the cash and cash equivalents and marketable securities held by the Company is remote. Amounts receivable are primarily composed of amounts due from the Canadian federal government.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company is a development stage company and is reliant on external fundraising to support its operations. Once funds have been raised, the Company manages its liquidity risk by investing in cash and marketable securities to provide regular cash flow for its operations and monitoring actual and projected cash flows. As at October 31, 2016 and 2015, the Company had cash and cash equivalents, and marketable securities of $5,899,451 and $2,880,963, respectively which are available to settle the current liabilities of $846,274 and $199,850, respectively. The majority of the Company's accounts payable and accrued liabilities are due within three months or less.

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company holds its cash in bank accounts, and manages its interest rate risk by holding highly liquid short-term instruments. For the years ended October 31, 2016 and 2015, the Company earned interest income of $30,113 and $31,995, respectively. Interest income is not significant to the Company's projected operational budget. A 1% change in the interest rate on cash and marketable securities for the year ended October 31, 2016 and 2015, would have a net impact on finance income of $58,995 and $28,810 respectively.

(d) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations in foreign exchange rates for any cash, amounts receivable, accounts payable, accrued liabilities and deferred grants that are denominated in foreign currencies. The Company's foreign currency risk is related to expenses denominated in United States dollars and Euros.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd…)

In December 2015, the Company was awarded a €5.6 million (approximately $8.5 million) non-dilutive grant by the European Commission's Horizon 2020 program, as part of a consortium. The Company expects to receive total funding in the amount of €944,178 (approximately $1.4 million), representing its portion of the grant, based upon the terms of the grant agreement. In January 2016, the Company received an initial funding payment related to the grant in the amount of €566,607 ($873,213). A 10% change in the foreign exchange rate between the Canadian and the Euro would result in a fluctuation of $65,532 in respect of the grant balance outstanding.

15. EVENTS AFTER THE REPORTING PERIOD

In October 2016, the Company entered into a collaboration with an international pharmaceutical company regarding a material transfer agreement to study Sernova's Cell Pouch safety, survival and efficacy of locally immune protected therapeutic cells in a large animal diabetes model. This agreement included 50% cost sharing for the agreed studies. The first reimbursement payment in the amount of US$185,778 ($249,611) was received by the Company in December 2016.